

VINH HOAN CORPORATION (HSX: VHC)

Pangasius export prices encounter low buying power; collagen demand stays strong

(VND bn)	Q1-FY20	Q4-FY19	+/- qoq	Q1-FY19	+/- yoy
Net revenue	1,636	2,171	-24.6%	1,789	-8.6%
PAT	152	199	-23.7%	307	-50.5%
EBIT	136	192	-29.4%	327	-58.5%
EBIT margin	8.3%	8.8%	-0.6pps	18.3%	-10.0pps

Source: VHC, Rong Viet Securities

1Q2020: Reduced pangasius selling price stimulates demand. Exports to China plummeted while surging to the US and the EU.

Total sales dropped 8.6% YoY to VND 1,636 bn. Sales of pangasius, fish oil, fishmeal and other products decreased while sales of collagen-gelatin (C-G) grew strongly. Pangasius export volume to China fell sharply in February and March but surged to the US and EU as people rushed to stock food before the quarantine.

The gross profit margin declined to 13% (1Q2019: 23.5%) because of the fall in the export prices of pangasius by around 38% while volume increased by 30%, per our estimate. As a result, PAT fell 50.4% YoY to VND 152 bn.

2020 outlook: Pangasius export prices will remain stable the year while demand for C-G stays strong.

In order to stimulate consumption amid economic uncertainty and rising unemployment, pangasius selling prices may be stable toward the year end and decreases 9.6% YoY while export volume may rise 14.7% YoY. The rising demand for nutraceuticals is indirectly boosting sales of collagen. We forecast sales of C-G may grow 58% YoY. Therefore, total revenue comes at VND 8,412 bn, up 6.9% YoY.

Self-farmed material fish will cost more than the price of fish bought from outside. Given the higher self-supply ratio of 65% in 2020 (50% in 2019), average price of material fish will only decrease slightly by 2.2%, resulting in a lower gross profit margin of 17.2% (2019: 19.5%).

NPAT plummets 19.1% YoY to VND 955 billion, equivalent to an EPS of VND 5,169/share. Excluding profit from divestments in 2019, 2020 NPAT drops 5.6% YoY.

Valuation and recommendation

Pangasius export prices in the coming months are likely to stay at the current low level as consumer buying power may be eroded due to the economic crisis. This turns out to be an accelerator for export volume. Additionally, the rising demand for collagen-gelatin, the most profitable product, will help curb the downturn of the overall profit margin. Furthermore, two new competitors in the US market possibly pose a minor threat to the company. Considering all these factors, we revise up our 1-year target price by 26% to **VND 40,000/share**. With an expected **cash dividend of VND 1,500/share**, the total return is 12%, compared to the closing price as of June 5th, 2020. We recommend to **ACCUMULATE** this stock.

ACCUMULATE +12%

Target price (VND)	40,000
Current market price (VND)	37,200

Cash dividend* 1,500

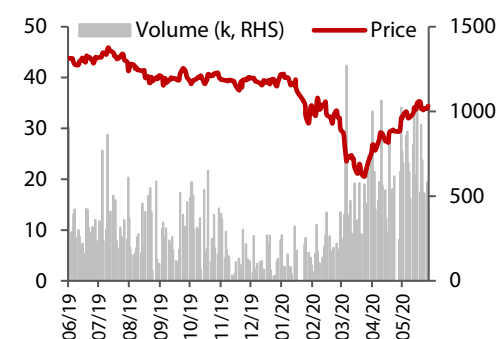
*within next 12 months

Stock Info

Sector	F&B
Market Cap (VND billion)	6,258.9
Current Shares O/S	181,946,026
Avg. Daily Volume (in 20 sessions)	727,122
Free float (%)	50.1
52 weeks High (VND)	46,100
52 weeks Low (VND)	20,100
Beta	1.1

	FY2019	Current
EPS	6,109	5,611
EPS Growth (%)	-17.5	-8.2
Diluted EPS	6,109	5,611
P/E	5.6	6.1
P/B	1.3	1.2
EV/EBITDA	5.5	6.3
Cash dividend yield (%)	0.0	5.8
ROE (%)	26.5	21.3

Price performance



Major Shareholders (%)

Truong Thi Le Khanh (Chairwoman)	43.5
Vo Phu Duc	6.0
Foreign ownership room left (%)	67.4

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Exhibit 1: Q1/2020 Results

(VND Bn)	Q1-FY20	Q4-FY19	+/- (qoq)	Q1-FY19	+/- (yoy)
Net revenue	1,636	2,171	-24.6%	1,789	-8.6%
Gross profit	215	305	-29.6%	421	-49.0%
SG&A	79	113	-30.1%	94	-16.0%
Operating income	136	192	-29.4%	327	-58.5%
EBITDA	182	236	-22.8%	367	-50.5%
EBIT	136	192	-29.4%	327	-58.5%
Financial expenses	18	24	-24.5%	24	-26.9%
- Interest Expenses	12	12	-0.9%	18	-29.8%
Dep. and amortization	46	44	6.0%	40	16.0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	172	223	-22.8%	346	-50.4%
PAT	152	199	-23.7%	307	-50.5%
(*) Adjusted PAT	152	199	-23.7%	307	-50.5%

Source: VHC, Rong Viet Securities

Exhibit 2: Q1/2020 Performance Analysis

Particulars	Q1-FY20	Q4-FY19	+/- (qoq)	Q1-FY19	+/- (yoy)
Profitability Ratios (%)	13.1%	14.1%	-0.9%	23.5%	-10.4%
Gross Margin	11.1%	10.8%	0.3%	20.5%	-9.4%
EBITDA Margin	8.3%	8.8%	-0.6%	18.3%	-10.0%
EBIT Margin	9.3%	9.2%	0.1%	17.2%	-7.9%
Net Margin	9.3%	9.2%	0.1%	17.2%	-7.9%
Adjusted Net Margin	13.1%	14.1%	-0.9%	23.5%	-10.4%
Turnover *(x)					
-Inventories	4.7	5.9	-1.2	4.4	0.2
-Receivables	4.2	5.9	-1.7	5.1	-0.9
-Payables	4.1	4.7	-0.5	3.5	0.6
Leverage (%)					
Total Debt/ Equity	27.7%	35.1%	-7.4 pps	44.1%	-16.4pps

Source: Rong Viet Securities

Exhibit 3: Q2/2020 Forecast

Particulars (VND Bn)	Q2-FY20	+/- qoq	+/- yoy
Revenue	1,809	10.6%	-10.6%
Gross profit	308	43.2%	-28.2%
EBIT	212	56.4%	-36.0%
NPAT	206	35.5%	-47.4%

Source: Rong Viet Securities

Main assumptions:

- Pangasius export volumes in China and the US have recovered more quickly in May than our expectations while export prices have not largely declined. Pangasius export prices may decrease 26.4% YoY while the export volume may increase 123% YoY.
- Gross profit margin at 17%
- Adjusting for non-core profit from divestment in 2Q2019, NPAT drops 33.2% YoY.

Update

1Q2020: Reduced pangasius selling price stimulates demand. Exports to China plummeted while those to the US and EU surged due to COVID-19.

Table 1: 1Q2020 business results

Unit: VND bn	1Q2020	1Q2019	YoY %
Net revenue	1,636	1,789	-8.6
Cost of good sold	-1,421	-1,368	3.9
Gross profit	215	421	-49.0
Gross profit margin	13.1%	23.5%	
Financial income	55	31	77.4
Financial expenses	-18	-24	-25.0
Interest expenses	-12	-18	-33.3
Selling expenses	-39	-49	-20.4
Operating expenses	-40	-45	-11.1
PAT	152	346	-50.4

Source: VHC, Rong Viet Securities

Total sales reached VND 1,636 bn, equivalent to a drop of 8.6% YoY. Sales of pangasius (fillet and value-added products) were VND 1,233 bn, down 3.6% YoY. Sales of by-products and other products decreased by 11% and 63%, respectively. In contrast, the collagen-gelatin (C-G) segment grew by 31% YoY, reaching VND 138 bn because C-G is the input of pharmaceutical and food production, hence the consumption is relatively stable. The overall gross profit margin declined to 13% (1Q2019: 23.5%) because of the sharp fall in export prices of pangasius and VND 66 bn provision for inventory devaluation. Excluding the provision, the overall gross profit margin was 17%.

Table 2: Revenue by product

VND bn	1Q 2020	1Q 2019	Change (%)	Weight 1Q 2020 (%)	Weight 1Q 2019 (%)
Frozen fillet	1,207	1,259	-4.1	73.7	70.4
By-product	197	221	-10.9	12.0	12.4
Collagen-Gelatin	138	105	31.4	8.4	5.9
Value-added pangasius	26	20	30.0	1.6	1.1
Other products	68	183	-62.8	4.2	10.2
Total	1,636	1,789	-8.5		

Source: VHC, Rong Viet Securities

Table 3: Revenue by markets

VND bn	1Q 2020	1Q 2019	Change (%)	Weight 1Q 2020 (%)	Weight 1Q 2019 (%)
US	757	788	-3.9	46.3	44.0
EU	272	244	11.5	16.6	13.6
China	73	229	-68.1	4.5	12.8
Rest of World	534	528	1.1	32.6	29.5
Total	1,636	1,789	-8.5		

Source: VHC, Rong Viet Securities

Pangasius selling prices have decreased throughout 2019 from the peak in 4Q 2018 and have stayed low since then. The sharp decrease in selling prices has stimulated demand. While export volume to China fell sharply in February and March due to quarantine measures, export volumes to the US and EU increased sharply as people rushed to stock food before the quarantine. We estimate that VHC's pangasius export price may have decreased around 38% while volume increased by 30% compared to the same period last year. Sales of value-added pangasius (breaded, seasoned, ready-to-eat, etc.), which are mainly consumed in the retail channel, grew sharply by 28% YoY due to large households' demand for easy-to-cook products.

Selling and G&A expenses dropped by 20% and 11%, respectively. Financial income surged by 79% due to the increase in deposit interest and gain from revaluation of foreign currency accounts while financial expenses fell 25% mainly driven by a sharp drop of 33% in interest expenses.

Days of sales outstanding and inventory on hand were 79 days and 88 days, respectively, lower than what they were in 1Q2019 (82 days and 103 days). However, they have risen compared to the end of 2019 (62 days and 78 days). We believe that it is the result of the adverse effects of the pandemic on pangasius consumption in China.

In total, PAT reached VND 152 bn, down 50.4% YoY.

Other information

Collagen – gelatin (C-G) expansion is behind schedule due to quarantine measures. The expansion will be completed in October 2020, two months later than the previous guidance, because some equipment is going to arrive late due to the pandemic. Two new premium collagen products (nano collagen and tripeptides collagen) have been developed successfully. These types of collagen have small molecular mass and amino acid sequence, which make them to be absorbed more easily than the conventional collagen, thus can be sold at premium prices.

Two new competitors in the US (NTFS and CASEAMEX). The US Department of Commerce (DoC) announced the final result of the POR 15 anti-dumping duty review on Vietnamese companies at the end of April. The duty for NTFS and CASEAMEX is 15 cent/kg, significantly lower than POR 14 results (NTFS USD 1.37/kg and CASEAMEX USD 2.39/kg). Duty for VHC stays unchanged at USD 0/kg. The POR15 results will bring more competition, depending on how rapidly the rivals can increase their production and maintain such low duty rates in the future. We think the competition from NTFS and CASEAMEX should not be a problem for VHC at least until the next POR result, given VHC's long-term relationship with buyers and its product differentiation. Furthermore, the history of anti-dumping duty reviews has shown that it is not easy for a company to maintain a low rate of duty for years.

New plan of food-quality fish oil for better profit. With a capacity of 100 tons of material/day and self-developed production technology, the products (olein, shortening, stearin) will meet food quality and will be distributed B2B to food manufacturers. Construction is expected to be completed by the end of 2020 and production will start from 2021. Currently, VHC's fish oil is for animal feed production with a gross profit margin of 11-13%. Considering the thin gross profit margin of 5-7% of food quality fish oil produced by IDI, a large Vietnamese pangasius processor, we think it would be better to wait until more information is available to assess the project. Hence, we do not include this project in our valuation model.

2020 capital expenditure is planned at VND 580 bn. Of which, VND 205 bn will be spent on the fingerling project, the C-G factory expansion and the factory of fish oil for human consumption. This is the focus for 2020.

2020 forecast

As consumers are trying to control their spending amid economic uncertainty and the high rise of unemployment, we expect pangasius selling prices to be stable at around USD 2.9/kg towards the year end. This is different from our previous forecast, as we thought prices would go down more in 2Q before bouncing back strongly in 2H. For the whole year, we estimate pangasius' export prices to decrease 9.6%. Export volume may increase 14.7% YoY. Pangasius export value should increase by 3.7% YoY to USD 296 mn.

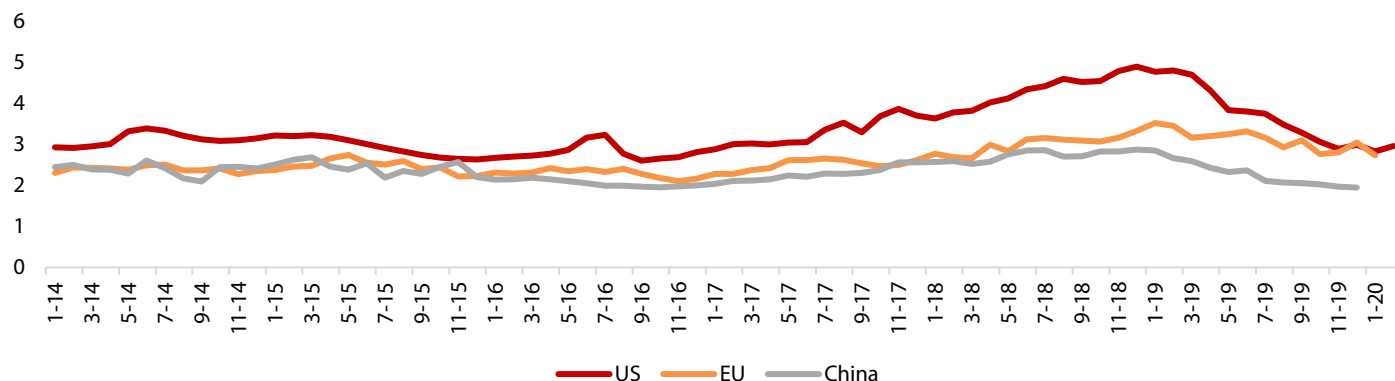
According to the Harvard Medical School, the pandemic is changing in consumer demand toward a healthier lifestyle: consuming more fresh food and less processed food (for which gelatin is mostly used) while also increasing consumption of functional food and pharmaceuticals (for which collagen is mostly used). We have also found that the rising demand for collagen is in line with the new findings in a recent research by Research and Markets¹. As a result, we expect the positive growth in sales of collagen, which has a higher profit margin than gelatin, can offset the decline of gelatin sales. To make up for the lateness in expansion, the factory can run at 110% of design capacity and the company will utilize a part of the gelatin line to produce collagen. Because of that, we expect that the company can achieve its production schedule. We forecast C-G revenue to grow 58% YoY to USD 35 mn, close to the company target of 60% growth and higher than the 35% growth in our previous forecast.

¹ Functional Foods and Drinks - Global Market Trajectory & Analytics, May 2020, Research and Markets

We estimate sales of fish oil, fishmeal and miscellaneous could decline 32% YoY as the global demand for animal feed is likely to shrink due to the downturn in animal protein consumption. Sales of those have declined 35% YoY in 4M2020.

In total, 2020 revenue comes at VND 8,412 bn, up 6.9% YoY.

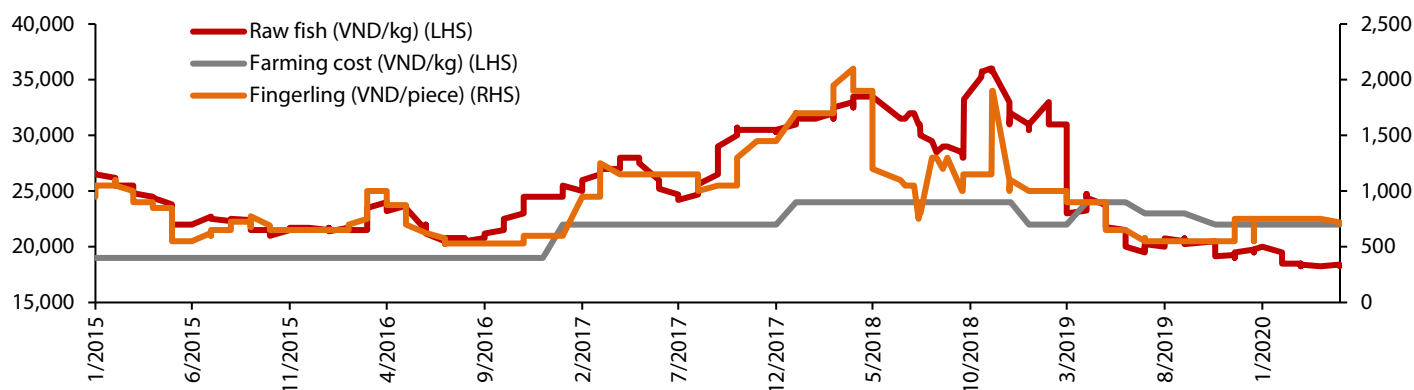
Figure 1: Export prices of pangasius (USD/kg)



Source: NMFS, ITC, Rong Viet Securities

According to VASEP, prices of material fish bought from the market remains low at VND 18,000 – 19,000/kg, lower than farming cost, which is VND 21,000 – 22,000/kg. Farmers are delaying stocking new crops or stocking at low density and feeding sporadically to wait for export prices to go up. We maintain our view that self-farmed material fish will cost higher than the price of fish bought from the market, despite that the price of fingerling has stayed low during 2019 until now. With the self-supply ratio of 65% this year, higher than 50% in 2019, we estimate that the average price of raw fish would not decrease significantly, only about 2.2% YoY.

Figure 2: Fingerling and material fish price and farming cost of material fish bought from the market



Source: VASEP, Agromonitor, Rong Viet Securities

Gross profit margin comes at 17.2% (2019: 19.5%). NPAT is estimated at VND 955 billion, down by 19.1% YoY, equivalent to an EPS of VND 5,169/share. Excluding profit from divestments in 2019, NPAT in 2020 drops by 5.6% YoY.

2021 forecast: We are concerned that the prolonged economic crisis and the highly probable recurrences of COVID-19 in major markets (the US, EU and China) may continue to erode consumers' buying power. Such prospect leads us to an expectation that pangasius export prices may drop a further 4.7% YoY. Export volume may grow 13.3% YoY with the US, EU and China remaining the major markets. Collagen-gelatin and by-product sales will increase 45% and 56% YoY. Total revenue grows by 14.2% to VND 9,602 bn.

The average price of raw fish for production increases slightly 2.0% YoY due to the 2.6% increase in the market price of material fish bought from outside and the self-supply ratio rising to 70%. As a result, the gross profit margin falls to 16.1% from 17.2% in 2019. NPAT reaches VND 1,048 bn, up 9.7% YoY and equivalent to an EPS of VND 5,671/share.

VND Billion				
INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	9,271	7,867	8,412	9,602
COGS	7,232	6,334	6,968	8,058
Gross profit	2,039	1,533	1,443	1,544
Selling Expense	210	252	294	307
G&A Expense	144	149	151	163
Finance Income	137	254	138	172
Finance Expense	167	93	50	54
Other profits	-46	1	0	0
Gain/loss from join venture	79	14	0	0
PBT	1,688	1,309	1,086	1,191
Prov. of Tax	245	129	130	143
Minority's Interest	0	0	0	0
PAT to Equity S/H	1,442	1,180	955	1,048
EBIT	1,685	1,132	997	1,073
EBITDA	1,842	1,298	1,117	1,298

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	13.7	-15.1	6.9	14.2
Operating Income	94.9	-29.5	-13.9	16.1
EBITDA	121.4	-32.8	-11.9	7.6
PAT	138.5	-18.2	-19.1	9.7
Total Assets	24.9	5.0	17.2	9.6
Equity	36.4	21.5	19.4	12.6
Profitability (%)				
Gross margin	22.0	19.5	17.2	16.1
EBITDA margin	19.9	16.5	13.3	13.5
EBIT margin	18.2	14.4	11.9	11.2
Net margin	15.6	15.0	11.4	10.9
ROA	22.9	17.8	12.3	12.3
ROE	35.9	24.2	16.4	16.0
Efficiency (times)				
Receivable Turnover	4.6	5.2	4.5	5.0
Inventory Turnover	5.2	4.5	4.5	5.0
Payable Turnover	7.7	7.8	7.7	8.3
Liquidity (times)				
Current	1.9	2.7	2.8	3.1
Quick	1.2	1.9	2.0	2.3
Finance Structure (%)				
Total Debt/Equity	31.6	17.8	17.1	14.4
Current Debt/Equity	31.6	17.8	17.1	14.4
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion				
BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	43	86	44	50
Short-term investments	608	1,492	1,820	2,312
Accounts receivable	2,002	1,516	1,881	1,920
Inventories	1,386	1,414	1,540	1,612
Other current assets	102	103	75	77
Property, plant & equipment	1,369	1,551	1,944	2,062
Acquired intangible assets	333	329	328	327
Long-term investments	389	1	1	1
Other non-current assets	67	121	118	132
Total assets	6,298	6,613	7,750	8,493
Accounts payable	945	815	906	967
Short-term borrowings	1,269	866	994	942
Long-term borrowings	0	0	0	0
Other non-current liabilities	23	11	16	18
Bonus and Welfare fund	36	0	0	0
Technology-science, dev. fund	10	9	9	9
Total liabilities	2,283	1,701	1,926	1,937
Common stock and APIC	1,148	2,058	2,058	2,058
Treasury stock (enter as -)	0	-114	-114	-114
Retained earnings	2,867	2,933	3,881	4,612
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	4,015	4,877	5,824	6,556
Minority Interest	0	0	0	0

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	15,489	6,437	5,169	5,671
P/E (x)	6.1	6.2	6.6	6.0
BV (dong)	43,452	26,593	31,762	35,750
P/B (x)	2.2	1.5	1.1	0.9
DPS (dong/cp)	2,000	0	1,500	2,000
Dividend yield (%)	2.1	0.0	4.4	5.9

VALUATION MODEL	Price	Weight	Average
FCFF	43,796	50%	21,898
P/E	36,182	50%	18,091

Target price (VND) **39,989**

VALUATION HISTORY	Price*	Recommendation	Period
06/2019	56,250	Buy	1 year
12/2019	49,200	Buy	1 year
3/2020	31,700	Accumulate	1 year

(*) Adjusted for 1:1 stock dividend at end 2019

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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