

Vinh Hoan Corporation (VHC: HOSE)



BUY - 1Y Target Price: VND 113,700

Current price: VND 92,800

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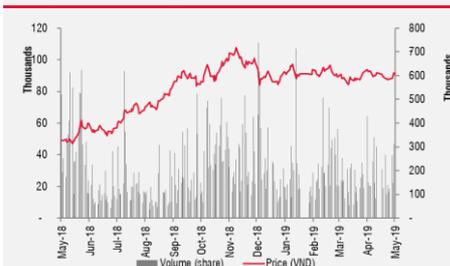
17 May 2019

CONSUMER - VIETNAM

Key figures

Market cap (USD mn)	368
Market cap (VND bn)	8,575
Outstanding shares (mn)	92
52W high/low (VND 1,000)	113.5/49
Average 3M volume (share)	197,316
Average 3M value (USD mn)	0.79
Average 3M value (VND bn)	18.34
Foreign ownership (%)	34.85
State ownership (%)	0
Management ownership (%)	N.a

VHC price & Trading Volume



Source: Bloomberg

Company Snapshot

VHC is the largest Vietnamese pangasius exporter. The company has grown to become the number 1 pangasius exporter in Vietnam since 2010. Its core business is exporting frozen pangasius fillet and producing by products and fish related products. VHC is one of the few fully integrated Vietnam fisheries companies covering the entire value chain from farming, manufacturing of fish feed, processing, production of frozen fish and cold storage warehousing. The company concentrates on expanding fish business by acquiring Van Duc Tien Giang Food Export Company.

2019 AGM Note and 1Q2019 Results

2019 plan

VND bn	2018	% YoY	% 2018 Plan	2019 Plan	% YoY
Net sales	9,271	13.7%	99.7%	10,047	8.4%
Pangasius and by products	8,486	11.9%	98.8%	9,152	7.8%
Feed trading	488	18.7%	108.4%	422	-13.5%
Collagen and gelatin	283	80.3%	108.8%	473	67.2%
Rice	14	N.a	N.a	N.a	N.a
NI attributable to parent company	1,442	138.3%	232.5%	1,255	-13%
Pangasius and by products	1,346	115.7%	234.9%	1,057	-21.5%
Feed trading	25	108.3%	100%	18	-28%
Collagen and gelatin	83	N.a	207.5%	180	116.9%
Rice	(12)	N.a	N.a	N.a	N.a

Source: VHC, SSI Research

According to the VHC AGM resolution on 26 April 2019, VHC targets net revenue to achieve VND 10 tn (+8.4% YoY). The company expects pangasius ASP to adjust in 2019, following a tumultuous year of hiking price due to shortage of raw material during the period 2017 – 2018. Sales volume is expected to grow by 20% YoY in 2019. Based on our estimate, the company will be able to enhance its capacity by 28% during 2018 – 2020 thanks to new investment in Thanh Binh Dong Thap factory and the newly acquired company Vinh Phuoc Food (VPF). Thanks to the additionally acquired farming area in 2018 (220 ha), the company expects to self-supply by approx. 70% its total pangasius raw material demand for processing by the end of 2020 up from 50% in 2018. VHC will focus on expanding to the EU, China and other countries in the South America and Middle East. China is a potential market which grew 29.3% YoY in 2018 in terms of Vietnam pangasius export value and accounted for 23.7% share, only behind the US market. Export turnover to China has witnessed robust growth during 2014 – 2018 period at a CAGR of 47%, thanks to (i) strong demand for pangasius as its price is competitively low compared to other white meat products imported in China (i.e. Alaska pollock, tilapia, Cod, haddock) and (ii) Chinese government encourages importing seafood products to preserve a sustainable aquatic environment domestically (including wild catch fisheries). In 2018, export turnover from China market grew 26% YoY and accounted for 11% VHC's export value.

Collagen and gelatin: The company targets to achieve VND 473 bn in revenue (+67.2% YoY) in 2019, mainly for exporting. This business segment is quite profitable compared with VHC's other business segments, with a GPM of around 25 – 30%. In 2018, the collagen and gelatin plants reached close to full designed capacity (full capacity for gelatin) and the new investment is expected to enhance its capacity by 75% YoY. The company also expects ASP to increase in 2019. As such, this business segment may report a net profit of VND 180 bn, accounting for 14.3% of net income attributable to parents (up from a mere 5.8% in 2018).

Value added products: VHC targets value added products to record an export turnover of \$15mn USD, 2.5x YoY in 2019, mainly for exporting. Due to a shortage of raw material and price hike, VHC couldn't meet its target of growing export turnover to \$20 mn USD in 2018. This product has a higher GPM of around 20-25% than that of frozen fillets of 12-16%. The company expects value added products to contribute approx. 10% total revenue by 2020.

Regarding net profit attributable to shareholders, VHC **consolidated net profit may decline by 13% YoY**, largely due to a lower target in the pangasius and byproducts business at VND 1.06 tn (-21.5% YoY).

Dividend: Under 2018 AGM, VHC received approval to pay cash dividend at 40% par value for the FY2018 (VND 4,000 per share, ~4.2% dividend yield). The company completes paying 20% in December 2018 and the remaining 20% will be completed in June 2019. For 2019, Vinh Hoan received approval at the AGM to pay 100% stock dividend. Besides the need to use retained earnings for capex, we think a stock dividend plan is expected to enhance the company's floating ratio and liquidity

2019 CAPEX and expansion plan

Item	Capex (VND bn)	Est. final designed capacity	YoY growth of designed capacity
Vinh Phuoc Factory	477	150 MT/day	Est. capacity of 750 MT of raw materials /day from their filleting processing facilities
Enhance existing farming area	120		N.a
Upgrade collagen & gelatin production line	115	3,500 tons/ year	+75% YoY
Vinh Hoan and Thanh Binh factory – improve capacity	88	Thanh Binh Dong Thap has a max. designed capacity of 300 MT/day	Approx. 50% YoY
Total	800		

Source: VHC, SSI Research

After 2 years of spending capital expenditure to acquire new farming areas in 2017 and 2018, the company intends to use VND 800 bn for 2019 CAPEX, mainly to upgrade the existing production line and enhance existing farming area. The company plans to build new cold storage and a processing facility to produce fish oil and fish meal under the Vinh Phuoc Factory vicinity. Vinh Hoan also wants to enhance the existing farming area at around VND 120 bn in CAPEX in 2019. The 2019 CAPEX will be funded by bank loan as VHC has a relatively low D/E ratio (2018: 0.32x) and retained earnings.

To ensure a complete farming process, Vinh Hoan has invested 45% in Vinh Hoan Fish Hatchery company in early 2019. The company has an initial charter capital of VND 50 bn. The company is expected to come into operation in the 2H2019.

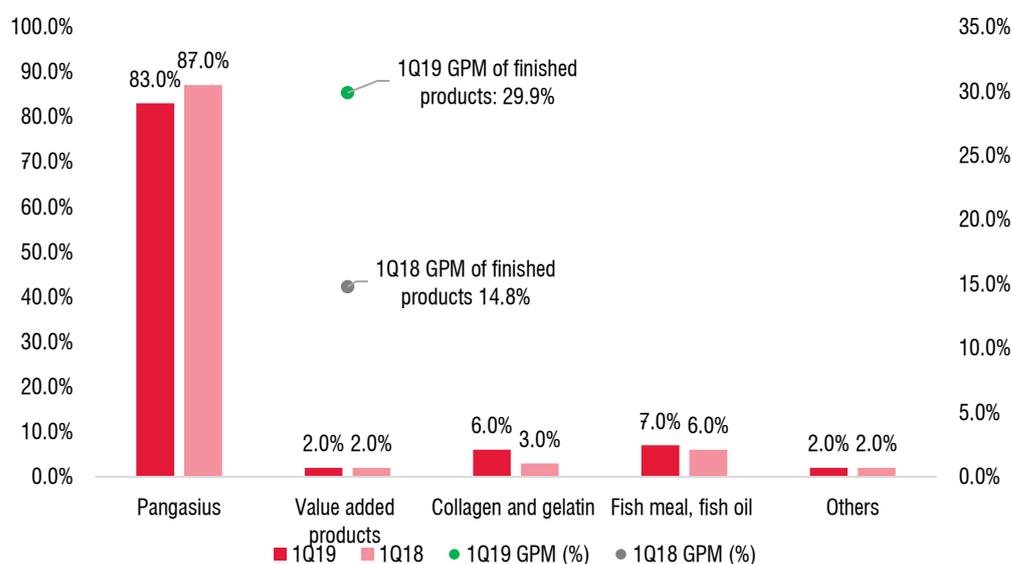
VHC 1Q2019 Review

(bn VND)	1Q19	1Q18	YoY	4Q18	QoQ	Margin			
						1Q19	1Q18	4Q18	2018
Net sales	1,789	1,804	-0.8%	2,754	-35%				
Gross profit	421	254	66.0%	573	-26%	23.5%	14.1%	20.8%	22.0%
Operating profit	351	116	203.7%	491	-28%	19.6%	6.4%	17.8%	18.6%
EBIT	364	126	188.6%	507	-28%	20.3%	7.0%	18.4%	18.8%
EBITDA	404	225	79.5%	545	-26%	22.6%	12.5%	19.8%	20.5%
Pretax profit	346	113	205.9%	487	-29%	19.3%	6.3%	17.7%	18.2%
Net income	307	98	213.9%	416	-26%	17.2%	5.4%	15.1%	15.6%
NI attributable to shareholders	307	98	213.8%	416	-26%	17.2%	5.4%	15.1%	15.6%

Source: VHC, SSI Research

VHC released strong results for 1Q 2019 earnings results with NPAT of VND 307 bn, +213.9% YoY, completing 24.5% of full-year target. Revenue posted flat growth at -0.8% YoY to VND 1.789 tn, equivalent to 17.8% its 2019 plan. Of which finished products revenue reached VND1.29 tn, -6.6% YoY and accounted for 72% of total revenue (down from 76.4% in 1Q18). VHC's 1Q 2019 total revenue growth was slower than export turnover at 11% YoY (\$76 mn USD, ~VND 1.76 tn). A lower growth in export turnover compared with 4Q18 (44% YoY) was due to a lower ASP QoQ when the US and China – Vietnam's traditional exporting markets saw decline of -5% YoY and -1.8% YoY in 1Q19 respectively. However, VHC's performance is better than the overall Vietnam pangasius exporting value at 7.8% YoY in 1Q2019 (vs 18% YoY in 1Q18). Besides, raw material price came down to a low level of VND 24- 25k/kg in March-2019 from its peak in Oct-2018 at c. VND 34k/kg.

Export value breakdown by products 1Q19 vs 1Q18



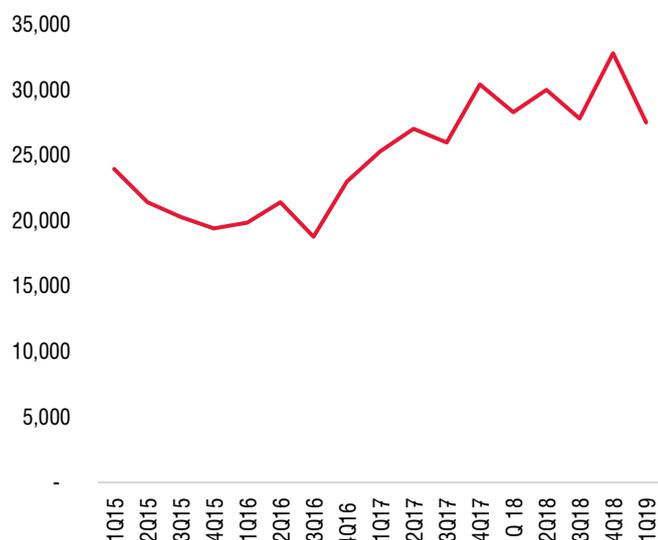
Note: Finished products include pangasius, value added products, collagen and gelatin

Source: VHC, SSI Research

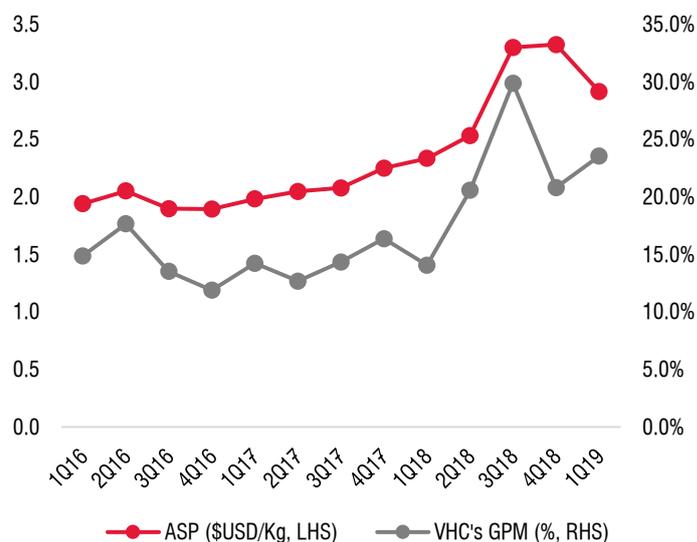
GPM expansion: VHC GPM significantly expanded to 23.5% from 14.1% in 1Q18 and 20.8% in 4Q18. This was thanks to an expansion in GPM of finished products, which include plain fillets, value added fish products and collagen & gelatin. While net revenue for finished goods declined by 6.6% YoY in 1Q19, its GPM improved tremendously to 29.9%, almost double that in 1Q18. We think a GPM expansion in 1Q19 was attained largely thanks to a higher GPM in the fish fillet products, which accounts for 83% total export value in 1Q19. In 1Q19, ASP maintained its strong momentum witnessed from 3Q18 (on average ASP increases 33% YoY in 2018) while raw pangasius material price in 1Q19 is estimated to be 7-8% lower compared with 1Q18. The shortage of raw

material supply started from beginning of 2018 becomes less severe towards the end of 2018 when inventory level in the US became stockpiled. We also attribute a higher GPM in the finished products to a structural change in product mix with heavier weight towards product with higher GPM, i.e collagen and gelatin. In 1Q 2019, collagen and gelatin sales jumped by 122% YoY to \$4.5 mn USD, increasing its contribution to total export value to 6% in 1Q19 from 3% in 1Q18. This translates into a completion of est. 22% of 2019 plan. This is in line with the overall company strategy of increasing contribution from products with higher added value in 2019 and 2020.

Pangasius raw material price (VND/kg)



VHC's quarterly GPM vs export price



Source: MARD, SSI

Source: VASEP, VHC (We use average export price as a proxy for VHC's ASP)

As VHC recorded an expense of VND 64 bn in 1Q 2018 in the form of goodwill amortization from its previous purchase of Van Duc Tien Giang, if we exclude this one-off expense, its 1Q2019 NPAT grew 93% YoY.

Our estimates

We think VHC has set a relatively conservative net profit target in 2019, which largely reflects a lower expectation in ASP. This stems from a weak demand in the US where importers awaiting final decisions of the antidumping duty under the POR14 and high inventory levels seen. Although spectacular performance of 1Q19 is on the low base of 1Q18, we think results also shows that the company has pricing power besides the US market and is able to increase contribution from products with higher profit margin (please see chart export value by products above).

For 2019, we forecast VHC net revenue and NPAT to reach VND 9.94 tn (+7.2% YoY) and VND 1.37 tn (-4.7% YoY). 2019 EPS arrives at VND 14,870 (-4.0% YoY). Our forecast for 2019 NPAT is 10% higher than the company's target, on the back of several assumptions:

- VHC's pangasius export volume may increase roughly 15% YoY thanks to additional farming area acquired in 2018 (~220 ha). Export volume is largely driven by other markets which recover since its low level in 2018 such as the EU (+42.4% YoY in 1Q19 in terms of value) and Mexico (+39.6% YoY in terms of value).
- We assume ASP may decline by 5% YoY in 2019 which weigh down profit margin. Although we are *conservative in the short term*, we think VHC's GPM will start normalizing in late 2019 or early 2020 thanks to growing demand for pangasius products in the traditional markets, i.e. the EU recently. Despite a slow

growth in export turnover to the US and China markets in 1Q19 due to long holiday in the China and high inventory level in the US, we think demand will come back from 2Q 2019 and overall still post positive volume growth for the full year. This is especially the case when most of the companies receive a significantly lower antidumping duty for pangasius products exporting to the US under POR14 compared with POR13.

Investment view

At the current price of VND 92,800 per share, the ticker is being traded at 2019F PER of 6.2x. As fisheries sector is a cyclical business of which ASP of pangasius went through a period of peaking in 2014, followed by a year of adjustment, as such, we think a target PER of 8.5x similar to 2015 where core EPS growth experienced a drop of 4% YoY will be appropriate to apply for VHC in 2019. However, as VHC witnessed a year of robust GPM expansion in 2018, this has attracted substantial increase in supply that could potentially contract GPM in 2019 more than we forecast. As such, we apply a 10% discount and arrive at a target price of VND 113,700/ share (23% upside). Although the short-term growth outlook is not attractive, we like VHC and recommend to BUY the stock for long-term investment for the following reasons:

- VHC has again proven its strong position that has been established in the US market for many years. This makes it very difficult for other Vietnamese exporters to come close to its leading position. The company also has concrete plans to catch on rising opportunity from the EU and China market. In particular, the EU-Vietnam FTA might go into effect in 2H19 which will support stronger demand from the EU market (VHC recorded growth of ~40% YoY in 1Q19 for the EU market).
- Sustainable profitability: Vinh Hoan operates in a cyclical business but its track record shows that the company was able to deliver high ROE average 26% in the last 5 years thanks to (i) its complete farming process, (ii) increased ratio of self-supply raw material needed for processing and (iii) product mix that gear towards more profitable products.

Risks to our call: High volatility in raw pangasius material significantly affects GPM when the purchasing ratio for raw materials is high. VHC targets to reduce the outsourced ratio from 40-50% to 30-35% in 2020, thanks to its new farming area.

APPENDIX 1: ANNUAL FINANCIAL STATEMENTS

VND Billion	2016	2017	2018	2019F
Balance Sheet				
+ Cash	165	45	43	1,189
+ Short-term investments	169	373	608	0
+ Account receivables	1,150	1,329	2,002	1,914
+ Inventories	1,214	1,202	1,386	1,486
+ Other current assets	50	54	102	90
Total Current Assets	2,748	3,004	4,140	4,679
+ LT Receivables	1	1	2	2
+ Net Fixed Assets	1,323	1,566	1,397	1,999
+ Investment properties	0	0	0	0
+ LT Assets in progress	177	224	259	259
+ LT Investments	17	1	389	389
+ Other LT Assets	184	246	111	166
Total Long-Term Assets	1,702	2,038	2,158	2,815
Total Assets	4,451	5,043	6,299	7,494
+ Current Liabilities	1,517	1,671	2,251	2,090
<i>In which: ST debt</i>	<i>866</i>	<i>1,008</i>	<i>1,269</i>	<i>1,218</i>
+ Non-current Liabilities	541	429	33	16
<i>In which: LT debt</i>	<i>518</i>	<i>402</i>	<i>0</i>	<i>0</i>
Total Liabilities	2,058	2,100	2,283	2,106
+ Contributed capital	924	924	924	924
+ Share premium	216	216	224	224
+ Retained earnings	1,250	1,805	2,867	4,241
+ Other capital/fund	3	-3	0	-1
Shareholders' Equity	2,393	2,943	4,015	5,389
Total Liabilities & Equity	4,451	5,043	6,299	7,494
Cash Flow				
CF from operating activities	956	447	680	1,997
CF from investing activities	-465	-593	-872	-800
CF from financing activities	-622	27	20	-52
Net increase in cash	-131	-119	-171	1,145
Beginning cash	296	165	45	43
Ending cash	165	49	-126	1,189
Liquidity Ratios				
Current ratio	1.81	1.80	1.84	2.24
Acid-test ratio	0.98	1.05	1.18	1.48
Cash ratio	0.22	0.25	0.29	0.57
Net debt / EBITDA	1.52	1.30	0.68	0.33
Interest coverage	10.87	11.12	31.14	30.76
Days of receivables	48.0	48.3	61.7	68.2
Days of payables	13.9	13.3	12.8	13.3
Days of inventory	73.6	63.2	65.3	65.6
Capital Structure				
Equity/Total asset	0.54	0.58	0.64	0.72
Liabilities/Total Assets	0.46	0.42	0.36	0.28
Liabilities/Equity	0.86	0.71	0.57	0.39
Debt/Equity	0.58	0.48	0.32	0.23
ST Debt/Equity	0.36	0.34	0.32	0.23

VND Billion	2016	2017	2018	2019F
Income Statement				
Net Sales	7,304	8,151	9,271	9,942
COGS	-6,237	-6,980	-7,232	-7,985
Gross Profit	1,067	1,172	2,039	1,957
Financial Income	87	58	137	70
Financial Expense	-93	-89	-167	-93
Income from associates	0	0	0	0
Selling Expense	-266	-269	-210	-229
Admin Expense	-115	-141	-144	-149
Income from business operation	680	731	1,734	1,639
Net Other Income	-7	-8	-46	-8
Profit Before Tax	672	723	1,688	1,631
Net Income	565	605	1,442	1,373
NI attributable to shareholders	567	605	1,442	1,374
Minority interest	-1	0	0	-1
Growth				
Sales	12.5%	11.6%	13.7%	7.2%
EBITDA	56.3%	11.9%	91.3%	-0.8%
EBIT	74.9%	7.2%	119.5%	-3.3%
NI	76.2%	6.9%	138.5%	-4.8%
Equity	14.5%	23.0%	36.4%	34.2%
Chartered Capital	0.0%	0.0%	0.0%	0.0%
Total assets	2.2%	13.3%	24.9%	19.0%
Valuation				
P/E	9.8	8.1	6.1	6.2
P/B	2.2	1.7	2.2	1.6
P/Sales	0.7	0.6	0.9	0.9
Dividend yield	1.7%	3.8%	4.2%	0.0%
EV/EBITDA	7.2	6.0	4.9	4.8
EV/Sales	0.9	0.7	1.0	0.9
Profitability Ratios				
Gross Margin	14.6%	14.4%	22.0%	19.7%
Operating Margin	9.9%	9.6%	18.6%	17.0%
Net Margin	7.7%	7.4%	15.6%	13.8%
Selling exp./Net sales	3.6%	3.3%	2.3%	2.3%
Admin exp./Net sales	1.6%	1.7%	1.5%	1.5%
ROE	25.2%	22.7%	41.5%	29.2%
ROA	12.8%	12.7%	25.4%	19.9%
ROIC	16.3%	16.3%	30.9%	23.9%

Source: VHC, SSI Research

APPENDIX 2: QUARTERLY FINANCIAL STATEMENTS

VND Billion	2Q18	3Q18	4Q18	1Q19
Balance Sheet				
+ Cash	36	483	43	48
+ Short-term investments	1,088	1,088	608	1,024
+ Account receivables	1,467	1,667	2,000	1,226
+ Inventories	854	1,008	1,377	1,711
+ Other current assets	42	70	103	103
Total Current Assets	3,487	4,316	4,130	4,111
+ LT Receivables	2	2	2	1
+ Net Fixed Assets	1,113	948	1,407	1,396
+ Investment properties	0	0	0	0
+ LT Assets in progress	175	248	259	281
+ LT Investments	344	379	397	362
+ Other LT Assets	108	105	105	106
Total Long-Term Assets	1,741	1,682	2,169	2,147
Total Assets	5,229	5,998	6,299	6,258
Liabilities				
+ Current Liabilities	1,986	2,191	2,242	1,906
<i>In which: ST debt</i>	<i>1,192</i>	<i>1,366</i>	<i>1,269</i>	<i>1,208</i>
+ Non-current Liabilities	69	23	33	30
<i>In which: LT debt</i>	<i>42</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total Liabilities	2,055	2,214	2,275	1,935
+ Contributed capital	0	0	0	0
+ Share premium	216	216	224	224
+ Retained earnings	1,610	1,610	1,424	2,867
+ Other capital/fund	1,348	1,957	2,376	1,231
Owners' Equity	3,174	3,783	4,024	4,323
Total Liabilities & Equity	5,229	5,998	6,299	6,258
Cash Flow				
CF from operating activities	-195	438	-211	532
CF from investing activities	265	-125	42	-466
CF from financing activities	-83	134	-271	-61
Net increase in cash	-13	447	-439	5
Beginning cash	50	36	483	43
Ending cash	36	483	43	48
Liquidity Ratios				
Current ratio	1.76	1.97	1.84	2.16
Acid-test ratio	1.30	1.48	1.18	1.21
Cash ratio	0.57	0.72	0.29	0.56
Net debt / EBITDA	3.01	1.18	2.25	2.87
Interest coverage	31.53	70.47	25.55	20.60

VND Billion	2Q18	3Q18	4Q18	1Q19
Income Statement				
Net Sales	2,240	2,526	2,754	1,789
COGS	-1,779	-1,771	-2,181	-1,368
Gross Profit	461	755	573	421
Financial Income	32	60	33	31
Financial Expense	-94	-34	-34	-24
Income from associates	0	0	0	0
Selling Expense	-54	-46	-55	-49
Admin Expense	31	-29	-46	-45
Income from business operation	401	741	488	346
Net Other Income	-3	-31	-1	0
Profit Before Tax	398	710	487	346
Net Income	329	609	416	307
NI attributable to shareholders	329	609	416	307
Minority interest	0	0	0	0
Key Metrics				
Basic EPS (VND)	3,525	6,599	4,420	3,326
BVPS (VND)	34,352	40,944	43,549	46,779
EBIT	411	720	507	364
EBITDA	398	747	545	404
Growth (YoY)				
Sales	-4.8%	24.9%	27.5%	-0.8%
EBITDA	65.7%	169.6%	92.6%	79.5%
EBIT	118.5%	219.4%	113.2%	188.6%
NI	128.6%	260.5%	126.2%	213.9%
Equity	20.6%	35.1%	37.7%	51.3%
Chartered Capital	0.0%	0.0%	0.0%	0.0%
Total assets	-1.6%	23.8%	25.2%	26.4%
Profitability Ratios				
Gross Margin	20.6%	29.9%	20.8%	23.5%
Operating Margin	17.8%	29.0%	17.8%	19.6%
Net Margin	14.7%	24.1%	15.1%	17.2%
Selling exp./Net sales	2.4%	1.8%	2.0%	2.7%
Admin exp./Net sales	-1.4%	1.1%	1.7%	2.5%
Capital Structure				
Equity/Total asset	0.61	0.63	0.64	0.69
Liabilities/Total Assets	0.39	0.37	0.36	0.31
Liabilities/Equity	0.65	0.59	0.57	0.45
Debt/Equity	0.39	0.36	0.32	0.28
ST Debt/Equity	0.38	0.36	0.32	0.28

Source: VHC, SSI Research

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Market Perform: Expected to provide price gains similar to the market over next 12 months.

Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

Sell: Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

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