

10 Feb 2023

Vinh Hoan Corp (VHC)

New cycle after phenomenal growth

- VHC's 4Q22 NPAT dropped due to contracting gross margin
- Selling price downward hit 4Q22 gross margin
- The slumping export to US and EU markets in 1Q23
- Maintain HOLD for VHC share with TP of VND77,000

Facts: Selling price momentum cooled down 4Q22 margin

In 4Q22, Vinh Hoan posted VND2,484bn revenue (-7.8% yoy), which was mainly dragged down by -25.9% yoy and -61.1% yoy decrease of export revenue to US and China, posting VND163bn and VND890bn revenue, respectively. Of which, the revenue of pangasius delivered VND505bn, decreasing strongly by 21% yoy and 35% qoq. On the contrary, Vinh Hoan's export revenue to the EU increased by 45.4% yoy, equivalent to VND442bn in 4Q22.

In 4Q22, the gross margin narrowed nearly 4.6%p yoy to post 19.1%, lower than our expectation mainly due to the flattening at hefty raw material (about VND29,200/kg in 4Q22 vs VND23,300/kg in 2Q21, according to pangasius market) amid the strong tumble selling price (USD3.6/kg in 4Q22 vs USD3.2/kg in 4Q21, according to our estimates). While VHC reached financial income of VND118bn in 4Q22 (+77.1% yoy) assisted by realized foreign exchange gains, the financial expenses also increased by 742% yoy to VND137bn mainly due to the increase of provision for reduction in price of investment. As such, Vinh Hoan's 4Q22 NPAT posted VND199.6bn (-56.7% yoy), plunged by lower gross margin.

Pros & cons: 1Q23 revenue normalized yoy

In 1Q23, we estimate that Vinh Hoan's business results cool down after long phenomenal growth:

- **The fillet-related pangasius products revenue would reach VND1,872bn (-35.8% yoy and -15% qoq).** The stagnant demand due to the high inventory of importers especially in US and EU, and the 1Q22 high base would make the export volume shrink 42.7% yoy and -11.6% qoq. Also, we estimate average selling price of exporting remained lower than 1Q22, decreasing by 16.7% yoy, mainly dragged by 23.9% yoy decline of export to US (vs about USD4.6/kg in 1Q22).
- **We expect that VHC export revenue to China market would rebound in 1Q23** and increase the contribution to VHC revenue by 17% (account for 10% revenue in 2022) of fillet pangasius since the import process into China has been easing as China government dropped its policy of testing positive to COVID-19.

12M rating **HOLD**

12M TP **77,000** from 121,500

Up/Downside N.A

Stock Data

VNIndex (10 Feb, pt)	1,066
Stock price (10 Feb, VND)	68,000
Market cap (USD mn)	529
Shares outstanding (mn)	183
52-Week high/low (VND)	111,526/59,800
6M avg. daily turnover (USD mn)	2.00
Free float / Foreign ownership (%)	49.8/30.3
Major shareholders (%)	
Truong Thi Le Khanh	43.2
Mitsubishi Corp	6.5
Dragon Capital	6.9

Performance

	1M	6M	12M
Absolute (%)	0.6	(16.6)	0.7
Relative to VNIndex (%p)	(0.6)	(2.0)	28.9

Stock price trend



Source: Bloomberg

Research Dept

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- **Collagen and Gelatin revenue keep increasing growth momentum in 1Q23.** We estimate Vinh Hoan's Collagen & Gelatin revenue at VND279bn, increasing +36.4% yoy and +13.2% qoq as we expect that VHC continue to expand the capacity in 2023.
- **Vinh Hoan's gross margin thinner 9.2%p to post 19% in 2023** driven by 1) the lower of average selling price by -16.7% compared to 1Q23 soar ASP, and 2) the remain lofty input costs, +7.6% yoy, and 3) risk of inventory provision increase.

Action: Maintain HOLD with TP VND77,000

Although we estimate the business result declines in 1Q23, we maintain our optimistic view for Vinh Hoan's 2023 outlook, which was driven by the increase of China export revenue contribution and Collagen & Gelatin revenue surge. We maintain HOLD recommendation for VHC share with target price of VND77,000.

Table 1. Quarterly earning

(VND bn, %, %p)

	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY
Sales	2692.9	3267.6	4226.3	3261.4	2484.0	(23.8)	(7.8)
OP	535.2	664.7	882.4	536.1	233.3	(56.5)	(56.4)
OP margin	19.9	20.3	20.9	16.4	9.4	(42.9)	(52.7)
EBT	541.9	662.9	878.6	545.7	233.1	(57.3)	(57.0)
NP	461.2	553.3	801.9	459.8	199.6	(56.6)	(56.7)

Source: Company data, Quantwise, Korea Investment & Securities

■ Company overview

Vinh Hoan Corporation was established in 1997 in Dong Thap Province. The company specialized in farming, processing and exporting related-pangasius products, Collagen & Gelatin products. Since 2010, VHC has been the leading company in pangaius industry, accounting for 14% of industry shares. The products are available in well-known retail chain and distributing in leading food service companies globally.

Balance sheet

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets	4,228	5,242	7,476	8,547	9,877
Cash & cash equivalents	1,457	1,523	2,338	4,029	5,195
Accounts & other receivables	1,273	1,929	2,515	2,194	2,258
Inventory	1,498	1,790	2,623	2,325	2,424
Non-current assets	2,237	2,932	3,803	4,113	4,392
Fixed assets	1,887	2,329	3,244	3,597	3,919
Investment assets	350	602	559	516	473
Others	727	561	561	561	561
Total assets	7,192	8,734	11,840	13,222	14,830
Advances from customers	0	0	0	0	0
Unearned revenue	436	545	848	761	767
Trade payables	326	337	494	438	456
Others	94	79	85	89	94
ST debt & due bonds	1,106	1,723	1,980	2,206	2,440
LT debt & bonds	69	168	634	450	300
Total liabilities	2,031	2,852	4,040	3,943	4,057
Controlling interest	5,157	5,777	7,708	9,199	10,705
Capital stock	1,834	1,834	1,834	1,834	1,834
Capital surplus	224	224	224	224	224
Other reserves	(114)	(114)	(0)	(0)	(0)
Retained earnings	3,214	3,833	5,651	7,141	8,648
Minority interest	4	105	92	80	67
Shareholders' equity	5,161	5,882	7,800	9,278	10,773

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Cash flow

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	420	640	1,684	2,728	2,182
Net profit	722	1,121	2,304	1,862	1,878
Dep'n & Amort'n	201	285	352	403	456
Net incr. in W/C	(502)	(766)	(972)	464	(151)
C/F from investing	(311)	(856)	(1,224)	(713)	(734)
Capex	(604)	(605)	(1,224)	(713)	(734)
Incr. in investment	293	(251)	0	0	0
C/F from financing	(55)	421	355	(325)	(282)
Incr. in equity	0	63	0	0	0
Incr. in debt	309	717	722	42	85
Dividends	(364)	(359)	(367)	(367)	(367)
C/F from others	(177)	(139)	0	0	0
Increase in cash	(123)	66	815	1,691	1,166

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	3971	6162	13442	9665	9687
BPS	28361	31767	42874	50515	58179
DPS	2000	2000	2000	2000	2000
Growth (%)					
Sales growth	(10.5)	28.7	57.4	(14.9)	2.9
OP growth	(39.7)	75.2	133.3	(25.3)	(3.2)
NP growth (Adj)	(38.7)	55.2	118.9	(27.8)	0.2
EPS growth (Adj)	(35.5)	55.2	118.1	(27.8)	0.2
EBITDA growth	(31.9)	67.7	112.1	(20.8)	(0.6)
Profitability (%)					
OP margin (Adj)	9.7	13.2	19.6	17.2	16.2
NP margin (Adj)	10.3	12.4	17.2	14.6	14.2
EBITDA margin	12.6	16.4	22.1	20.5	19.8
ROA	10.0	12.8	20.4	13.3	12.0
ROE	14.0	19.4	31.2	19.1	16.7
Dividend yield	2.0	2.0	2.0	2.0	2.0
Dividend payout ratio	50.4	32.0	15.0	20.7	20.6
Stability					
Net debt (VND bn)	(289.0)	463.5	270.8	(1363.1)	(2354.4)
Net debt/equity (%)	(5.6)	8.0	3.4	(14.7)	(22.1)
Valuation (x)					
PE	18.1	11.7	5.4	7.4	7.4
PB	2.5	2.3	1.7	1.4	1.2
EV/EBITDA	13.5	8.0	3.8	4.8	4.8

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