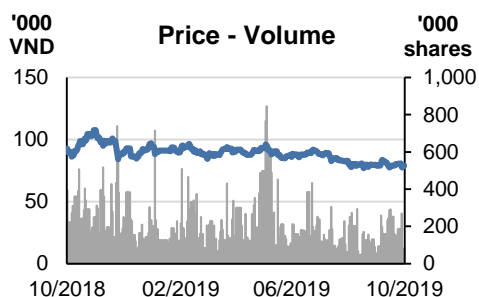


VHC (HOSE) Pangasius flies high in China

Rating OVERWEIGHT

Seafood-Pangasius

Market price (VND)	78,500
1-Y target price (VND)	90,000
1-Y price return (%)	14.6%
1-Y dividend yield (%)	2.5%
1-Y total return (%)	17.1%



Stock performance (%)

	YTD	1M	3M	12M
Absolute	-15%	-1.4%	-10%	-12%
Relative	-25.9%	-1.8%	-11.7%	-25%

Source: Bloomberg, compared to VNIndex

Stock Statistics 24-Oct-19

52-week range (VND)	113.5-75k
Shares o/s (m)	90.4
Mkt cap (VND bn.)	7,409
Mkt cap (\$m)	320
% Foreign owned	34.5%
Est. free float (mn. shares)	34
3m avg. daily vol. (shares)	145,000
VND/USD	23,231
Index: VN-Index/HNX	993.6/104.6

Source: Bloomberg, FiinPro, KIS

Ownership 24-Oct-19

Truong Thi Le Khanh	42.9%
Dragon Capital	9.0%
Mitsubishi Corporation	6.5%

Source: FiinPro, KIS

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Investment Points:

- **Pangasius export to the U.S. to recover from 2020** thanks to the current low price and the U.S. – China trade tension. We estimate VHC's export revenue to the U.S. will reach USD148mn in 2020 and USD160mn in 2021, growing 8% YoY.
- **China to remain as the main growth driver** thanks to large population, favorable seafood policies and low pangasius consumption per capita. We expect that export revenue to China will grow 18.4% p.a over 2019-2021E.
- **Vertically extending value chain to improve profitability.** Developing new farming area and going upstream to hatchery phase are expected to stabilize the material supply and cost, thus improving profit margin in the long term.

Risks:

- **Unfavorable changes to the U.S. anti-dumping tariffs.** In fact, the preliminary results of POR15 of the U.S. DOC shows the high probability that more players may enjoy zero anti-dumping tariff.

Recommendation:

- In 2020, we estimate VHC to record VND9,667bn revenue and VND1,500bn EAT. Each VHC share can earn VND16,372.
- Based on 1-Y average PER of 5.5x, we evaluate VHC's share value at **VND90,000** per share by the end of 2020. According to today (24/10/2019) price is VND78,500, the total 1-year expected return is **17.1%**, including VND2,000 cash dividend. Our recommendation on VHC is **OVERWEIGHT** for 1-year investment period.

VNDbn	2017	2018	2019E	2020E	2021E
Net revenue	8,151	9,271	8,384	9,667	10,661
Growth (%)	11.6%	13.7%	-9.6%	15.3%	10.3%
Net profit	605	1,442	1,330	1,500	1,687
Growth (%)	6.9%	138.5%	-7.8%	12.8%	12.5%
EPS (bonus-adjusted, VND)	6,551	15,391	14,334	16,373	18,441
Growth (%)	14.8%	134.9%	-6.9%	14.2%	12.6%
ROE (%) (excl. minority)	23%	41%	30%	27%	24%
Net debt/Equity (%)	34%	15%	-11%	-18%	-27%
PER (x)	8.0	3.3	5.5	4.8	4.3
PBR (x)	1.64	1.18	1.39	1.13	0.92
EV/EBITDA (x)	6.8	3.5	4.9	3.8	3.0
Dividend yield (%)	0.0%	7.8%	2.5%	2.5%	2.5%

1. 4Q2019 to improve slightly

According to 3Q2019 financial report, VHC recorded revenue at VND1,882bn, decreasing by 25% YoY. Nine months through September, aggregate revenue was VND5,696bn, decreasing by 13.3% YoY, which fit the overall slowdown of Vietnam pangasius export during the period. VASEP estimated total Vietnam pangasius export of 9M2019 was about USD1.46bn, decreasing by 8.5% YoY. In which, export value to US, the biggest export market of VHC, recorded the decrease of 43.6% YoY, making a significantly negative impact on VHC's revenue.

As export price to the U.S. dropped at a faster pace than domestic raw material, gross margin contracted to 21.5% in 9M2019, reducing gross profit by 16.4% YoY to VND1,228bn.

In 4Q2019, we expect the U.S. import volume to recover and the strong Chinese growth of import volume to continue, reinforced by the peak pangasius consumption season by the year-end. However, because of the high base of the export price in 4Q2018 and the current accumulative decline of the export to the U.S., export value is forecasted to remain weak in the last quarter of 2019. Therefore, we project that VHC will record consolidated revenue at VND2,688bn in 4Q2019, decreasing 1% YoY.

For the whole 2019 fiscal year, we estimate VHC to record consolidated revenue at VND8,384bn in 2019 (-10% YoY). EPS is projected to be VND14,334 (-7% YoY).

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	2018	2019E
Sales	1,804	2,240	2526	2702	1,789	2,025	1882	2688	9,271	8384
Sales YoY Growth %	11.6%	-4.8%	24.9%	25.1%	-0.8%	-9.6%	-25.5%	-0.5%	13.7%	-9.6%
Gross profit	254	461	755	570	421	428	370	566	2,039	1786
Gross margin (%)	14.1%	20.6%	29.9%	21.1%	23.5%	21.2%	19.7%	21.1%	22.0%	21.3%
Operating profit	100	376	680	529	327	331	273	427	1,685	1358
Growth (%)	-23.7%	100.1%	229.7%	127.8%	226.4%	-11.9%	-59.8%	-19.3%	121.4%	-19.4%
Margin (%)	5.6%	16.8%	26.9%	19.6%	18.3%	16.4%	14.5%	15.9%	18.2%	16.2%
Net income	98	329	609	406	307	392	254	377	1,442	1,330
Growth (%)	1.5%	137.6%	260.5%	120.8%	213.9%	19.1%	-58.3%	-7.1%	138.5%	-7.8%
Margin (%)	5.4%	14.7%	24.1%	15.0%	17.2%	19.4%	13.5%	14.0%	15.6%	15.9%
EPS									15,489	14,334
Growth (%)									136%	-7%

Source: KIS estimates

2. Export to the U.S. to recover from 2020

In 2020 - 2021, we expect that export performance to the U.S. will get brighter after slump 2019 because of the following points:

2.1. Lower price to improve export volume

Year to date, export price plunged 34%. We estimate that average export price to the U.S. in 2019 will decrease by 15% YoY and decrease by 30% from the peak of 2018. Lower export price is expected to improve pangasius consumption in the biggest export market of VHC (over 60% revenue portion per year (Fig 06)). Besides, we expect that last year's surge of raw pangasius material price does not recur in the short term as VHC will launch new fingerlings farms in 2020, self-supplying up to 50% of fingerling input and mitigating the shortage of pangasius fingerlings.

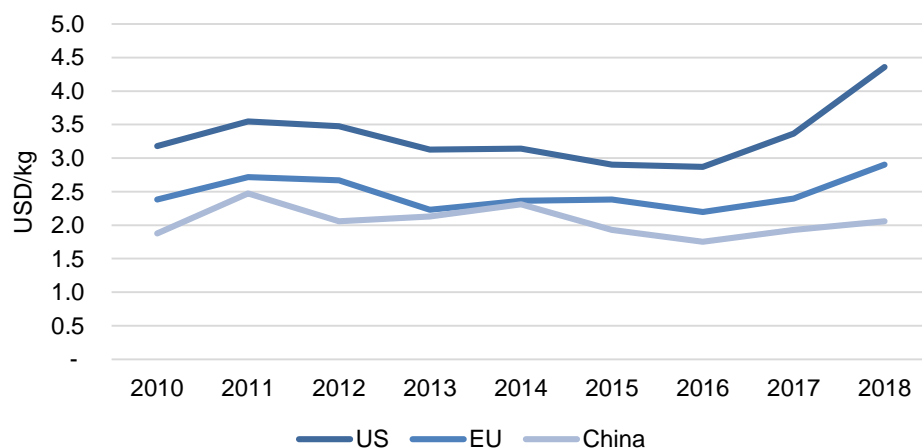
2.2. Growth opportunity from trade war

On May 10th 2019, import tariff on USD250bn of Chinese goods, including tilapia, hiked from 10% to 25%. Such tariffs, coupled with the equivalence status that US has granted for Vietnam pangasius since September 2018, enhance the competitiveness of Vietnam pangasius in the U.S. As the top pangasius exporter to the U.S. with 45% market share, VHC has opportunities to increase export volume taken from Chinese tilapia.

2.3. Zero anti-dumping tariff strengthen the market share of VHC

Export price to the U.S., which reached approximately 4.36 USD/kg in 2018, is usually higher than other market due to stricter product quality standards, which leads to higher profit margin and establishes a competitiveness advantage for the existing exporters. Combined with strict quality standards, anti-dumping tariff enacted by U.S. Department of Commerce (DOC) create another entry barrier for newcomers.

Fig 01. Vietnam pangasius export price in top three markets



Source: VASEP, KIS estimates

VHC has enjoyed zero anti-dumping tariff for many years, compared to Vietnam nationwide tariff of USD2-3 per kg, more than half of export price. Business strategies which bases on product quality and focuses on compliance with DOC's regulations enable VHC to regularly receive the most favorable anti-dumping tariff. We expect such zero anti-dumping tariff to remain and maintain the competitiveness advantage for VHC in the coming years.

	VHC's anti-dumping tariffs	Nationwide anti-dumping tariffs
POR 1	36.84%	63.88%
POR 2	6.81%	63.88%
POR 3	6.81%	63.88%
POR 4	6.81%	63.88%
POR 5	0	2.11 (USD/kg)
POR 6	0	2.11 (USD/kg)
POR 7	0	2.11 (USD/kg)
POR 8	0.19 (USD/kg)	2.11 (USD/kg)
POR 9	0.03 (USD/kg)	2.11 (USD/kg)
POR 10	0	2.39 (USD/kg)
POR 11	0	2.39 (USD/kg)
POR 12	0	2.39 (USD/kg)
POR 13	0	3.87 (USD/kg)
POR 14	0	2.39 (USD/kg)

Source: The U.S. DOC, KIS

Assuming pangasius export price to be stable in the coming years, we project the export revenue of VHC to the U.S. will reach USD148mn in 2020 and USD160mn in 2021, growing 8% YoY.

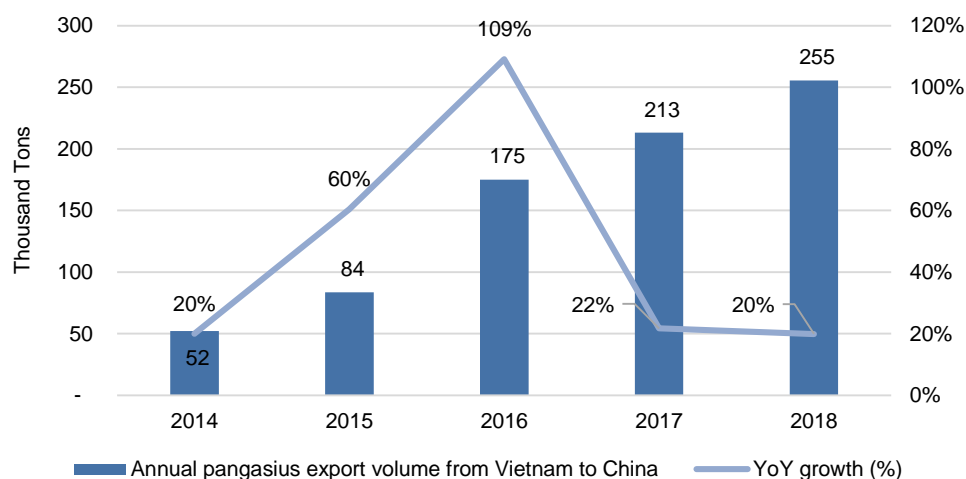
	2016	2017	2018	2019E	2020E	2021E
Pangasius export price to US (USD/kg)	2.87	3.36	4.36	3.7	3.7	3.7
<i>Growth (%)</i>	-1.3%	17.3%	29.5%	-15.3%	0%	0%
Pangasius export volume to US (Tons)	51,412	43,759	62,941	37,187	40,162	43,375
<i>Growth (%)</i>	6.1%	-14.9%	43.8%	-40.9%	8.0%	8.0%
Pangasius export value to US (USDmn)	147.43	147.2	274	137	148	160
<i>Growth (%)</i>	4.8%	-0.2%	86.3%	-49.9%	8.0%	8.0%

Source: KIS estimates

3. China to remain as main growth driver

Pangasius export to China has skyrocketed in the recent years. Vietnam export volume to China reached more than 255,400 tons last year, achieving 42.5% CAGR over 2014-2018.

Fig 02. Annual pangasius export from Vietnam to China



Source: VASEP, KIS estimates

Pangasius export to China maintained impressive growth rate in 9M2019. According to VASEP, despite the fact that export price to China has slid 24.5% since 4Q2018, export value to China in 9M2019 still reached almost USD450.7mn, jumping 19.6% YoY, helping China replace the U.S. to become the largest export market of Vietnam pangasius.

We expect China to maintain the main growth driver for VHC pangasius export in the coming years, based on the following ideas:

- **Large population**, which is 4 times higher than the U.S., will support the expansion of domestic catering services and the development of direct trading activities with Vietnamese exporters via e-commerce channel.
- **Favorable policies on seafood**. From 01 Apr 2019, Chinese government reduced VAT on imported seafood products from 10% to 9%. Besides, the import tariff exemption gives a competitiveness edge for pangasius products from Vietnam.
- **Low pangasius consumption per capita**. Despite skyrocketing for a few years, pangasius consumption per capita in China is still low, approximately 0.14 kg compared to 0.32 kg of the U.S.

Thanks to high product quality confirmed by the dominating 45% share in the U.S. market, VHC has no difficulty penetrating Chinese market. However, having lower standards and regulations than the U.S. makes China easily accessible to many Vietnam exporters. As a result, Chinese market is more price-sensitive and thus tougher for VHC.

We project the export volume of VHC to China will maintain double-digit growth over 2019-2021E, with 50% growth rate in 2019 and 25% growth rate per year over 2020-2021E. We estimate VHC will record USD37.7mn in 2019, USD47mn in 2020 and USD58.6mn in 2021 from this market. The contribution of China market to total revenue will increase from 8.8% in 2018 to 12.7% in 2021, respectively.

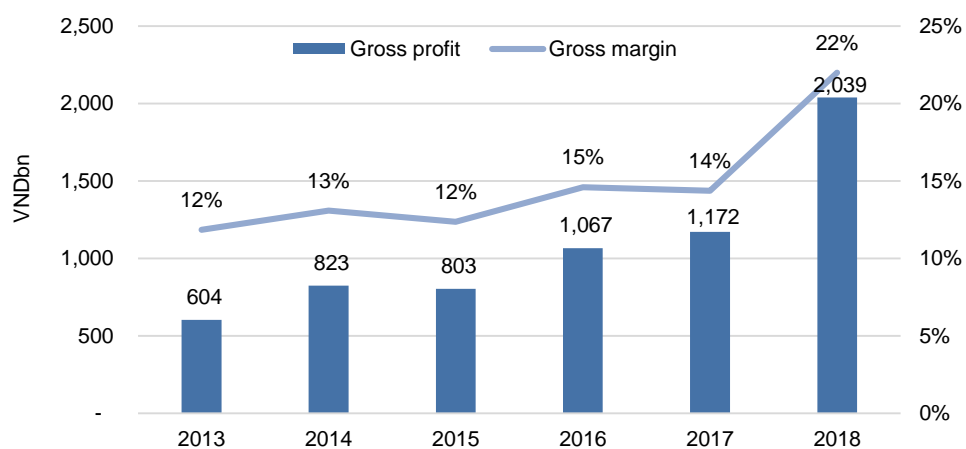
	2018	2019E	2020E	2021E
VHC pangasius export value to China (USDmn)	35.3	37.7	47.0	58.6
<i>Pangasius export volume growth rate</i>	12.9%	50%	25%	25%
<i>Pangasius export price growth rate</i>	6.5%	-28.8%	0%	0%
<i>Pangasius export value growth rate</i>	20.3%	6.8%	25%	25%

Source: KIS estimates

4. Intergrated value chain to improve profit margin

Aside from revenue growth, net income is supported by VHC's ability to reduce the effect of the wide fluctuation of input material cost. Annually improving profitability shows the efficient cost management of VHC.

Fig 03. VHC's gross profit and gross margin



Source: VHC, KIS

In 2019 - 2021E, we expect that VHC will improve its profitability further because:

5.1. New farms improve gross profit margin

In 2013-2018, VHC expanded its own farming area from 300ha to 725ha, enhancing the stability of raw pangasius supply and reducing input cost. In 2019, VHC invested VND220bn to develop a new 220ha farm to replace 200ha of Van Duc Tien Giang company, which VHC has divested.

Meanwhile, VHC enjoyed the price stability of its high-end products. As a result, price spread between export price and material price increased, improving gross profit margin.

4.2. Extend value chain vertically to fingerlings

In early 2019, VHC started going upstream of the pangasius value chain. Specifically, VHC established a subsidiary Vinh Hoan Fish Hatchery, which specializes in hatchery phase and is expected to raise fingerlings self-supply ratio up to 50%.

Besides, in order to control the successful ratio of fingerling output, VHC has signed a strategic contract with Pharmaq, a member of global animal health group Zoetis, to promote a large-scaled vaccine program for all VHC pangasius farming area.

5. Earnings projection & Valuation

5.1. Earnings projection

Unit: VNDbn	2018	2019E	2020E	2021E	Assumption
Net revenue	9,271	8,384	9,667	10,661	Export volume to US recovers over 2020-2021E. Double-digit growth in China market thanks to strong local pangasius consumption.
<i>Growth (%)</i>	13.7%	-9.6%	15.3%	10.3%	
Gross profit	2,039	1,786	2,059	2,271	Integrated value chain supports the stability of gross margin over 2020-2021E
Margin (%)	22.0%	21.3%	21.3%	21.3%	
EBIT	1,685	1,358	1,605	1,770	
Net interest expenses	-9	-16	-62	-104	
Net income	1,442	1,330	1,500	1,687	
EPS (VND, bonus-adjusted)	15,391	14,334	16,373	18,441	

Source: KIS estimates

5.2. Valuation

Based on multiple comparison, we evaluate VHC's share value at **VND90,000** per share by the end of 2020. Hence, with today (24/10/2019) price at VND78,500, the total 1-year expected return is **17.1%**, including VND2,000 cash dividend. Therefore, our recommendation on VHC is **OVERWEIGHT** for 1-year investment period.

VNDbn.	2019E	2020E	Remarks
PER multiple (x)	4.24	5.5	1-Y average PER is 5.5x
Net attributable profit	1,330	1,500	
Common outstanding shares (mn shares)	90.4	90.4	
Basic EPS	14,334	16,373	
Market Price		78,500	
Target Price		90,000	
<i>Annualized price return</i>		14.6%	
<i>Expected dividend yield</i>		2.5%	
Total expected return		17.1%	

Source: KIS forecasted

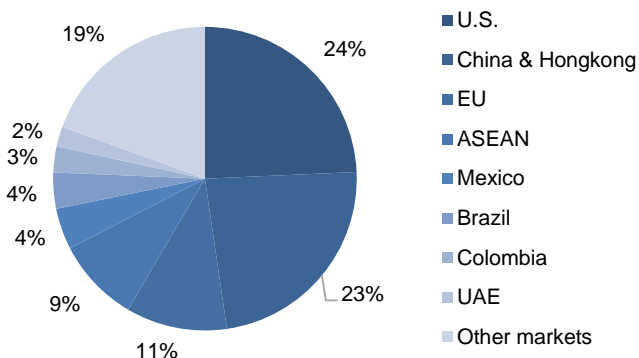
6. Risks

The U.S. anti-dumping tariffs and regulations in US market.

The key factor establishes the duopoly position for VHC in the US market is its zero anti-dumping tariff. Any unfavorable change to anti-dumping tariffs and regulations in US market will significantly make a negative impact on VHC and our projection. The preliminary results of the recent periods of preview from DOC showed the high probability that more Vietnamese exporters may be imposed zero anti-dumping tariff.

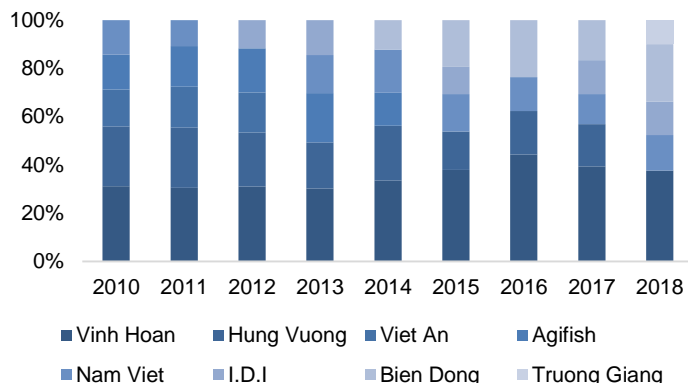
Appendix

Fig 04. Vietnam Pangasius share by market



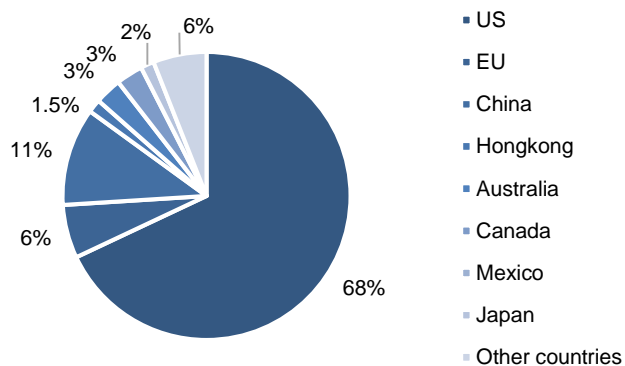
Source: VASEP, VHC

Fig 05. Export share by company



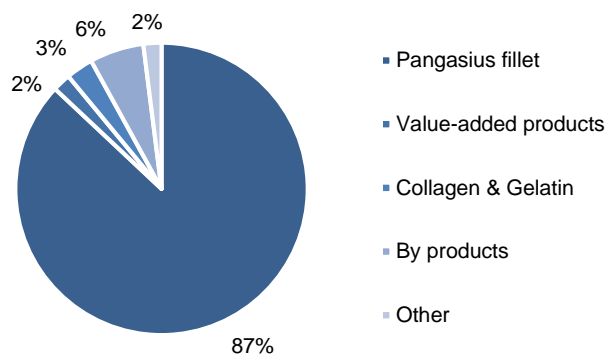
Source: VASEP

Fig 06. VHC export share by market, 2018



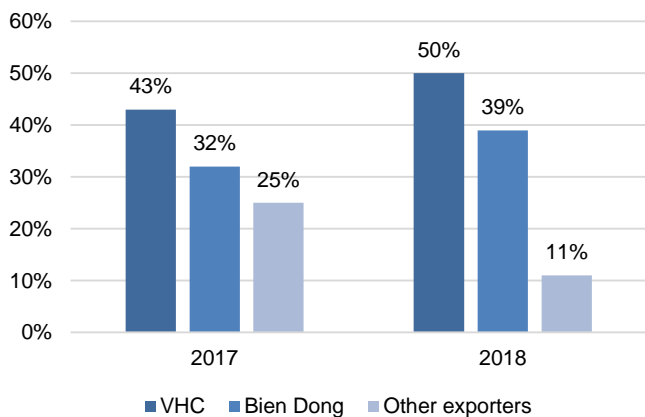
Source: VHC

Fig 07. VHC export by product, 2018



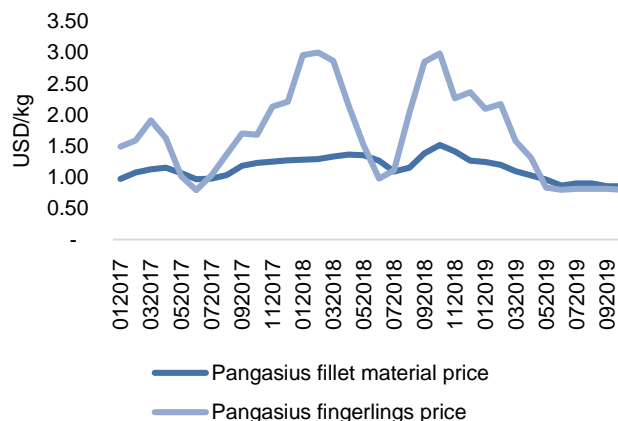
Source: VHC

Fig 08. US export share by company



Source: VASEP, Agromonitor

Fig 09. Vietnam raw material price, 2017-2019



Source: VASEP, Agromonitor

FINANCIALS MODEL					
Unit: VNDbn.	2017	2018	2019E	2020E	2021E
Net Revenue	8,151	9,271	8,384	9,667	10,661
Sales growth (%)	11.6%	13.7%	-9.6%	15.3%	10.3%
COGS	6,980	7,232	6,598	7,607	8,390
Gross margin (%)	14.4%	22.0%	21.3%	21.3%	21.3%
SG&A	411	354	428	454	501
EBITDA	960	1,842	1,477	1,772	1,981
EBITDA margin (%)	11.8%	19.9%	17.6%	18.3%	18.6%
Depr'n & Amort'n	199	156	119	167	211
Operating profit	761	1,685	1,358	1,605	1,770
Operating margin (%)	9.3%	18.2%	16.2%	16.6%	16.6%
Net interest expenses	51	-9	-16	-62	-104
As % of avg. net debt	5.0%	-1.1%	-40.9%	7.5%	6.6%
Interest cover (x)	15.0	-189	-87.6	-26	-17
Other profit/loss	12	-7	104	-	-
Tax	118	245	148	167	187
Effective tax rate (%)	16.4%	14.5%	10.0%	10.0%	10.0%
Net profit	605	1,442	1,330	1,500	1,687
Net margin (%)	7.4%	15.6%	15.9%	15.5%	15.8%
Minorities	-	-	-	-	-
Net attributable profit	605	1,442	1,330	1,500	1,687
Number of shares (m)	92.4	92.4	90.4	90.4	90.4
EPS (VND, bonus-adjusted)	6,551	15,391	14,334	16,373	18,441
EPS growth (%)	15%	135%	-6.9%	14.2%	12.6%
DPS (VND, as reported)	-	4,000	2,000	2,000	2,000
Payout ratio (%)	-	26%	14%	12%	11%

EBITDA = Net revenue – (COGs -Depr'n&Amort'n)– SG&A expenses

EBIT = EBITDA – Depr'n&Amort'n

Net interest expenses = interest expenses – interest income

Other profit/loss consists of other financial income/expenses, profit share from JVs/associates and other income/loss

Payout ratio = Dividend paid / Net attributable profit

BS & CF ITEMS (VNDbn)	2017	2018	2019E	2020E	2021E
Receivable turnover (x)	7.6	5.9	4.6	5.2	5.1
Inventory turnover (x)	5.8	5.6	5.0	5.6	5.5
Payable turnover (x)	27.5	27.8	24.7	28.9	28.1
Increase in WC	299	854	-282	421	327
Capex	243	545	371	586	520
Other cash flow items	220	-528	16	-98	-76
Free cash flow	42	727	1,343	758	1,127
Share issues	-	10	-	-	-
Dividends paid	-	363	185	181	181
Increase in net debt	-42	-374	-1,158	-577	-947
Net debt, end of year	991	617	-541	-1,118	-2,065
Enterprise value	6,510	6,375	7,164	6,754	5,948
Total equity	2,943	4,015	4,981	6,269	7,741
Minority interests	-	-	-	-	-
Shareholder's equity	2,943	4,015	4,981	6,270	7,741
BVPS (VND, bonus-adjusted)	31,844	43,452	56,345	69,305	85,628
Net debt / equity (%)	34%	15%	-11%	-18%	-27%
Net debt / EBITDA (x)	1.0	0.3	-0.4	-0.6	-1.0
Total assets	5,043	6,299	6,403	7,478	8,814

Net debt = debts – cash & equivalent

Key ratios & Valuation	2017	2018	2019E	2020E	2021E
ROE (%) (excl minority interest)	22.7%	41.5%	29.6%	26.7%	24.1%
ROA (%)	12.7%	25.4%	20.9%	21.6%	20.7%
ROIC (%)	14.6%	28.0%	22.5%	25.6%	24.8%
WACC (%)	11.3%	11.0%	10.5%	10.8%	11.1%
PER (x)	8.0	3.3	5.5	4.8	4.3
PBR (x)	1.64	1.18	1.39	1.13	0.92
PSR (x)	0.6	0.5	0.8	0.7	0.7
EV/EBITDA (x)	6.8	3.5	4.9	3.8	3.0
EV/Sales (x)	0.8	0.7	0.9	0.7	0.6
Dividend yield (%) (bonus-adjusted)	0%	7.8%	2.5%	2.5%	2.5%

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Recommendation System

OVERWEIGHT: where we believe prospective 12 months VND total return (including dividends) will be 15% or more.

NEUTRAL: where we believe it will be -5% to 15%.

UNDERWEIGHT: where we believe it will be -5% or less.

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