

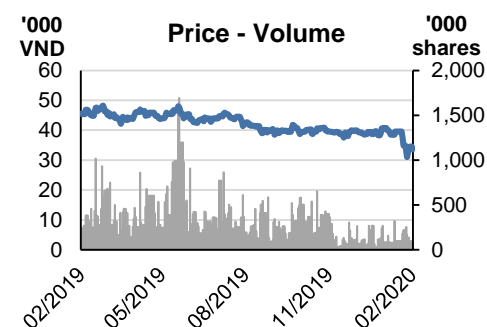
VHC (HOSE) U.S. rebound to offset China slowdown

Rating

BUY

Seafood

Market price (VND)	33,600
1-Y target price (VND)	37,800
1-Y price return (%)	12.4%
1-Y dividend yield (%)	6%
1-Y total return (%)	18.4%



Stock performance (%)

	YTD	1M	3M	12M
Absolute	-15%	-17%	-15%	-26%
Relative	-12%	-14%	-6%	-31%

Source: Bloomberg, compare to VNI

Stock Statistics 10-Feb-20

52-week range (VND)	31.0k-48.3k
Shares o/s (m)	182
Mkt cap (VNDbn)	6,113
Mkt cap (USDmn)	263
% Foreign owned	100.0%
Est. free float (ml. shares)	91.2
3m avg. daily vol. (shares)	127,149
VND/USD	23,256
Index: VN-Index/HNX	931/104

Source: Bloomberg, KIS

Ownership 10-Feb-20

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

Source: Fiiipro, KIS

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Lower pangasius export price hit 4Q2019

In 4Q2019, Vinh Hoan recorded consolidated net revenue of VND2,171bn, decreasing 20% YoY. In which, we estimate export to the U.S. and China recorded VND978bn and VND221bn, dropping by 33% YoY and 7% YoY, respectively. As being foreseeable in the early 2019, the plunge of pangasius export price was the main factor explaining the decrease of Vinh Hoan's revenue. We estimate pangasius export price to the U.S. and China dropped by 41% YoY and 36% YoY in 4Q2019, respectively.

Lower-than-estimated export price to the U.S. compared to stable input material price lead to the decline of gross margin, which dropped by 700bps YoY to 14.1% in 4Q2019. Because of the decline of gross margin, Vinh Hoan recorded gross profit of VND305bn (-46.4% YoY), decreasing by at a faster rate than net revenue.

Because gross profit was lower whereas operating cost increased (+13.2% YoY), EBIT decreased by 64% YoY to VND192bn in 4Q2019. Thanks to lowering corporate income tax rate (-700bps YoY), 4Q2019 EAT was VND199bn (-51% YoY), declining at a slower rate than EBIT.

In aggregate 2019, Vinh Hoan recorded VND7,867bn revenue and VND1,180bn net profit, decreasing 15% YoY and 18% YoY, respectively.

2019-nCoV to slow down export to China

Coronavirus 2019-nCoV has become the top risk for China economy. Because of decelerating Chinese pangasius demand and delaying cargo transportation to China's distribution centers, the impact of 2019-nCoV will slow down Vinh Hoan penetration into China in 2020.

We estimate 2019-nCoV epidemic will reduce the growth of Vinh Hoan's pangasius export revenue to China by 11% to 14% YoY from the previous figure 25% YoY. We estimate the export to China to reach VND990bn in 2020.

But export to the U.S. to recover in 2020

The U.S. market was Vinh Hoan's worst export market in 2019. However, 4Q2019 saw a positive signal that export volume to this market recovered. We estimate Vinh Hoan's volume export to the U.S. reached 12% YoY in 4Q2019 as Vinh Hoan's price discounting strategy at this market took effect.

We maintain our expectation that export performance to the U.S. will get brighter in 2020 at the volume growth rate of 8.1% thanks to lower export price level attracting the U.S. importers, gaining market share from tilapia and zero anti-dumping tariff.

Recommendation

In 2020, we expect the rebound of the U.S. market to offset the 2019-nCoV-induced slowdown of Chinese one. Moreover, the recent price plunge has made VHC share valuation attractive. Therefore, we revise downward VHC target price to VND37,800 by the end of 2020 but maintain **BUY** recommendation. Including VND2,000 cash dividend, total 1-year expected return for Vinh Hoan's share is 18.4%.

Earning projection

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2019U	2020E
Sales	1,804	2,240	2,526	2,702	1,789	2,025	1,882	2,171	7,867	9,714
<i>Sales YoY Growth %</i>	11.6%	-4.8%	25%	25.1%	-0.8%	-9.6%	-25.5%	-20%	-15.1%	23.5%
Gross profit	254	461	755	570	421	436	370	305	1,533	1,943
<i>Gross margin (%)</i>	14.1%	20.6%	30%	21.1%	23.5%	21.2%	19.7%	14.1%	19.5%	20%
Operating profit	100	376	680	529	327	340	273	192	1,132	1,482
<i>Growth (%)</i>	-23.7%	100%	230%	128%	226%	-11.9%	-59.8%	-63.7%	-32.8%	30.8%
<i>Margin (%)</i>	5.6%	16.8%	26.9%	19.6%	18.3%	16.4%	14.5%	8.8%	14.4%	15.3%
Net income	98	329	609	406	307	420	254	199	1,180	1,394
<i>Growth (%)</i>	1.5%	138%	261%	121%	214%	19.1%	-58.3%	-50.9%	-18.1%	18.1%
<i>Margin (%)</i>	5.4%	14.7%	24.1%	15.0%	17.2%	19.4%	13.5%	9.2%	15.0%	14.4%
Bonus-adjusted EPS (PLN)	1,061	3,505	6,570	4,353	3,326	4,132	2,692	1,095	6,378	7,553
<i>Growth (%)</i>	0.8%	132%	249%	120%	214%	17.9%	-59%	-74.8%	-18.9%	18%

Note: for important notes/changes

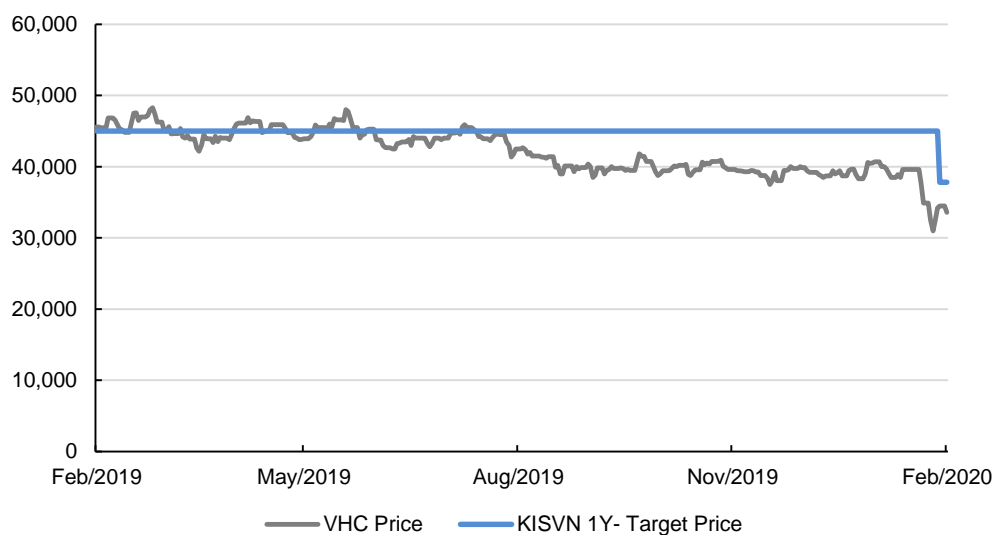
Valuation

VNDbn.	2019U	2020E	Remarks
PER multiple (x)		5.0	1-Y average PER is 5x
Net attributable profit	1,180	1,394	
Common outstanding shares (mn shares)	181.9	181.9	
Basic EPS	6,378	7,553	
Market Price		33,600	
Target Price		37,800	
Annualized price return		12.4%	
Expected dividend yield		6%	
Total expected return		18.4%	

Source: KIS forecasted

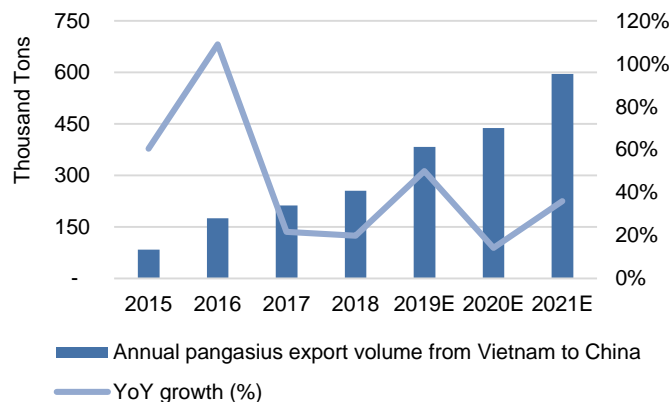
Changes to recommendation and price target

Company	Date	Recommendation	Price target (VND)	Consensus
VHC	24-10-19	BUY	45,000	17.1%
VHC	07-02-20	BUY	37,800	18.4%



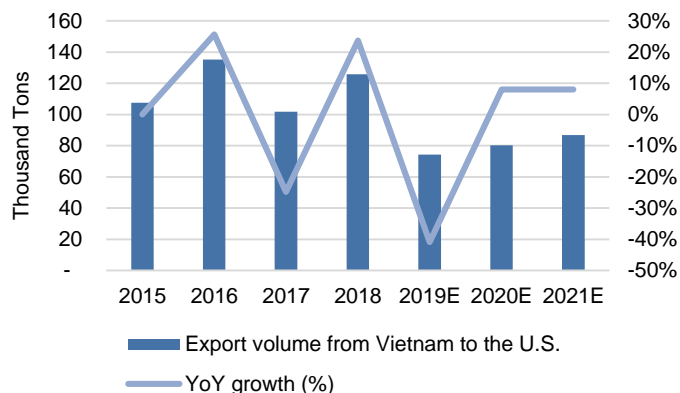
Source: Bloomberg, KIS

Fig 01. Pangasius export volume from Vietnam to China



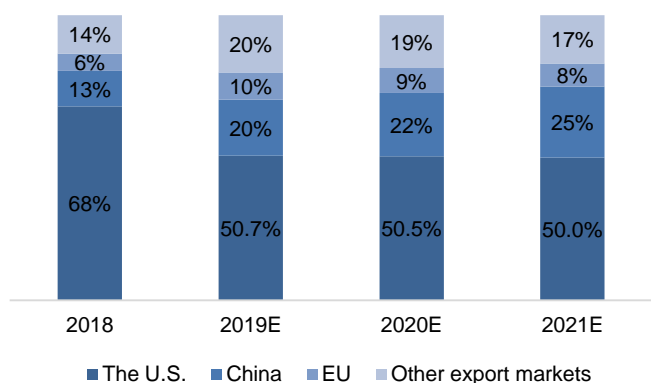
Source: KIS

Fig 02. Pangasius export volume from Vietnam to the U.S.



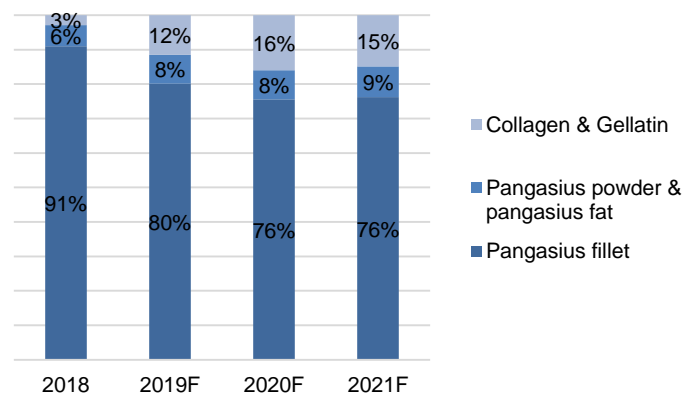
Source: KIS

Fig 03. Vinh Hoan pangasius export by market



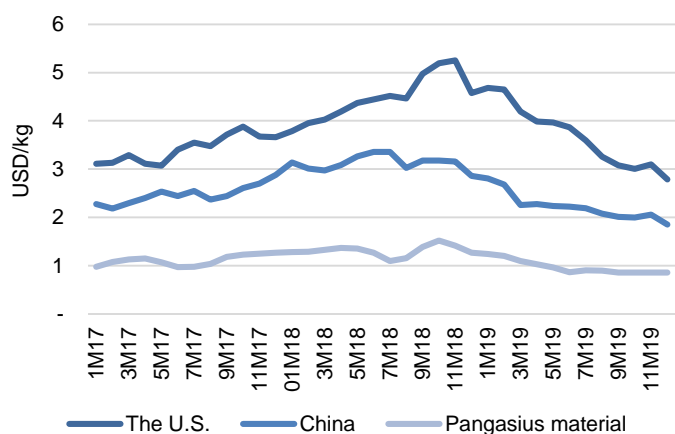
Source: Bloomberg, KIS

Fig 04. VHC export by product, 2018-2021E



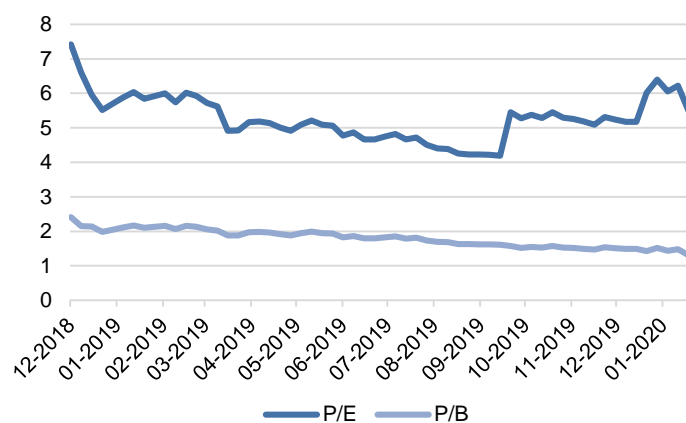
Source: Bloomberg, KIS

Fig 05. Vietnam raw material price, 2017-2019



Source: Bloomberg, KIS

Fig 06. Vinh Hoan's historical P/E and P/B



Source: Bloomberg, KIS

FINANCIAL MODEL					
Unit: VNDbn	2016	2017	2018	2019U	2020E
Net Revenue	7,304	8,151	9,271	7,867	9,714
Sales growth (%)	12.5%	11.6%	13.7%	-15.1%	23.5%
COGS	6,237	6,980	7,232	6,334	7,771
Gross margin (%)	14.6%	14.4%	22.0%	19.5%	20.0%
SG&A	381	411	354	401	454
EBITDA	833	960	1,842	1,298	1,649
EBITDA margin (%)	11%	12%	20%	16%	17%
Depr'n & Amort'n	147	199	156	165	168
Operating profit	686	761	1,685	1,132	1,482
Operating margin (%)	9%	9%	18%	14%	15%
Net interest expenses	40	51	(9)	(16)	(65)
As % of avg. net debt	3%	5%	-1%	34%	7%
Interest cover (x)	17	15	(189)	(70)	(23)
Other profit/loss	27	12	(7)	161	-
Tax	107	118	245	129	152
Effective tax rate (%)	16%	16%	15%	10%	10%
Net profit	565	605	1,442	1,180	1,394
Net margin (%)	8%	7%	16%	15%	14%
Minorities	(1.30)	(0.13)	(0.08)	-	(0.09)
Net attributable profit	567	605	1,442	1,180	1,394
Number of shares (m)	92.4	92.4	92.4	181.9	181.9
EPS (VND, bonus-adjusted)	5,707	6,551	15,391	7,239	7,553
EPS growth (%)	74%	15%	135%	-53%	4%
DPS (VND)	2,000	2,000	4,000	-	2,000

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)	2016	2017	2018	2019U	2020E
Receivable turnover (x)	7.6	7.6	5.9	4.7	5.7
Inventory turnover (x)	5.0	5.8	5.6	4.5	5.4
Payable turnover (x)	26.6	27.5	27.8	24.7	29.3
Increase in WC	(197)	299	854	(482)	657
Capex	349	243	545	371	589
Other cash flow items	(101)	220	(528)	128	(364)
Free cash flow	661	42	727	1,329	680
Share issues	-	-	10	-	-
Dividends paid	231	0	363	-	364
Increase in net debt	(430)	(42)	(374)	(1,329)	(316)
Net debt, end of year	1,033	991	617	(712)	(1,028)
Enterprise value	4,010	6,510	6,375	6,202	5,957
Total equity	2,393	2,943	4,015	4,879	6,216
Minority interests	6.1	0.1	-	2.0	(0.2)
Shareholder's equity	2,387	2,943	4,015	4,877	6,216
BVPS (VND, bonus-adjusted)	25,833	31,844	43,452	27,100	34,165
Net debt / equity (%)	0.4	0.3	0.2	(0.1)	(0.2)
Net debt / EBITDA (x)	1.2	1.0	0.3	(0.5)	(0.6)
Total assets	4,451	5,043	6,299	6,613	7,522
Net debt = debts – cash & equivalent					
Key ratios & Valuation	2016	2017	2018	2019U	2020E
ROE (%) (excl minority interest)	25.4%	22.7%	41.5%	29.0%	24.4%
ROA (%)	12.8%	12.7%	25.4%	21.1%	20.0%
ROIC (%)	14.2%	14.6%	28.0%	22.6%	23.6%
WACC (%)	10.5%	11.3%	11.0%	10.7%	10.6%
PER (x)	4.4	8.0	3.3	4.6	4.4
PBR (x)	1.0	1.6	1.2	1.2	1.0
PSR (x)	0.3	0.6	0.5	0.8	0.6
EV/EBITDA (x)	4.8	6.8	3.5	4.8	3.6
EV/Sales (x)	0.5	0.8	0.7	0.8	0.6
Dividend yield (%) (bonus-adjusted)	8.0%	3.8%	7.8%	0.0%	6.0%

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Recommendation System

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

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

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

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