

15 May 2020

Vinh Hoan Corp (VHC)

China rebound to offset the U.S. slump in 2Q20

- COVID-19 pandemic hits 1Q20
- Export to the U.S. to weaken in 2Q20
- Maintain BUY at TP of VND37,800

Facts: China market and COVID-19 pandemic hits 1Q20

In 1Q20, Vinh Hoan recorded consolidated net revenue of VND1,636bn, decreasing 14.1% yoy. Export to the U.S. and China recorded VND757bn and VND73bn, decreasing by 4% yoy and 68% yoy, respectively. Export to EU reached VND272bn, increasing 11% yoy. We estimate the export interruption to China due to COVID-19 pandemic and lower export price were the main factors dragging down Vinh Hoan's revenue in 1Q20.

The plunge of export price led to the decline of gross margin, which dropped 10.4%p yoy in 1Q20. Because of contracting gross margin, Vinh Hoan recorded gross profit of VND215bn, decreasing 49% yoy. In overall, Vinh Hoan recorded NPAT of VND152bn in 1Q20, decreasing 50.5% yoy.

Pros & cons: Export to the U.S. to weaken in 2Q20

We expect Chinese pangasius demand to see a strong rebound in 2Q20 as China has re-opened its economy. In Apr 2020, Vietnam export volume to China reached 24.8 thousand tonnes, jumping 46.2% yoy to record a 4-month increase. Per Vinh Hoan's management, export volume of Vinh Hoan to China can see volume recovery to 80% of pre-virus level in April 2020, 90% in May 2020 and 100% in June 2020 thanks to the rebound of China's catering services.

On the contrary, COVID-19 pandemic will undermine pangasius demand and weaken Vinh Hoan's export to the U.S. in 2Q20. Per our estimate, Vietnam export volume to the U.S. recorded only 3.5 thousand tonnes in Apr 2020 (-13.4% yoy), which was mainly hit by COVID-19 pandemic.

Action: Maintain BUY at TP of VND37,800

In 2Q20, we believe the strong recovery of export to China, thanks to Chinese re-opening, to offset the decrease of export to the U.S. Furthermore, we expect negative impact of COVID-19 pandemic will fade away in Vinh Hoan's top three export markets from 3Q20. Therefore, we maintain **BUY** for VHC share with TP of VND37,800. Total expected return is 23%.

12M rating **BUY (Maintain)**

12M TP **37,800** from 37,800

Up/Downside **+23%** (incl 6% cash dividend)

Stock data

VNIndex (15 May, pt)	827
Stock price (15 May, VND)	32,250
Market cap (USD mn)	251
Shares outstanding (mn)	182
52-Week high/low (VND)	48,000/20,500
6M avg. daily turnover (USD mn)	0.38
Free float / Foreign ownership (%)	50.1/32.8
Major shareholders (%)	
Truong Thi Le Khanh	43.5
Mitsubishi Corp	6.6

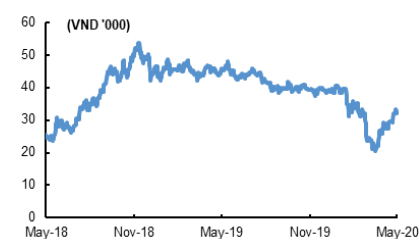
Valuation

	2019A	2020F	2021F
PE (x)	5.1	4.3	3.8
PB (x)	1.2	1.0	0.8
ROE (%)	26.5	25.9	24.2
DY (%)	0.0	6.2	6.2
EV/EBITDA (x)	4.0	2.9	2.3
EPS (VND)	6,371	7,550	8,495
BPS (VND)	27,008	32,328	38,792

Performance

	1M	6M	12M
Absolute (%)	15.2	(17.9)	(29.7)
Relative to VNIndex (%p)	8.7	(0.4)	(16.1)

Stock price



Source: Bloomberg

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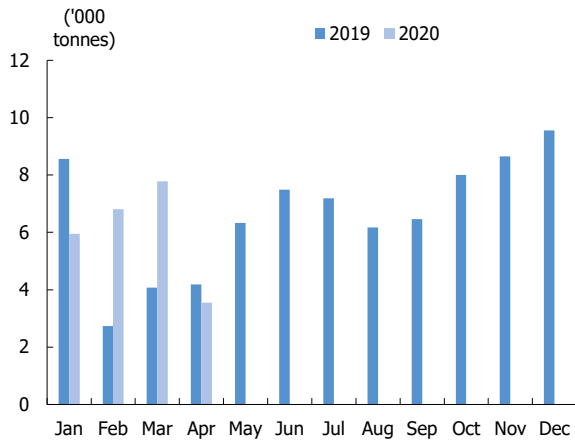
Table 1. Earnings trend and outlook

(VND bn, %, %p)

	2019				2020	2019A	2020F	1Q20		Consensus
	1Q	2Q	3Q	4Q	1Q			QoQ	YoY	
Sales	1,789	2,025	1,882	2,171	1,636	7,867	9,707	(24.6)	(8.6)	N.A
Gross profit	421	436	370	305	215	1,533	1,941	(29.6)	(49.0)	N.A
Gross margin	23.5	21.6	19.7	14.1	13.1	19.5	20.0	(0.9)	(10.4)	
Operating expenses	94	96	97	113	79	401	461	(30.1)	(16.0)	N.A
Selling expense	49	62	65	76	39	252	290	(48.6)	(20.4)	
G&A expense	45	34	32	38	40	149	171	7.3	(11.3)	
Depreciation	40	42	40	44	46	165	197	6.0	16.0	
Operating profit	327	340	273	192	136	1,132	1,480	(29.4)	(58.5)	N.A
EBT	346	457	283	223	172	1,309	1,546	(22.8)	(50.4)	
Net profit	307	420	254	199	152	1,179	1,394	(23.7)	(50.5)	
NP of controlling interest	307	420	254	199	152	1,179	1,394	(23.7)	(50.5)	N.A
EBITDA	367	382	313	236	182	1,298	1,677	(22.8)	(50.5)	N.A
EBITDA margin	20.5	18.9	16.6	10.8	11.1	16.5	17.3	0.3	(9.4)	
OP margin	18.3	16.8	14.5	8.8	8.3	14.4	15.3	(0.6)	(10)	

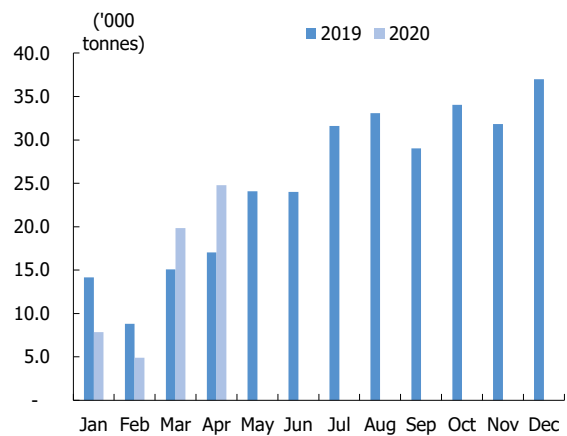
Source: Company data, KIS

Figure 1. VN pangasius export volume to the U.S.



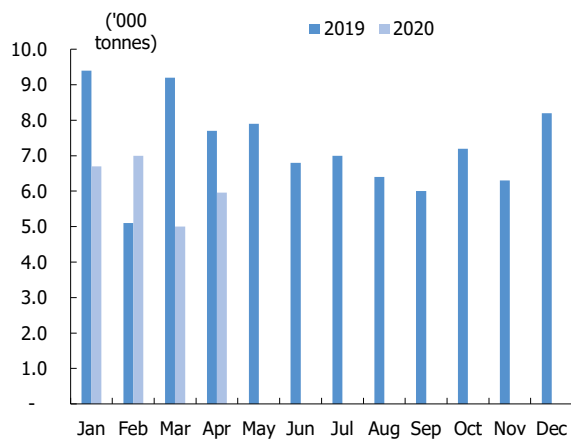
Source: AgroMonitor

Figure 2. VN pangasius export volume to China



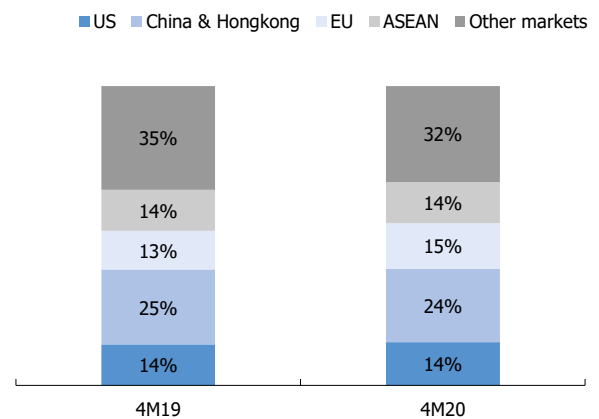
Source: AgroMonitor

Figure 3. VN pangasius export volume to EU



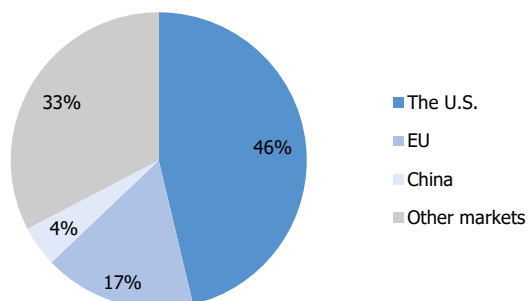
Source: AgroMonitor

Figure 4. VN pangasius export value by market



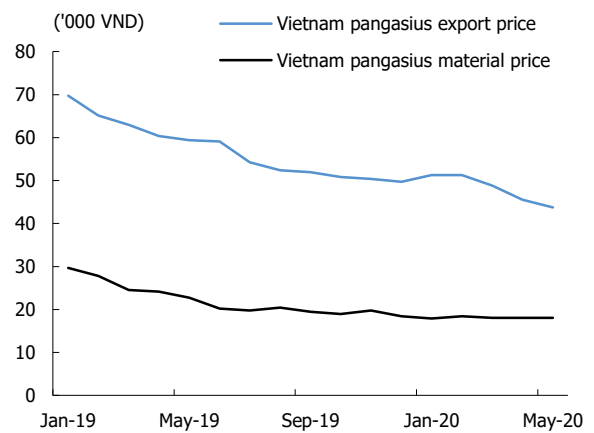
Source: VASEP

Figure 5. Vinh Hoan's revenue structure, 1Q20



Source: Vinh Hoan

Figure 6. Pangasius export price and material price



Source: AgroMonitor

Table 2. Fair value calculation

(VND bn, mn shares, VND, %)

	2019A	2020F	Remarks
Fair PE multiple		5.0	1-Y average PE of Vinh Hoan's share
Net attributable profit	1,179	1,394	
Common outstanding shares	181.9	181.9	
Basic EPS	6,371	7,550	
Market Price		32,250	
Target Price		37,800	2020
Annualized price return		17.2	
Expected dividend yield		6.2	
Total expected return		23.4	

Source: KIS

■ Company overview

Vinh Hoan (VHC: HSX) is the leading global pangasius exporter, specializing in pangasius fillet and value-added processed products. Vinh Hoan focuses on export to the U.S., China and EU, which accounts for more than 50% total revenue per year. In the U.S, Vinh Hoan is No.1 pangasius exporter with market share of approximately 50%.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	2,951	4,040	4,514	5,080	5,646
Cash & cash equivalents	418	651	1,578	1,395	1,565
Accounts & other receivables	1,331	2,003	1,522	1,952	2,151
Inventory	1,202	1,386	1,414	1,733	1,930
Non-current assets	1,791	2,045	1,841	2,112	2,524
Fixed assets	1,790	1,656	1,840	2,112	2,524
Investment assets	1	389	1	-	-
Others	300	213	257	120	120
Total assets	5,043	6,299	6,612	7,313	8,291
Advances from customers	66	11	20	19	22
Unearned revenue	-	-	-	-	-
Trade payables	233	274	282	346	386
Others	391	728	567	618	742
ST debt & due bonds	1,008	1,269	866	445	82
LT debt & bonds	402	-	-	-	-
Total liabilities	2,100	2,283	1,735	1,429	1,231
Controlling interest	2,943	4,015	4,875	5,882	7,058
Capital stock	924	924	1,834	1,834	1,834
Capital surplus	216	224	224	224	224
Other reserves	(3)	-	(114)	(114)	(114)
Retained earnings	1,805	2,867	2,932	3,939	5,115
Minority interest	0	-	2	2	2
Shareholders' equity	2,943	4,015	4,877	5,884	7,060

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	444	680	1,489	1,030	1,552
Net profit	605	1,442	1,179	1,394	1,566
Dep'n & Amort'n	199	156	165	197	244
Net incr. in W/C	(360)	(918)	145	(560)	(257)
C/F from investing	(593)	(702)	(743)	(430)	(655)
Capex	(243)	(545)	(361)	(430)	(655)
Incr. in investment	(351)	(157)	(383)	-	-
C/F from financing	27	20	(703)	(785)	(727)
Incr. in equity	-	10	(114)	-	-
Incr. in debt	27	373	(403)	(421)	(363)
Dividends	(0)	(363)	(185)	(364)	(364)
C/F from others	207	235	884	1	-
Increase in cash	84	233	927	(183)	170

Income statement

(VND bn)

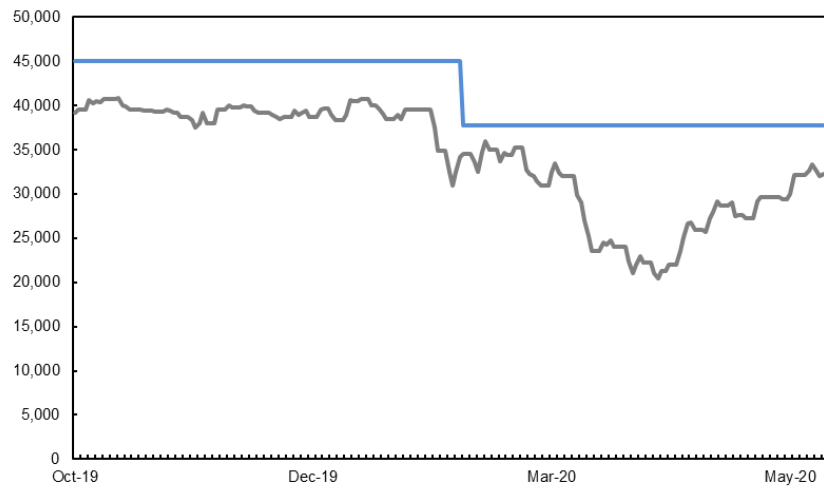
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	8,151	9,271	7,867	9,707	10,810
Operating profit	761	1,685	1,132	1,480	1,654
Financial income	58	137	251	95	95
Interest income	21	65	76	95	95
Financial expenses	89	167	90	30	12
Interest expenses	71	56	60	30	12
Other non-operating profit	12	(85)	147	-	-
Gains (Losses) in associates, subsidiaries and JV	-	79	14	-	-
Earnings before tax	723	1,688	1,309	1,546	1,737
Income taxes	118	245	130	152	171
Net profit	605	1,442	1,179	1,394	1,566
Net profit of controlling interest	605	1,442	1,179	1,394	1,566
EBITDA	960	1,842	1,298	1,677	1,898

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	6,118	15,489	6,371	7,550	8,495
BPS	31,915	43,452	27,008	32,328	38,792
DPS	2,000	4,000	-	2,000	2,000
Growth (%)					
Sales growth	11.6	13.7	(15.1)	23.4	11.4
OP growth	11.0	121	(32.8)	30.7	11.7
NP growth	6.9	139	(18.2)	18.2	12.3
EPS growth	3.3	153	(58.9)	18.5	12.5
EBITDA growth	15.3	92	(29.5)	29.2	13.1
Profitability (%)					
OP margin	9.3	18.2	14.4	15.3	15.3
NP margin	7.4	15.6	15.0	14.4	14.5
EBITDA margin	11.8	19.9	16.5	17.3	17.6
ROA	12.7	25.4	18.3	20.0	20.1
ROE	22.7	41.5	26.5	25.9	24.2
Dividend yield	6.2	12.4	-	6.2	6.2
Dividend payout ratio	32.7	25.8	-	26.5	23.5
Stability					
Net debt (VND bn)	992	618	(712)	(950)	(1,483)
Net debt/equity (%)	34	15	(15)	(16)	(21)
Valuation (x)					
PE	5.3	2.1	5.1	4.3	3.8
PB	1.0	0.7	1.2	1.0	0.8
EV/EBITDA	7.1	3.5	4.0	2.9	2.3

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Vinh Hoan Corp (VHC)	24 Oct 19	BUY	45,000		
	07 Feb 20	BUY	37,800		
	15 May 20	BUY	37,800		



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- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
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