

4 Nov 2020

Vinh Hoan Corp (VHC)

Heading for earning rebound in 4Q20

- Inventory provision hit 3Q20 NPAT
- Earnings to rebound in 4Q20
- Maintain BUY at target price of VND50,000

Facts: Inventory provision hit 3Q20 NPAT

In 3Q20, Vinh Hoan posted nearly VND1,800bn revenue (-4.4% yoy), which was mainly dragged down by 8.3% yoy decrease and 6.3% yoy decrease of export revenue to the U.S. and China, posting VND650bn and VND354bn, respectively.

In 3Q20, revenue of Collagen & Gelatin delivered VND132bn, almost flat compared to 3Q19 figure. Vinh Hoan's new expansion line of gelatin has been finished and is expected to generate revenue and profit for the whole 2021.

Vinh Hoan's gross profit recorded VND229bn (-38.1% yoy) as gross margin narrowed by 6.9%p yoy and 6.9%p qoq, due to remaining low export price and incurred inventory provision. Vinh Hoan's 3Q20 NPAT posted VND175bn (-30.9% yoy) in 3Q20, mainly dragged down by yoy narrowing gross margin.

In aggregate 9M20, Vinh Hoan posted VND5,093bn revenue (-10.6% yoy) and VND552bn NPAT (-43.8% yoy), completing 79.0% revenue target and 69.0% NPAT target of 2020 business guidance's low case.

Pros & cons: Earnings to rebound in 4Q20

In 4Q20, we expect that Vinh Hoan will achieve better business results than our previous estimates, premised by:

- **The increase of pangasius material price, leading to the yoy growth of export price to the U.S. in 4Q20.** We estimate 4Q20 avg export price to the U.S. to increase 7.0% yoy thanks to the increase of pangasius material price. In combination with extending export volume growths in top markets (the U.S., EU, China), we expect Vinh Hoan's export revenue to the U.S. will see strong recovery in 4Q20. Despite more optimistic outlook compared to 3Q20, we estimate avg export price to the EU and China still remained lower than those of 4Q19, decreasing 1.0% yoy and 7.2% yoy, respectively. Export volume surge will maintain revenue growth driver of Vinh Hoan in the EU and China.
- **Collagen & Gelatin revenue to see qoq recovery in 4Q20.** We estimate Vinh Hoan's Collagen & Gelatin revenue at VND227bn in 4Q20, increasing

12M rating **BUY (Maintain)**

12M TP **50,000** from 50,000

Up/Downside **+24.4%** (incl 4.8% cash dividend)

Stock data

VNIndex (03 Nov, pt)	935
Stock price (03 Nov, VND)	41,800
Market cap (USD mn)	328
Shares outstanding (mn)	182
52-Week high/low (VND)	43,300/19,590
6M avg. daily turnover (USD mn)	0.97
Free float / Foreign ownership (%)	50.2/32.9
Major shareholders (%)	
Truong Thi Le Khanh	43.5
Mitsubishi Corp	6.5

Valuation

	2019A	2020F	2021F
PE (x)	6.6	9.1	6.7
PB (x)	1.5	1.4	1.2
ROE (%)	26.5	16.8	20.2
DY (%)	0.0	4.8	4.8
EV/EBITDA (x)	5.3	5.7	4.0
EPS (VND)	6,371	4,608	6,268
BPS (VND)	27,008	29,436	33,709

Performance

	1M	6M	12M
Absolute (%)	0.0	47.3	7.4
Relative to VNIndex (%p)	(2.9)	24.3	13.5

Stock price



Source: Bloomberg

Toan Dao

toan.dp@kisvn.vn

71.7% qoq and 29.8% yoy. As Collagen & Gelatin revenue in 3Q20 is lower than our expectation, we estimate Vinh Hoan's Collagen & Gelatin in 2020 will complete 86% of 2020 Collagen & Gelatin revenue target.

- **Vinh Hoan's gross margin to surge by 6.4% yoy in 4Q20**, driven by (1) 0.6%p yoy gross margin improvement, excluding the impact of material reversal, and (2) reversal of material provision of nearly VND71bn thanks to material price surge.

Overall, we revise down our estimates for Vinh Hoan's 2020 revenue and 2020 NPAT to VND7,241bn and VND858bn, respectively, decreasing 1.7% and 12.6% compared to our previous estimates. Our 12.6% lower estimate for Vinh Hoan's 2020 NPAT was caused by 1.7%p lower estimated 2020 gross margin, due to lower-than-expected realized gross margin in 3Q20.

Action: Maintain BUY at target price of VND50,000

Although revising down estimates for Vinh Hoan's 2020 NPAT, we maintain our positive view for Vinh Hoan's 2021 outlook, which will be driven by Collagen & Gelatin revenue surge and better recovery of pangasius export. Therefore, we maintain **BUY** recommendation for VHC share with target price of VND50,000.

Table 1. Earnings and outlook

(VND bn, %, %p)

	2019				2020				2019A	2020F	3Q20		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF			QoQ	YoY	Consensus
Sales	1,789	2,025	1,882	2,171	1,636	1,630	1,800	2,175	7,867	7,241	10.4	(4.4)	N.A
Gross profit	421	436	370	305	215	320	229	445	1,533	1,209	(28.3)	(38.1)	
Gross margin	23.5	21.6	19.7	14.1	13.1	19.6	12.7	20.5	19.5	16.7	(6.9)	(6.9)	
Operating expenses	94	96	97	113	79.1	72.4	69.8	85.2	401	307	(3.6)	(28.0)	N.A
Selling expense	49	62	65	76	38.8	36.4	36.0	41.6	252	153	(1.2)	(44.8)	
G&A expense	45	34	32	38	40.3	36.0	33.9	43.6	149	154	(6.0)	6.4	
Depreciation	40	42	40	44	46.2	47.7	55.3	56.1	165	205	15.9	39.7	
Operating profit	327	340	273	192	136	247	160	360	1,132	903	(35.5)	(41.6)	N.A
OP margin	18.3	16.8	14.5	8.8	8.3	15.2	8.9	16.5	14.4	12.5	(6.3)	(5.7)	
EBT	346	457	283	223	172	241	196	352	1,309	961	(18.4)	(30.6)	N.A
Net profit	307	420	254	199	152	215	175	315	1,179	858	(18.6)	(30.9)	
NP of controlling interest	307	420	254	199	152	215	175	315	1,179	858	(18.6)	(30.9)	
EBITDA	367	382	313	236	182	295	215	416	1,298	1,108	(27.2)	(31.3)	N.A
EBITDA margin	20.5	18.9	16.6	10.8	11.1	18.1	11.9	19.1	16.5	15.3	(6.2)	(4.7)	

Source: Company data, KIS

Table 2. Fair value calculation

(VND bn, VND, %)

	2020F	2021F	Remarks
Fair PE multiple (x)		8.0	As profit margin will widen more robustly to those of 2017-2018, we believe Vinh Hoan to deserve PE multiple of 8.0 as of the same period.
Net attributable profit	858	1,161	
Common outstanding shares (mn shares)	181.9	181.9	
Basic EPS	4,608	6,268	
Market Price		41,800	
Target Price		50,000	By the end of 2021
Expected price return (%)		19.6	
Expected dividend yield (%)		4.8	
Total expected return (%)		24.4	

Note: Separate NP excluding dividend

Source: Company data, Korea Investment & Securities

■ 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	4,248	5,018
Cash & cash equivalents	418	651	1,578	1,395	1,917
Accounts & other receivables	1,331	2,003	1,522	1,506	1,650
Inventory	1,202	1,386	1,414	1,346	1,451
Non-current assets	1,791	2,045	1,841	1,879	1,865
Fixed assets	1,790	1,656	1,840	1,879	1,865
Investment assets	1	389	1	-	-
Others	300	213	257	120	120
Total assets	5,043	6,299	6,612	6,246	7,003
Advances from customers	66	11	20	14	16
Unearned revenue	-	-	-	-	-
Trade payables	233	274	282	269	290
Others	391	728	567	472	562
ST debt & due bonds	1,008	1,269	866	134	-
LT debt & bonds	402	-	-	-	-
Total liabilities	2,100	2,283	1,735	889	868
Controlling interest	2,943	4,015	4,875	5,356	6,133
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	3,412	4,190
Minority interest	0.1	-	2	2	2
Shareholders' equity	2,943	4,015	4,877	5,358	6,135

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	444	680	1,489	1,116	1,241
Net profit	605	1,442	1,179	858	1,161
Dep'n & Amort'n	199	156	165	205	235
Net incr. in W/C	(360)	(918)	145	52	(155)
C/F from investing	(593)	(702)	(743)	(205)	(221)
Capex	(243)	(545)	(361)	(205)	(221)
Incr. in investment	(351)	(157)	(383)	-	-
C/F from financing	27	20	(703)	(1,096)	(498)
Incr. in equity	-	10	(114)	-	-
Incr. in debt	27	373	(403)	(732)	(134)
Dividends	-	(363)	(185)	(364)	(364)
C/F from others	207	235	884	-	-
Increase in cash	84	233	927	(183)	522

Income statement

(VND bn)

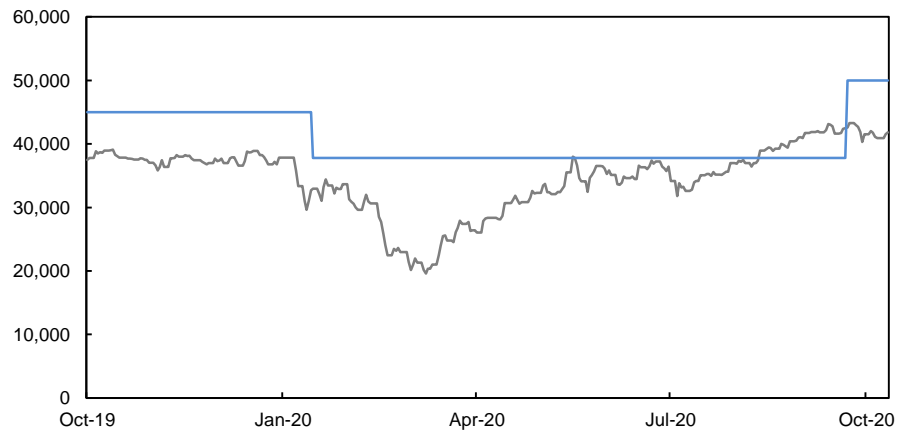
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	8,151	9,271	7,867	7,241	8,036
COGS	6,980	7,232	6,334	6,032	6,502
Gross profit	1,172	2,039	1,533	1,209	1,534
SG&A expenses	411	354	401	307	340
Operating profit	761	1,685	1,132	903	1,194
Financial income	58	137	251	95	107
Interest income	21	65	76	95	107
Financial expenses	89	167	90	37	2
Interest expenses	71	56	60	37	2
Other non-operating profit	12	(85)	147	-	-
Gains (Losses) in associates, subsidiaries and JV	-	79	14	-	-
Earnings before tax	723	1,688	1,309	961	1,299
Income taxes	118	245	130	102	138
Net profit	605	1,442	1,179	858	1,161
Net profit of controlling interest	605	1,442	1,179	858	1,161
EBITDA	960	1,842	1,298	1,108	1,429

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	6,118	15,489	6,371	4,608	6,268
BPS	31,915	43,452	27,008	29,436	33,709
DPS	2,000	4,000	-	2,000	2,000
Growth (%)					
Sales growth	11.6	13.7	(15.1)	(8.0)	11.0
OP growth	11.0	121	(32.8)	(20.3)	32.3
NP growth	6.9	139	(18.2)	(27.2)	35.2
EPS growth	3.3	153	(58.9)	(27.7)	36.0
EBITDA growth	15.3	92	(29.5)	(14.6)	29.0
Profitability (%)					
OP margin	9.3	18.2	14.4	12.5	14.9
NP margin	7.4	15.6	15.0	11.9	14.4
EBITDA margin	11.8	19.9	16.5	15.3	17.8
ROA	12.7	25.4	18.3	13.4	17.5
ROE	22.7	41.5	26.5	16.8	20.2
Dividend yield	4.8	9.6	-	4.8	4.8
Dividend payout ratio	32.7	25.8	-	43.4	31.9
Stability					
Net debt (VND bn)	992	618	(712)	(1,261)	(1,917)
Net debt/equity (%)	34	15	(15)	(24)	(31)
Valuation (x)					
PE	6.8	2.7	6.6	9.1	6.7
PB	1.3	1.0	1.5	1.4	1.2
EV/EBITDA	9.0	4.5	5.3	5.7	4.0

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 Oct 20	BUY	50,000		



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 4 Nov 2020.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 4 Nov 2020.

KIS Vietnam Securities Corp. has not issued CW with underlying stocks of Vinh Hoan Corp (VHC) and is not the liquidity provider.

Prepared by: Toan Dao

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2020 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..