

2 Mar 2021

Vinh Hoan Corp (VHC)

Earning momentum expected since 2Q21

- 4Q20 NPAT dropped due to contracting gross margin
- Revenue to be flat yoy in 1Q21
- Inventory provisions to hit 1Q20 NPAT
- 2021 NPAT to rise on the surge of Collagen & Gelatin
- Maintain BUY for VHC share with TP of VND47,000

Facts: 4Q20 NPAT dropped due to contracting gross margin

In 4Q20, Vinh Hoan posted nearly VND1,947bn revenue (-8.3% yoy), which was mainly dragged down by 21.4% yoy decrease and 11.2% yoy decrease of export revenue to the U.S. and China, posting VND628bn and VND500bn, respectively. Moreover, revenue of Collagen & Gelatin delivered VND139bn, decreasing 8.6% yoy and increasing 5.3% qoq.

Despite recognizing inventory provision reversal, gross margin still narrowed nearly 2.4%p yoy to post 11.6% in 4Q20, mainly due to flattening average pangasius export price amid the increase of pangasius material price. Overall, Vinh Hoan's 4Q20 NPAT posted VND153bn (-23.1% yoy) in 4Q20.

(* For more information about Vinh Hoan's 4Q20 business results, please refer to our [VHC 4Q20 business brief](#).

Pros & cons: Revenue to be flat yoy in 1Q21

In 1Q21, we estimate Vinh Hoan's fillet-related products revenue will reach VND1,397bn (-6.8% yoy and -22.6% qoq), mainly caused by the yoy 5.0% and yoy 10% decreases of export revenue to the U.S. and EU, respectively. As supply of worldwide white-fish species, including tilapia, pollock, cod..., will recover at mid single-digit rate in 2021, we have cautious view that higher competition among white-fish species in the U.S. and EU will drag down pangasius export price to these markets, at -2.9% yoy and -5.6% yoy, respectively. Besides, Vinh Hoan's export volume to the U.S. and EU will drop 2.2% yoy and 4.6% yoy, per our estimates.

We estimate Vinh Hoan's pangasius export revenue to China will reach VND85bn (+16.3% yoy) in 1Q21, thanks to yoy 25.0% volume growth. Despite being hit by Chinese stringent import policy to control Covid-19's spread and container shortage, we expect Vinh Hoan's pangasius volume at double-digit growth rate, mostly thanks to the low 1Q20 volume base, as Vietnam seafood export to China plunged 44.6% yoy and 44.4% yoy in Jan 2020 and Feb 2020 due to strict lockdown of many Chinese cities.

12M rating **BUY (Maintain)**

12M TP **47,000** from 50,000

Up/Downside **+22.0%** (incl 5.0% cash dividend)

Stock data

VNIndex (01 Mar, pt)	1,186
Stock price (01 Mar, VND)	40,150
Market cap (USD mn)	317
Shares outstanding (mn)	182
52-Week high/low (VND)	46,250/19,590
6M avg. daily turnover (USD mn)	1.77
Free float / Foreign ownership (%)	50.2/25.7
Major shareholders (%)	
Truong Thi Le Khanh	43.5
Mitsubishi Corp	6.6

Valuation

	2020U	2021F	2022F
PE (x)	10.4	9.3	6.8
PB (x)	1.4	1.3	1.1
ROE (%)	14.1	15.1	18.5
DY (%)	5.0	5.0	5.0
EV/EBITDA (x)	7.9	6.4	4.6
EPS (VND)	3,874	4,307	5,904
BPS (VND)	28,570	31,476	35,649

Performance

	1M	6M	12M
Absolute (%)	13.4	8.6	35.6
Relative to VNIndex (%p)	(1.2)	(25.7)	(1.4)

Stock price



Source: Bloomberg

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Although fillet-related products revenue to drop 6.8% yoy, we expect that Vinh Hoan's 1Q21 total revenue will reach VND1,665bn, increasing slightly 1.8% yoy, thanks to (1) yoy 34.8% revenue growth of Collagen & Gelatin, reaching VND186bn and (2) nearly VND83bn revenue contribution of Sa Giang Import-Export JSC (Sa Giang).

Inventory provisions to hit 1Q20 NPAT

After surging in 4Q20, pangasius material price is dropping down fast as decreasing 13% qoq. We estimate the qoq decrease of pangasius material price will lead to Vinh Hoan's inventory provision of VND63.3bn in 1Q21, equivalent to 4.0% of 1Q21 total revenue. Inventory provisions will be core factor dragging down gross margin in 1Q20. We estimate Vinh Hoan's gross margin at 11.0% (-2.2%p yoy and -0.7%p qoq) in 1Q20.

When excluding the impact of inventory provision, we expect Vinh Hoan's gross margin before inventory provisions to see a qoq improvement as reaching 14.8% in 1Q21 (+7.7%p qoq) thanks to (1) qoq decrease of pangasius material price amid stable export price, (2) larger revenue contribution of Collagen & Gelatin, increasing from 7.2% in 4Q20 to 11.2% in 1Q21, and (3) VND17.7bn gross profit contribution of Sa Giang with higher gross margin compared to fillet-related products.

In overall, we estimate Vinh Hoan's 1Q21 NPAT will reach VND158bn (-13.2% yoy and -11.7% qoq), hit by yoy 15.0% decrease and qoq 19.0% decrease of Vinh Hoan's 1Q21 gross profit.

2021 NPAT to rise on the surge of Collagen & Gelatin

In the whole 2021, we expect that Vinh Hoan will achieve better business results than those of 2020. Particularly, we estimate Vinh Hoan's revenue at VND7,733bn (+9.9% yoy), mainly driven by Collagen & Gelatin's revenue growth of 52.8% yoy in 2021, thanks to capacity contribution of second production line. Basing on our assumption that Collagen & Gelatin second production line will run at 50% capacity in 2021, equivalent to 70% capacity for both production lines. We estimate Collagen & Gelatin will account for 12.0% of Vinh Hoan's total revenue in 2021.

Besides, we estimate Vinh Hoan's fillet-related products revenue will recover slowly at yoy 1.1% revenue growth to reach VND6,473bn in 2021, premised by volume increase amid single-digit yoy decrease rate of export price.

After completing M&A deal with Sa Giang JSC, we estimate that Sa Giang will contribute VND330bn to Vinh Hoan's total revenue in 2021, equivalent to revenue portion of 4.2%.

Because of Collagen & Gelatin's revenue surge and revenue contribution of Sa Giang, delivering higher estimated profit margins than those of fillet-related products, we estimate Vinh Hoan's 2021 NPAT at VND823bn (+16.7% yoy).

Action: Maintain BUY for VHC share with TP of VND47,000

Although fillet-related products can recover slowly, we believe Vinh Hoan's business results can improve better in 2021 thanks to earning pillar of Collagen & Gelatin as well as earning contribution from Sa Giang. Therefore, we maintain BUY for VHC share with TP of VND47,000. Total expected return is 22.0%.

Table 1. Earnings and outlook

(VND bn, %, %p)

	2020U				2021F				2020U	2021F	1Q21F		Consensus
	1Q	2Q	3Q	4Q	1QF	2QF	3QF	4QF			QoQ	YoY	
Sales	1,636	1,630	1,800	1,944	1,665	1,783	2,031	2,254	7,037	7,733	(14.3)	1.8	N.A
Gross profit	215	320	229	226	183	315	356	428	1,001	1,281	(19.3)	(15.0)	
Gross margin	13.1	19.6	12.7	11.6	11.0	17.7	17.5	19.0	14.2	16.6	(0.7)	(2.2)	
Operating expenses	79.1	72.4	69.8	97.5	86.9	92.8	85.4	116.4	318.4	381.4	(10.9)	9.8	N.A
Selling expense	38.8	36.4	36.0	60.4	53.4	57.1	43.2	71.7	171.1	225.4	(11.6)	37.6	
G&A expense	40.3	36.0	33.9	37.1	33.5	35.7	42.2	44.7	147.3	156.1	(9.8)	(17.0)	
Depreciation	46.2	47.7	55.3	50.5	62.7	62.7	62.7	62.7	200.5	250.8	24.2	35.7	
Operating profit	136	247	160	129	96	222	271	311	683	900	(25.6)	(29.4)	N.A
OP margin	8.3	15.2	8.9	6.6	5.7	12.4	13.3	13.8	9.7	11.6	(0.9)	(2.5)	
EBT	172	241	196	171	103	229	278	318	791	928	(39.9)	(40.2)	N.A
Net profit	152	215	175	153	76	203	251	292	705	823	(50.1)	(49.7)	
NP of controlling interest	152	215	175	153	76	203	251	292	705	823	(50)	(50)	
EBITDA	182	295	215	179	158	285	333	374	883	1,150	(11.6)	(12.9)	N.A
EBITDA margin	11.1	18.1	11.9	9.2	9.5	16.0	16.4	16.6	12.6	14.9	0.3	(1.6)	

Source: Company data, KIS

Table 2. Fair value calculation

(VND bn, VND, %)

Sum Of The Parts	2021F	Remarks
1) Fillet-related products		PE multiple method
NPAT	449	
Valuation multiple	7.0	5-Y average PE ratio
Equity value	3,140	
Vinh Hoan's ownership	100.0	
Equity value attributes to Vinh Hoan	3,140	
2) Collagen & Gelatin		PE multiple method
NPAT	287	
Valuation multiple	18.0	Average PE multiple of Collagen & Gelatin peer group
Equity value	5,160	
Vinh Hoan's ownership	100.0	
Equity value attributes to Vinh Hoan	5,160	
3) Sa Giang		PE multiple method
NPAT	33	
Valuation multiple	19.0	5-Y average PE ratio
Equity value	622	
Vinh Hoan's ownership	51.3	
Equity value attributes to Vinh Hoan	319	
4) Other net assets	(56)	
Equity Value	8,562	Sum of the Parts. Parent BS
Common outstanding shares (mn shares)	181.9	
Target Price	47,000	By the end of 2021
Annualized price return	17.0	
Expected dividend yield	5.0	
Total expected return	22.0	By the end of 2021

Note: Separate NP excluding dividend

Source: Company data, 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.	2018A	2019A	2020U	2021F	2022F
Current assets	4,040	4,514	4,604	4,813	5,420
Cash & cash equivalents	651	1,578	1,405	1,517	1,739
Accounts & other receivables	2,003	1,522	1,700	1,478	1,679
Inventory	1,386	1,414	1,498	1,818	2,003
Non-current assets	2,045	1,841	2,254	2,581	2,823
Fixed assets	1,656	1,840	2,192	2,559	2,790
Investment assets	389	1	62	22	33
Others	213	257	334	742	743
Total assets	6,299	6,612	7,192	8,136	8,986
Advances from customers	11	20	36	15	18
Unearned revenue	-	-	-	-	-
Trade payables	274	282	326	231	254
Others	728	567	494	571	657
ST debt & due bonds	1,269	866	1,106	1,518	1,498
LT debt & bonds	-	-	69	69	69
Total liabilities	2,283	1,735	2,031	2,405	2,496
Controlling interest	4,015	4,875	5,157	5,727	6,486
Capital stock	924	1,834	1,834	1,834	1,834
Capital surplus	224	224	224	224	224
Other reserves	-	(114)	(114)	(27)	(27)
Retained earnings	2,867	2,932	3,214	3,696	4,455
Minority interest	-	2	4	4	4
Shareholders' equity	4,015	4,877	5,161	5,731	6,490

Cash flow

(VND bn)

FY-ending Dec.	2018A	2019A	2020U	2021F	2022F
C/F from operations	680	1,489	420	559	1,154
Net profit	1,442	1,179	705	823	1,129
Dep'n & Amort'n	156	165	201	251	287
Net incr. in W/C	(918)	145	(485)	(515)	(262)
C/F from investing	(702)	(743)	(311)	(511)	(517)
Capex	(545)	(361)	(604)	(500)	(506)
Incr. in investment	(157)	(383)	293	(11)	(11)
C/F from financing	20	(703)	(55)	21	(384)
Incr. in equity	10	(114)	-	-	-
Incr. in debt	373	(403)	309	384	(20)
Dividends	(363)	(185)	(364)	(364)	(364)
C/F from others	235	884	(227)	43	(31)
Increase in cash	233	927	(173)	112	221

Income statement

(VND bn)

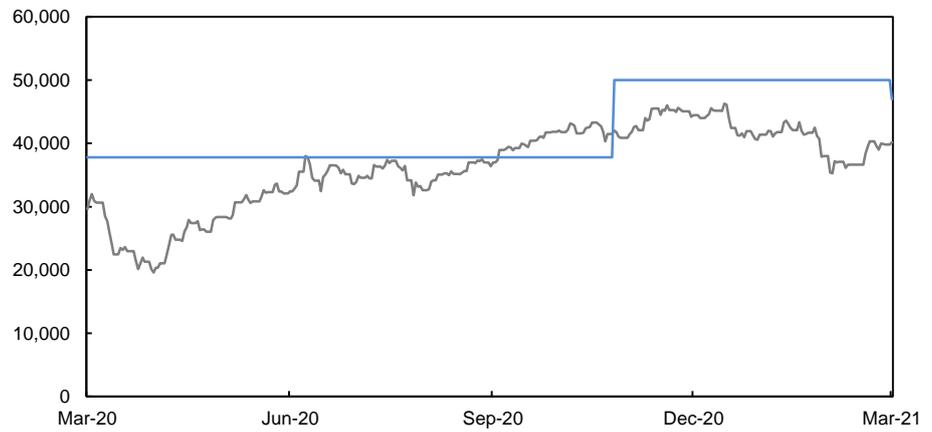
FY-ending Dec.	2018A	2019A	2020U	2021F	2022F
Sales	9,271	7,867	7,037	7,733	8,782
COGS	7,232	6,334	6,036	6,452	7,107
Gross profit	2,039	1,533	1,001	1,281	1,675
SG&A expenses	354	401	318	381	432
Operating profit	1,685	1,132	683	900	1,243
Financial income	137	251	233	66	66
Interest income	65	76	97	66	66
Financial expenses	167	90	107	37	37
Interest expenses	56	60	38	37	37
Other non-operating profit	(85)	147	50	(0)	(0)
Gains (Losses) in associates, subsidiaries and JV	79	14	0	-	-
Earnings before tax	1,688	1,309	791	928	1,271
Income taxes	245	130	86	105	143
Net profit	1,442	1,179	705	823	1,128
Net profit of controlling interest	1,442	1,179	705	823	1,128
EBITDA	1,842	1,298	883	1,150	1,530

Key financial data

FY-ending Dec.	2018A	2019A	2020U	2021F	2022F
Per-share data (VND, adj.)					
EPS	15,489	6,157	3,874	4,307	5,904
BPS	43,452	27,008	28,570	31,476	35,649
DPS	4,000	-	2,000	2,000	2,000
Growth (%)					
Sales growth	13.7	(15.1)	(10.5)	9.9	13.6
OP growth	121	(32.8)	(39.7)	31.8	38.2
NP growth	139	(18.2)	(40.2)	16.7	37.2
EPS growth	153	(60.3)	(37.1)	11.2	37.1
EBITDA growth	92	(29.5)	(31.9)	30.3	33.0
Profitability (%)					
OP margin	18.2	14.4	9.7	11.6	14.2
NP margin	15.6	15.0	10.0	10.6	12.8
EBITDA margin	19.9	16.5	12.6	14.9	17.4
ROA	25.4	18.3	10.2	10.7	13.2
ROE	41.5	26.5	14.1	15.1	18.5
Dividend yield	10.0	-	5.0	5.0	5.0
Dividend payout ratio	25.8	-	51.6	46.4	33.9
Stability					
Net debt (VND bn)	618	(712)	(231)	70	(172)
Net debt/equity (%)	15	(15)	(4)	1	(3)
Valuation (x)					
PE	2.6	6.5	10.4	9.3	6.8
PB	0.9	1.5	1.4	1.3	1.1
EV/EBITDA	4.3	5.0	7.9	6.4	4.6

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		
	01 Mar 21	BUY	47,000		



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