VINH HOAN CORPORATION (HNX: VHC)

Weak performance in short term due to COVID-19

(VND bn)	Q4-FY19	Q3-FY19	+/- qoq	Q4-FY18	+/- yoy
Net revenue	2,171	1,882	15,3%	2,754	-21.2%
PAT	199	254	-21,5%	416	-52.1%
EBIT	192	273	-29,8%	472	-59.4%
EBIT margin	8.8%	14.5%	-5.7pps	17.1%	-8.3pps

Source: VHC, Rong Viet Securities

FY2019 - Profit margin shrank due to falling selling prices and weak demand in the US

In 2019, ASP fell sharply and weak exports to the US market significantly dragged down the company's revenue and profit. VHC recorded net revenue and profit before tax of VND 7,867 billion and VND 1,309 billion respectively, equivalent to a decrease of -15.1% YoY and -22.4% YoY. Adjusted for abnormal financial incomes and expenses from divestments in 2018 and 2019, PBT from core operation in 2019 reached VND 1,188 billion, -32.4% YoY.

FY2020 outlook - COVID-19 epidemic caused price and sales volume to decrease while raw material prices increased in the second half, leading to a deterioration in the profit margin

VHC is likely to boost sales into other markets, especially China, to compensate for the US and EU markets, which are heavily affected by the COVID-19 epidemic. Due to lower selling price in China, gross profit margin will be under downward pressure. Growth in export pangasius production will reach 4.3% YoY and export prices will fall by 6.4% YoY, based on our assumption is that COVID 19 will be contained in June 2020 and trading activities will be back to normal condition from the beginning of 3Q. Difficulties in the clearance process at the ports and transportation may increase selling expenses and provision for inventory depreciation.

Inventory of raw fish on the market can be maintained until the end of 2Q2020. From 3Q, raw fish prices may go up significantly. For self-farmed fish, the cost of self-farming will decrease due to a sharp drop in the price of fingerlings in 2019. However, the reduction in self-farming costs may be lower than the increase in the price of raw fish purchased from outside sources.

Accordingly, net revenue is forecast at VND 8,146 billion, up 3.5% YoY. Gross profit margin will fall to 16.8% (2019: 19.5%) due to lower selling prices and changes in raw material costs. PAT is VND 915 billion, down 22.5% YoY, equivalent to an EPS of VND 4,951/ share.

Valuation and recommendation

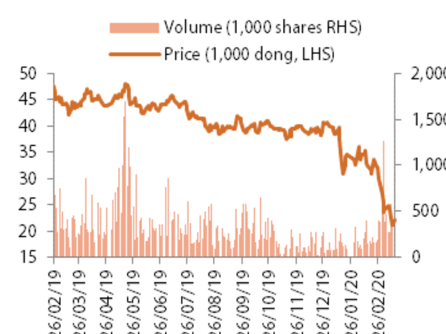
We revise the one-year target price of VHC to ***VND 31,700 / share*** *(from VND 49,200 in our 2020 Strategy Report) due to poor consumption in the US and EU under the impact of COVID-19 and Tan Hung farm coming into operation one year behind schedule. However, considering that COVID-19 will only affect the company's performance in the short term while long-term growth prospects are still bright, supported by positive factors such as the ability to gain market share from Chinese tilapia in the US and the collagen-gelatin segment with outstanding profitability, we have a* ***BUY*** *on VHC. The company did not pay a cash dividends for 2019. We expect the total return to be 44%, based on the closing price of March 25th, 2020.*

BUY	+44%
Target price (VND)	31,700
Current market price (VND)	22,000

Stock Info

Sector		F&B
Market Cap (VND billion)		4,376
Current Shares O/S		181.9
Avg. Daily Volume (in 20 sessions)		257.0
Free float (%)		45.0
52 weeks High		48,650
52 weeks Low		21,100
Beta		1.2
	FY2019	**Current**
EPS	6,437	6,437
EPS Growth (%)	-16.7	-16.7
Diluted EPS	6,437	6,437
P/E	3.7	3.7
P/B	0.9	0.9
EV/EBITDA	4.0	4.0
Cash dividend yield (%)	0.0	0.0
ROE (%)	24.2	24.2

Price performance



Major Shareholders (%)

Truong Thi Le Khanh (Chairwoman)	42.8
Misubishi Corp.	6.5
Vo Phu Duc	5.9
Foreign ownership room (%)	68.0

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Exhibit 1: Q4/2019 Results

(VND Bn)	Q4-FY19	Q3-FY19	*+/- qoq*	Q4-FY18	*+/- yoy*
Net revenue	2,171	1,882	15.3%	2,754	-21.2%
Gross profit	305	370	-17.6%	573	-46.7%
SG&A	113	97	16.6%	101	12.3%
Operating income	192	273	-29.8%	472	-59.4%
EBITDA	236	313	-24.7%	510	-53.8%
EBIT	192	273	-29.8%	472	-59.4%
Financial expenses	24	22	6.3%	34	-31.2%
- Interest Expenses	12	14	-10.7%	20	-37.0%
Dep. and amortization	44	40	10.1%	38	14.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	223	283	-21.4%	487	-54.3%
PAT	199	254	-21.5%	416	-52.1%
(*) Adjusted PAT	199	254	-21.5%	416	-52.1%

Source: VHC, Rong Viet Securities

Exhibit 2: Q3/2018 Performance Analysis

Particulars	Q4-FY19	Q3-FY19	*+/- qoq*	Q4-FY18	*+/- yoy*
Profitability Ratios (%)					
Gross Margin	14.1%	19.7%	-5.6pps	20.8%	-6.7pps
EBITDA Margin	10.8%	16.6%	-5.8pps	18.5%	-7.7pps
EBIT Margin	8.8%	14.5%	-5.7pps	17.1%	-8.3pps
Net Margin	9.2%	13.5%	-4.3pps	15.1%	-5.9pps
Adjusted Net Margin	9.2%	13.5%	-4.3pps	15.1%	-5.9pps
Turnover *(x)					
-Inventories	4.7	3.3	1.4	7.3	-2.6
-Receivables	5.9	5.5	0.4	6.0	-0.2
-Payables	10.2	9.1	1.1	10.2	0.1
Leverage (%)					
Total Debt/ Equity	35.1%	35.2%	-0.1pps	55.7%	-20.6pps

Source: Rong Viet Securities

Exhibit 3: Q1/2020 Performance Forecast

Particulars (VND Bn)	Q4-FY18	+/- qoq	+/- yoy
Revenue	1,056	-51.4%	-41.0%
Gross profit	177	-41.8%	-57.9%
EBIT	124	-35.6%	-62.2%
NPAT	118	-40.7%	-61.5%

Source: Rong Viet Securities

Selling prices correct sharply compared with 1Q2019. ASP declined slightly by 4.8% QoQ and plunged by 40% YoY.

Blockade measures in China to prevent the spread of the epidemic made consumption volume plummeting by 30% YoY.

Difficulties in customs clearance and transportation in China may lead to an increase in warehousing, storage and inventory depreciation provision.

Update

Profit margin in 2019 shrank due to a sharp fall in selling prices and weak export to the US

Table 1: 2019 business performance

Unit: VND billion	2018	2019	YoY %
Net revenue	**9,271**	**7,867**	**-15.1**
Cost of good sold	-7,232	-6,334	-12.4
Gross profit	2,039	1,533	-24.8
GPM	*22,0*	*19,5*	
Financial income	137	255	85.8
Financial expense	-167	-93	-44.4
Interest paid	-56	-60	6.3
Selling expense	-210	-252	19.7
G&A expense	-144	-149	3.6
Profit before tax	**1,688**	**1,309**	**-22.4**
Adjusted profit before tax	**1,757**	**1,188**	**-32.4**

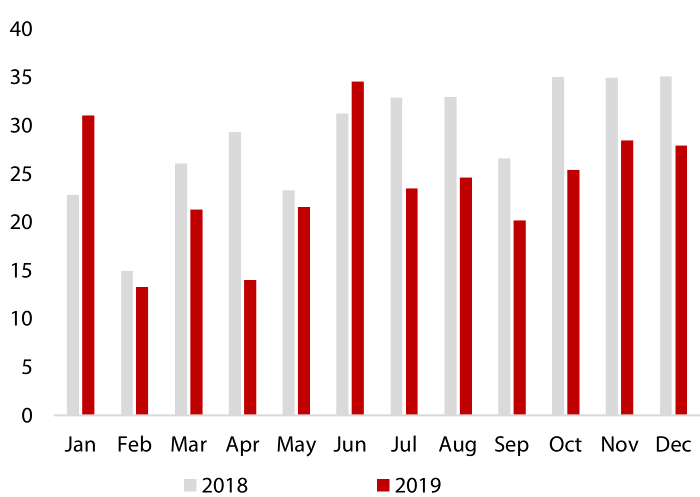
Source: VHC, Rong Viet Securities

Pangasius export prices of the whole industry have sharply cooled down during 2019 after reaching a historic peak in 4Q2018. In the US, high price of pangasius imported in 2018 and the hesitation of placing orders in order to wait-and-see the developments of US-China tensions and changes in raw material prices in Vietnam are the main factors that dragged down the amount of new orders in 2019. The company had to increase exports to China to partially offset the decline in the US.

The US is the largest market (48% of sales in 10M2019, according to Agromonitor) which has the best selling prices of VHC. Therefore, poor US imports in 2019 had a significant impact on business results. Gross profit margin plummeted from 22% in 2018 to 19.5%.

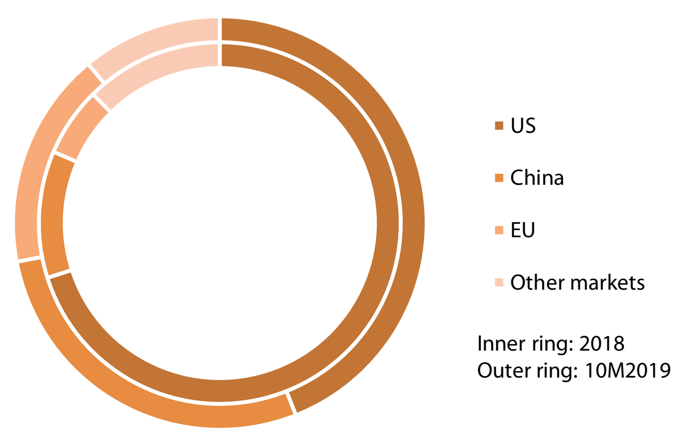
Selling expenses increased by 20% YoY. The average number of days to collect money and the number of days inventory in hand also went up sharply to 82 days and 81 days, respectively, compared to 66 days and 65 days of 2018. We believe that the reason is due to the difficult situation in the US.

Figure 1: VHC's pangasius export value (USD mn)



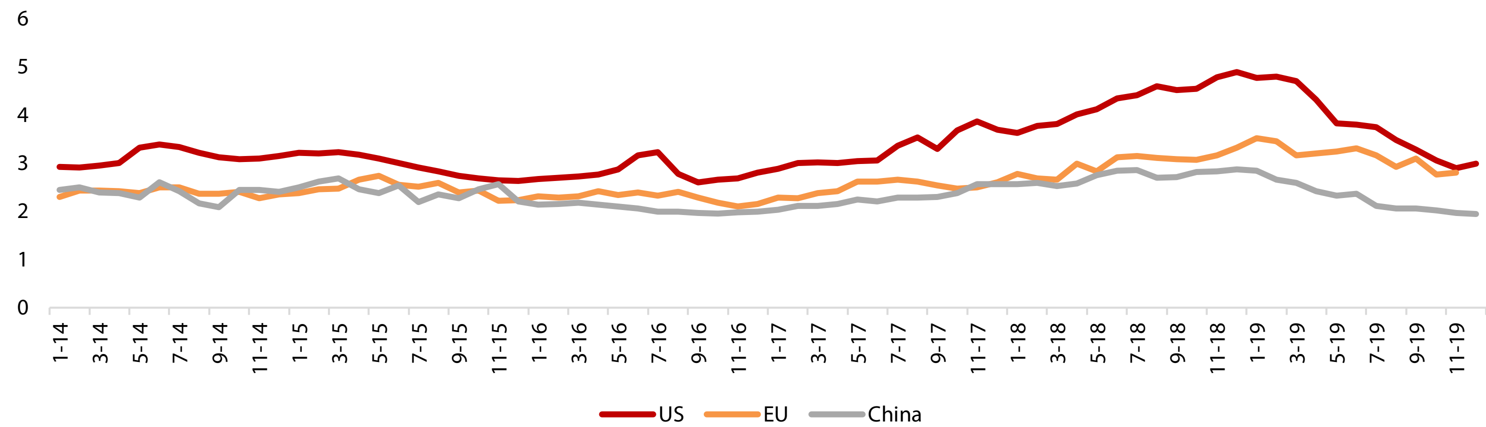
Source: VASEP

Figure 2: VHC 10M2019 pangasius market structure



Source: Agromonitor, Rong Viet Securities

Figure 3: Export prices to major markets (USD/kg)



Source: ITC, NMFS, Rong Viet Securities

2019 revenue was down 15% YoY and PBT fell 22% YoY. Adjusted for the abnormal financial expenses due to eliminating the goodwill of VND 69 billion after reducing ownership in Van Duc Tien Giang in 2018 and the one-off profit of VND 121 billion from divestment from Van Duc Tien Giang and Octogone Holdings in 2019, profit before tax plummeted by 32% YoY.

The Collagen-Gelatin (C-G) segment has made a remarkable milestone but is not likely to contribute much to 2020's results

NORDBO Kollagen produced by Vinh Hoan, in cooperation with a European pharmaceutical and food company, has received an ASC certification for sustainable farming, becoming the first collagen supplement product in the world to obtain this certification. This creates the prospect of increasing the selling prices for VHC's C-G products. In July 2020, the company will complete upgrading the C-G line from the current 2,000 tons of finished products per year to 3,500 tons of finished products per year. According to VHC, C-G has a gross profit margin of more than 40%, compared to a gross profit margin of 22-25% for the value-added pangasius and 12-16% for the frozen fillet. Therefore, in the long term, we believe that C-G will play the role of stabilizing the profit margin for VHC to face the cyclical fluctuations of the pangasius industry.

In 2019, the C-G segment recorded an outstanding sales growth, approximately 90%, reaching VND 535 billion. In 2020, the company plans to grow C-G sales by 60%. However, we think that the growth rate could be approximately 35% because the demand for functional foods and cosmetic products is not high in the context of the epidemic while the food and beverage group may still keep it growth momentum.

Vinh Hoan continues to enjoy anti-dumping duty (AD duty) of USD 0/kg in the US

In the latest review (POR 15), the preliminary results announced at the end of October 2019 are much lower than the final results of POR 14. Nha Trang Seafoods Joint Stock Company (NTSF) and Can Tho Import-Export Seafood (CASEAMEX) is jointly entitled to a duty of USD 0/ kg, lower than USD 1.37/ kg and USD 2.39/ kg of POR 14. Vinh Hoan, East Sea, Hung Vuong were not reviewed and will be subjected to the duties of the previous period (POR 14): Vinh Hoan USD 0/kg, East Sea USD 0.19/kg and Hung Vuong USD 3.87 USD/kg. We do not worry that the competition will increase for VHC in the US because VHC accounts for a 50% market share of pangasius in this market and the company also has a long-term relationship with buyers.

Table 2: US anti-dumping duty on Vietnamese pangasius

		Mandatory respondent	Self-requested respondent	Nation-wide	Period of review
POR 10	USD/kg	0	0.97	2.39	08/01/2012 - 07/31/2013
POR 11	USD/kg	0	0.69	2.39	08/01/2013 - 07/31/2014
POR 12	USD/kg	0.69	2.39	2.39	08/01/2014 - 07/31/2015
POR 13	USD/kg	3.87	7.74	2.39	08/01/2015 - 07/31/2016
POR 14	USD/kg	1.37-3.87	1.37	2.39	08/01/2016 - 07/31/2017

POR 15*	USD/kg	0	0	2.39	08/01/2017 – 07/31/2018

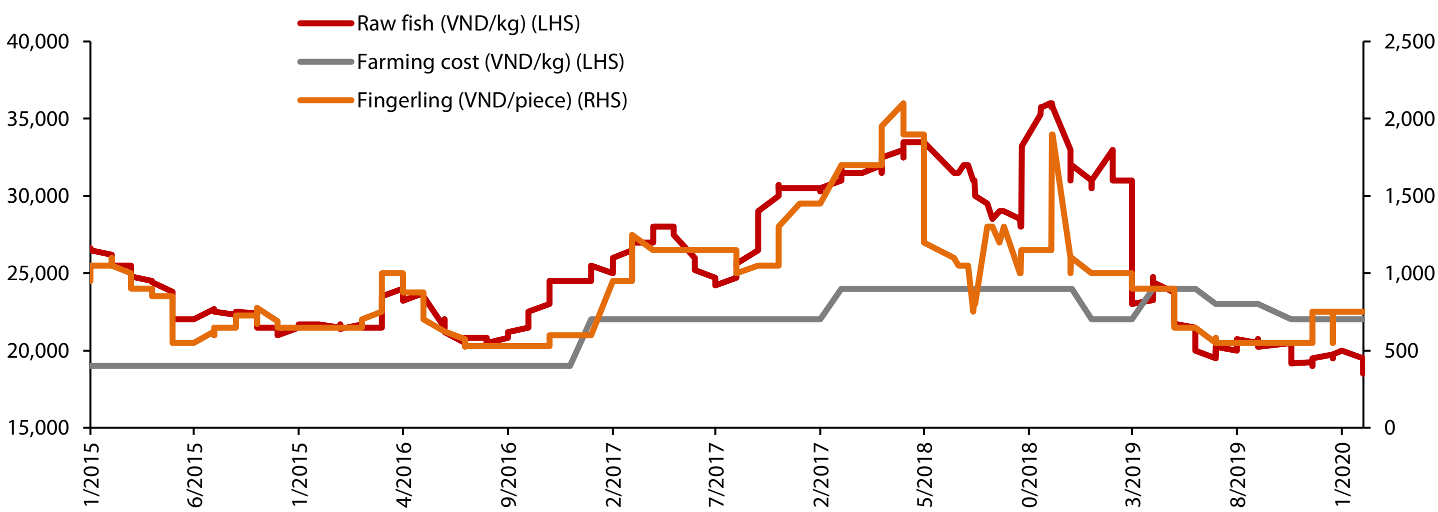
**Preliminary result*

Source: US Department of Commerce, US Internatinal Trade Administration

Raw fish prices may increase significantly in the second half of 2020

Raw pangasius material prices increased sharply in 2018, especially at the end of 3Q and in 4Q, and gradually cooled down in the first months of 2019 but remained at a high level, encouraging farmers to expand their farming area. The supply of raw fish became abundant in 2019. Meanwhile, the difficulty of exporting indirectly made raw fish prices fall sharply below the cost of farming. Farmers started reducing new crops from the end of June 2019. This could lead to a shortage of material fish in 2020 and a large rise in the price of raw fish.

Figure 4: Fingerling price, raw fish price and farming cost



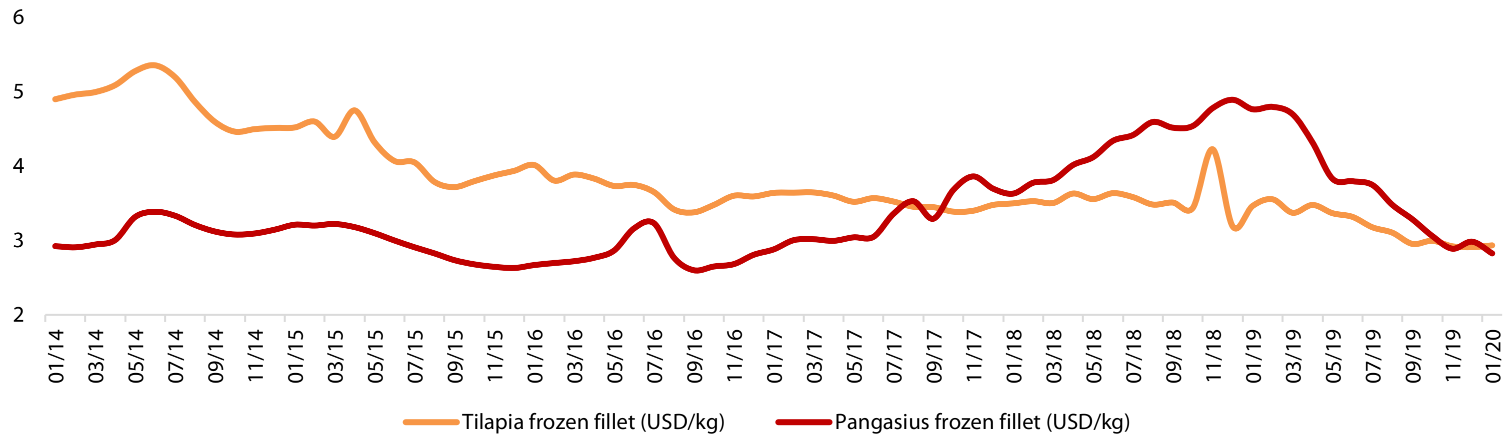
Source: VASEP, Agromonitor, Rong Viet Securities

2020 outlook

The widespread COVID-19 epidemic is weakening the demand for pangasius in VHC's main markets (US and EU) as consumers in these countries increase are stocking dry foods and canned foods while limiting eating out. We believe that VHC will boost sales to other markets to compensate for the US and EU, especially to the large Chinese market because that country has already contained the epidemic and many restaurant systems there have started re-opening. As selling prices to China and other markets are lower than in the US and EU, gross profit margin will go down. In total, we revised down the growth of VHC's pangasius export volume in 2020 from 15.4% YoY to 4.5% YoY and the average export price lower by 6.4% YoY instead of staying at the same as in 2019 in our previous forecast. We assume that COVID-19 will be controlled in June 2020 and trading activities will be back to normal from the beginning of 3Q. Difficulties in customs clearance and transportation in markets may cause increases in selling expenses and provision for devaluation of inventories.

Export prices may fall in the first half of the year and recover in the second half. Exports to the US will be positive in the second half of the year as the US market turns to the main consumption season and pangasius has regained its price competitiveness with Chinese tilapia as pangasius prices fall to the level equivalent to tilapia. In addition, Chinese tilapia is now subject to a 25% import tax due to the US-China tensions.

Figure 5: Tilapia and pangasius prices in the US (USD/kg)



Source: NMFS, Rong Viet Securities

Net revenue in 2020, accordingly, is forecast at VND 8,146 billion (+3.5% YoY), down 11.6% compared to the forecast in the 2020 Strategy Report.

Due to weak exports in the first six months of the year, inventory of raw fish can be maintained until the 2Q2020 and prices should fluctuate around a low level as in 4Q2019. From 3Q, raw fish prices of outside sources may increase significantly. For self-farmed fish, the Tan Hung farm has stocked fingerlings in January 2020 and is expected to harvest more than 20,000 tons of raw materials in 3Q2020. The cost of self-farming may be reduced due to a sharp drop in the price of fingerlings in 2019. However, we believe that the reduction in self-farming costs will be lower than the increase in the price of raw fish purchased from outside sources.

Gross profit margin, therefore, is reduced to 16.8% from 19.5% in 2019 due to lower selling prices and changes in raw material costs as mentioned above. Profit after tax is forecast at VND 915 billion, down 22.5% YoY and 24% lower than the forecast in the 2020 Strategy Report, equivalent to an EPS of VND 4,951/share (adjusted according to the number of new shares after the company's 1:1 stock dividend at the end of 2019).

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	9,271	7,867	8,146	9,457
COGS	7,232	6,334	6,781	7,845
Gross profit	**2,039**	**1,533**	1,365	1,612
Selling Expense	210	252	285	303
G&A Expense	144	149	130	151
Finance Income	137	254	162	209
Finance Expense	167	93	61	74
Other profits	-46	1	1	1
PBT	**1,688**	**1,309**	**1,052**	**1,295**
Prov. of Tax	245	129	137	168
Minority's Interest	0	0	0	0
PAT to Equity S/H	**1,442**	**1,180**	**915**	**1,127**
EBIT	1,685	1,132	950	1,158
EBITDA	1,842	1,298	1,063	1,360

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	13.7	-15.1	3.5	16.1
Operating Income	94.9	-29.5	-18.1	28.0
EBITDA	121.4	-32.8	-16.2	22.0
PAT	138.5	-18.2	-22.5	23.1
Total Assets	24.9	5.0	23.8	5.2
Equity	36.4	21.5	18.6	12.2
Profitability (%)				
Gross margin	22.0	19.5	16.8	17.0
EBITDA margin	19.9	16.5	13.0	14.4
EBIT margin	18.2	14.4	11.7	12.2
Net margin	15.6	15.0	11.2	11.9
ROA	22.9	17.8	11.2	13.1
ROE	35.9	24.2	16.3	17.8
Efficiency				(times)
Receivable Turnover	4.6	5.2	4.5	5.4
Inventory Turnover	5.2	4.5	4.5	5.2
Payable Turnover	7.7	7.8	8.1	8.1
Liquidity				(times)
Current	1.9	2.7	2.5	3.0
Quick	1.2	1.9	1.9	2.3
Finance Structure (%)				
Total Debt/Equity	31.6	17.8	26.6	17.3
Current Debt/Equity	31.6	17.8	26.6	17.3
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	43	86	42	49
Short-term investments	608	1,492	2,513	2,901
Accounts receivable	2,002	1,516	1,821	1,751
Inventories	1,386	1,414	1,498	1,498
Other current assets	102	103	75	77
Property, plant & equipment	1,369	1,551	1,791	1,877
Acquired intangible assets	333	329	328	327
Long-term investments	389	1	1	1
Other non-current assets	67	121	115	130
Total assets	**6,298**	**6,613**	**8,184**	**8,611**
Accounts payable	945	815	837	968
Short-term borrowings	1,269	866	1,538	1,125
Long-term borrowings	0	0	0	0
Other non-current liabilities	23	11	16	18
Bonus and Welfare fund	36	0	0	0
Technology-science, dev. fund	10	9	9	9
Total liabilities	**2,283**	**1,701**	**2,400**	**2,120**
Common stock and APIC	1,148	2,058	2,058	2,058
Treasury stock (enter as -)	0	-114	-114	-114
Retained earnings	2,867	2,933	3,841	4,547
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	**4,015**	**4,877**	**5,785**	**6,491**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	15,489	6,437	4,951	6,094
P/E (x)	6.1	6.2	4.9	3.9
BV (dong)	43,452	26,593	31,544	35,395
P/B (x)	2.2	1.5	0.8	0.7
DPS (dong/cp)	2,000	0	2,000	2,200
Dividend yield (%)	2.1	0.0	8.3	9.1

VALUATION MODEL	Price	Weight	Average
FCFF	33,732	50%	16,866
P/E	29,707	50%	14,854
Target price (VND)			**31,720**

VALUATION HISTORY	Price (*)	Recommendation	Period
09/2018	47,700	Accumulate	1 year
12/2018	62,500	Buy	1 year
06/2019	56,250	Buy	1 year
12/2019	49,200	Buy	1 year

(*) Adjusted for 1:1 stock dividend at end 2019

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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