VINH HOAN CORPORATION (HNX: VHC)

Improving long-term competitiveness

(VND bn)	1Q-FY19	4Q-FY18	+/- qoq	1Q-FY18	+/- yoy
Net revenue	1,789	2,754	-35.0%	1,804	-0.8%
PAT	307	416	-26.1%	89	244.1%
EBIT	327	472	-30.7%	100	226.4%
EBIT margin	18.3%	17.1%	110 bps	5.6%	1270 bps

Source: VHC, Rong Viet Securities

1Q 2019: Profit margin improved thanks to favorable short-term factors

- 1Q 2019 net revenue was flat (-0.8% YoY) due to weak demand in the US and China while Van Duc Tien Giang's results are no longer consolidated.
- Gross profit margins surged to 24% (1Q 2018: 14%) as many contracts were finalized at the end of 2018 at high selling prices while raw material prices plummeted during the period.
- Combined with profit from affiliates (Van Duc Tien Giang), net income reached VND 307 billion, three times higher than in the same period last year.
- VHC has completed 18% of its revenue plan and 24% of its PAT plan for 2019.

2019: Completing supply chain, expanding market base

VHC will adjust selling prices downwards to trigger a recovery in sales in markets that declined in 2018, to grow in China and to open new markets in the Middle East and Latin America.

In China, VHC will promote retail sales of value-added products via Alibaba's e-commerce channel, realizing the B2C sales strategy set in 2017.

We forecast VHC's net sales will reach VND 10,086 billion, a slight increase of 8.8% YoY due to lower selling price adjustments while production will increase sharply by 20%. Material fish prices will also decrease when industry production is forecasted to increase 6.6% YoY. Gross profit margins will reach 19%, lower than 22% in 2018. Net income comes at VND 1,273 billion (-12% YoY). EPS is VND 13,448 (-12% YoY).

Valuation and recommendation

Gross profit margins in the remaining three quarters of 2019 are unlikely to remain as high as in 2018 and 1Q 2019. However, compensating for the decline in prices is the ability to expand export markets as well as volumes.

In the long term, the fingerling project will help VHC solve its material fish shortage problem, improve product quality and reduce cost prices. In addition, distribution via Alibaba will help VHC cut costs and directly approach high-income customers who have great demand for value-added products. Differences in customer groups and distribution channels will create conditions for the company to maintain its competitive advantages while the whole industry is boosting exports to China.

*RongViet Securities values VHC shares at VND **112,500**, **23%** higher than the closing price on May 31, 2019 and recommends **BUY** for VHC. Our target price is 10% lower than in December 2018 due to short-term tensions in some major markets.*

BUY +23%

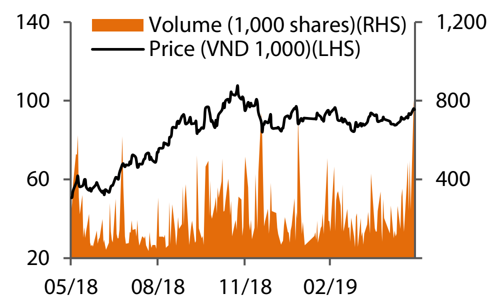
Target price (VND)	112,500
Current market price (VND)	91,000
*Cash dividend (VND)**	-

**expected to receive within 12 months*

Stock Info	
Sector	F&B
Market Cap (VND billion)	8,381
Current Shares O/S	92.4
Avg. Daily Volume (in 20 sessions)	192,438
Free float (%)	37.7
52 weeks High	107,704
52 weeks Low	47,090
Beta	0.68

	FY2018	Current
EPS	15,585	17,946
EPS Growth (%)	141	15
Diluted EPS	15,489	17,827
P/E	6.1	5.9
P/B	2.2	2.0
EV/EBITDA	5.2	4.8
Cash dividend yield (%)	2.1	2.2
ROE (%)	35.9	44.3

Price performance



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

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Exhibit 1: 1Q 2019 Results

(VND Bn)	1Q-FY19	4Q-FY18	+/-(qoq)	1Q-FY18	+/-(yoy)
Net revenue	1,789	2,754	-35.0%	1.804	-0.8%
Gross profit	421	573	-26.5%	254	66.0%
SG&A	94	101	-6.5%	154	-38.6%
Operating income	327	472	-30.7%	100	226.4%
EBITDA	367	510	-28.1%	199	84.4%
EBIT	327	472	-30.7%	100	226.4%
Financial expenses	24	34	-28.9%	15	62.3%
- Interest Expenses	18	20	-11.0%	13	37.0%
Dep. and amortization	40	38	4.6%	99	-59.7%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	346	487	-28.9%	113	205.9%
PAT	307	416	-26.1%	89	244.1%
(*) Adjusted PAT	307	416	-26.1%	89	244.1%

Source: VHC, Rong Viet Securities

Exhibit 2: 1Q 2019 Performance Analysis

Particulars	1Q-FY19	4Q-FY18	+/-(qoq)	1Q-FY18	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	23.5%	20.8%	270 bps	14.1%	950 bps
EBITDA Margin	20.5%	18.5%	200 bps	11.0%	950 bps
EBIT Margin	18.3%	17.1%	110 bps	5.6%	1270 bps
Net Margin	17.2%	15.1%	210 bps	5.0%	1220 bps
Adjusted Net Margin	17.2%	15.1%	210 bps	5.0%	1220 bps
Turnover *(x)					
-Inventories	4	7	-3.8	6	-2.7
-Receivables	4.4	6.0	-1.6	5.5	-1.0
-Payables	7	10	-3.4	9	-2.3
Leverage (%)					
Total Debt/ Equity	44.1%	55.7%	-1160 bps	73.4%	-2930 bps

Source: Rong Viet Securities

Exhibit 3: 2Q 2019 Performance Forecast

Particulars (VND Bn)	2Q-FY19	+/- qoq	+/- yoy
Revenue	2,522	41.0%	12.6%
Gross profit	504	19.7%	9.3%
EBIT	429	31.2%	7.0%
NPAT	378	23.1%	14.9%

Source: Rong Viet Securities

- 2Q 2019 export volume will increase as demand in VHC's main markets picks up. This should offset the decline in selling prices.
- Gross profit margins will shrink as VHC cuts selling prices while material fish prices have been approaching farmers' production costs.
- Currently, farmers are limiting new seedings as they await higher material fish prices (expected by the end of 2Q when markets enter the high import season). As the average time for farmers to raise fish is 6-7 months, we expect material fish prices to increase significantly in 4Q.

Update

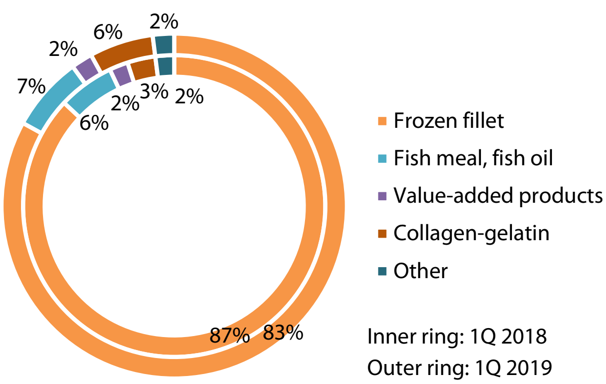
Export growth was slower than the industry average

Total export value of VHC in the first quarter of 2019 reached USD 76 million (+11% YoY). Particularly, the export value of pangasius was USD 65.6 million (+3% YoY), accounting for 14% market share, down from 15% in 1Q 2018. The three largest markets of VHC, in order of size, are still the US, China and the EU.

US importers reduced orders due to large inventories of Chinese seafood at the end of 2018. Meanwhile they were waiting for the final results of anti-dumping (AD) duty for Vietnamese pangasius of the POR 14 review period. The preliminary results of POR 14 are significantly lower than the final results of POR 13. Such situation resulted in a drop of 5% YoY in exports to the US.

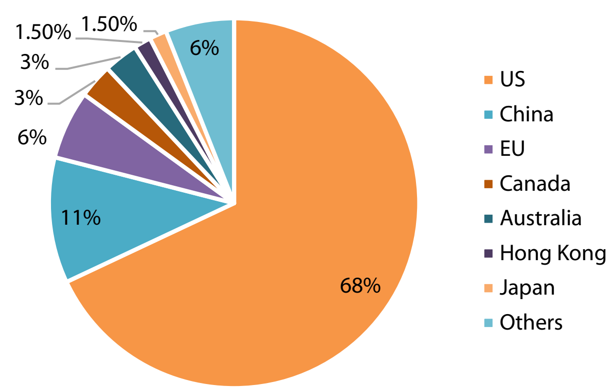
Weak demand in the US in 1Q 2019 has caused the company's pangasius sales growth (+3% YoY) to be lower than the industry average (+8% YoY).

Figure 1: Product mix



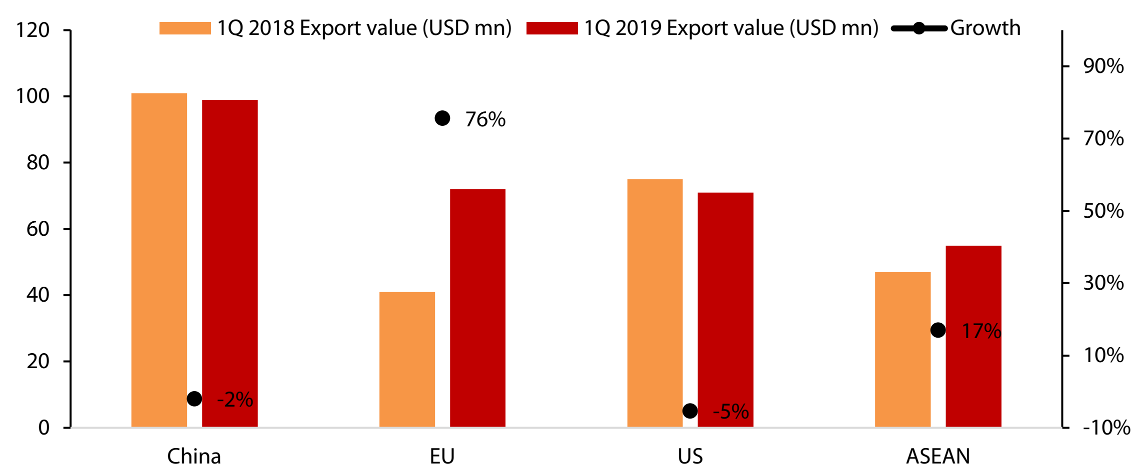
Source: VHC

Figure 2: Market structure in 2018



Source: VHC

Figure 3: Major markets of Vietnamese pangasius



Source: VASEP, Rong Viet Securities

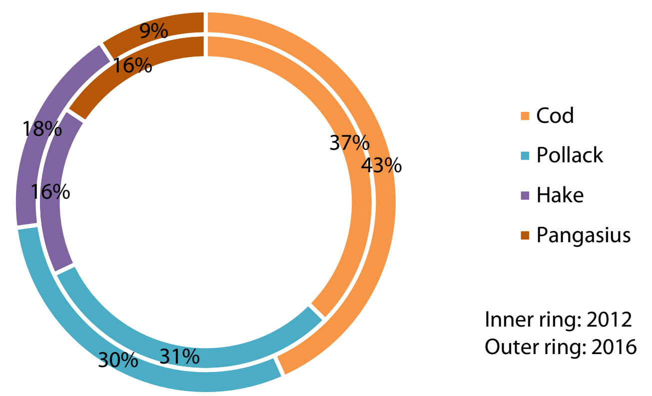
Exports to the EU increased significantly (40% YoY) due to (1) the shift of protein consumption from pork to seafood and poultry amidst the wariness of African swine fever (ASF); (2) a reduction in quotas for white pelagic fish catch in the Atlantic and North Sea regions; (3) the "Brexit no deal" scenario created fears among UK importers that import taxes on many types of seafood from the EU to the UK will skyrocket. Many European countries were worried that there will be a shortage of pelagic fish because they are no longer allowed to catch in British waters.

Table 1: Total Allowable Catches (TACs) of white pelagic fishes for 2019-2020 (tons)

	TAC 2018	TAC 2019	Change
Herring	537,544	379,850	-29%
Cod	103,943	84,593	-19%
Haddock	56,763	51,867	-9%
Whiting	46,728	35,349	-24%
Hake	121,043	150,418	24%
Blue whiting	457,336	366,291	-20%
Plaice	135,196	127,009	-6%
Pollack	14,555	14,555	0%
Turbot and brill	7,102	8,122	14%
Greenland halibut	8,790	8,640	-2%
Common sole	25,801	22,422	-13%
Sole	1,072	1,072	0%
Total	**1,515,873**	**1,250,188**	**-18%**

Source: European Commission, Rong Viet Securities

Figure 4: Consumption of popular white fishes in the EU



Source: EUMOFA (2015, 2018), Rong Viet Securities

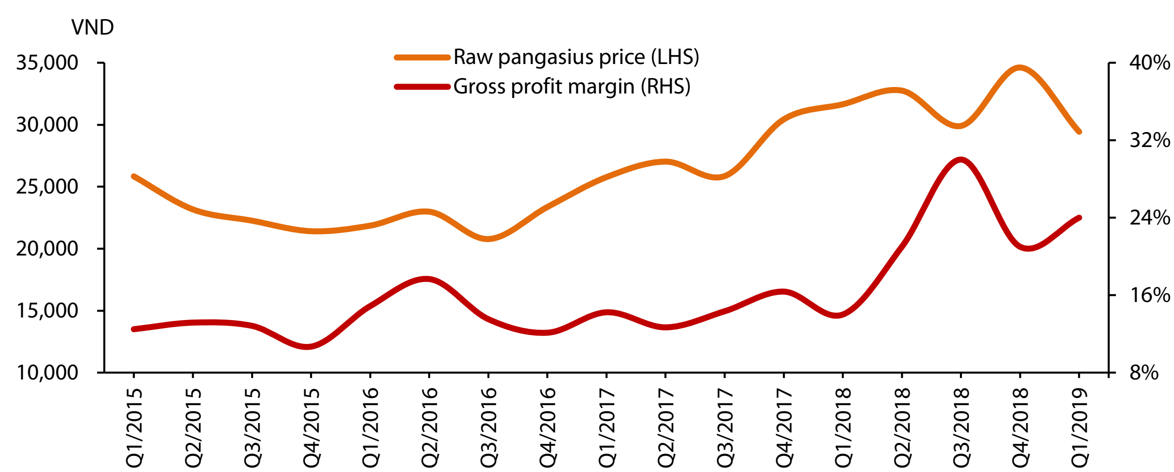
Exports to China fell, most likely due to the lack of large material fish of size 1.2-2kg/piece (products that are consumed mainly in hotpot restaurant chains - the primary customer segment of pangasius). Chinese importers postponed new orders in the hope to lower prices after they soared in 2018.

Profit increased strongly thanks to higher selling prices while material fish prices dropped

Revenue growth in 1Q 2019 was flat (-0.8% YoY) as in January 2018 VHC still recorded revenue from the Van Duc Tien Giang subsidiary. From February 2018, VHC reduced its ownership to 35% and no longer consolidates revenue of Van Duc Tien Giang. In return, profit from affiliates increased 57% YoY.

Due to plentiful supply of material fish in the market, the input price fell 7% YoY. Meanwhile, the average selling price (ASP) rose as many contracts were finalized in 4Q 2018 when selling prices were still high. 1Q 2019 gross profit increased 66% YoY to VND 421 billion. The 1Q 2019 Gross profit margin surged to 24% from 14% in 1Q 2018.

Figure 5: Correlation between material fish prices and VHC's gross profit margin



Source: VASEP, VHC, Rong Viet Securities

Selling expenses decreased 11% YoY, while general and administrative expenses dropped sharply (-55% YoY) after VHC reduced its goodwill by VND 62 billion in 1Q 2018 following the reduction of ownership in Van Duc Tien Giang.

Overall, net income came in at VND 307 billion, an outstanding growth of 244% compared to the same period last year.

Invest in width and depth to create a sustainable competitive advantage

Production of self-raised material fish in 2019 will increase 40% YoY thanks to the farms bought in 2018 and July-August 2019 harvests at the Tan Hung farm. Processing capacity will also expand from the current 1,000 tons of material fish per day to 1,100 tons by the end of the year due to the expansion of Thanh Binh factory.

Table 2: Processing capacity upgrading plan of 2019-2020

Plant	Current capacity	Capacity after upgrading	Time of complete
Thanh Binh	**130** tons of material fish/day	**200** tons of material fish/day	End of 2019
Vinh Phuoc	**150** tons of material fish/day	**300** tons of material fish/day	End of 2020
Collagen-Gelatin	**2.000** tons of finished product/year	**3.500** tons of finished product/year	End of 2019

Source: VHC, Rong Viet Securities

Fingerling quality plays a key role in the volume, productivity and economic efficiency of farmers and processors. After many years of exploitation, the situation of fingerling quality deterioration has reached an alarming level. Many pangasius companies have faced shortages of material fish at many times in the past, but most seriously in 2017 and 2018. For VHC, from 2019, the company will start improving the quality of fingerlings. New technologies will be applied to control the impact of farming on the environment, improve feed formulas to fit the nutritional needs of fingerlings, reduce scratching during the transportation of fingerlings and vaccinate fingerlings before commercial farming for disease prevention, in order to minimize or replace the use of antibiotics. The company expects to implement the fingerling project by the end of 2019 after completing the administrative procedures.

In the long term, the fingerling project will create parent generations of fish with good genes by applying experiences learned from Norway to increase survival rate, reduce feed used and raising time. The self-supply ratio (currently 50%) is increasing and the high quality of material fish will play a decisive role in stabilizing production, reducing costs and increasing competitiveness in quality.

Promoting distribution in China through Alibaba to reduce costs and enhance distinctiveness

VHC has been distributing pangasius to restaurants and supermarkets for many years but the company hasn't focused on retail much. From 2019, VHC will boost retail sales via Alibaba's website, focusing on value-added products, which carry high prices. The Chinese government's support for e-commerce is creating huge growth potential for retail sales. Specifically, consumers who buy imported goods via e-commerce platforms will enjoy a 0% import tax and a VAT on imported goods and the consumption tax payable equal to 70% of common tax rates. Alibaba chose VHC as a supplier thanks to its good reputation in the US market. The promotion of this distribution channel will create advantages in marketing and increase efficiency compared to many companies in the industry when cutting rental fees for selling booths, advertising costs while being able to contact directly with high-income customers who have great demand for VAT products.

2019 forecast

We forecast 2019 ASP to decrease 16.5% YoY as (1) VHC will adjust selling prices downwards to trigger a recovery in sales in markets that declined in 2018, to grow in China and to open new markets in the Middle East and Latin America, and (2) material fish input prices are forecast to fall 5.6% due to higher supply.

Export volume is expected to increase approximately 21% YoY, thanks to new markets while growth in VHC's three main markets (US, Europe and China) will be slower, as 1Q 2019 results were disappointing:

- Volume to the US market will recover in the remaining months of the year. While VHC is not subject to anti-dumping duties, the final result of POR 14 for other Vietnamese companies is actually higher than previously expected. Combined with the tendency that selling price reduction trend in this market may not stop yet, the ability to enter the US market of many Vietnamese enterprises becomes limited. This removed our concerns at the beginning of the year about VHC's competition pressure in the US market will increase. Compensating for the price decline, the increase in Chinese tilapia import tax to 25% will create great opportunities for Vietnamese pangasius to be chosen as a substitute product.

Table 3: US AD duty on Vietnamese pangasius

		Mandatory respondent	Self-request respondent	Contry-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	0-1.37	0.41	2.39	08/01/2016 - 07/31/2017
POR 14	USD/kg	1.37-3.87	1.37	2.39	08/01/2016 - 07/31/2017

*Preliminary results

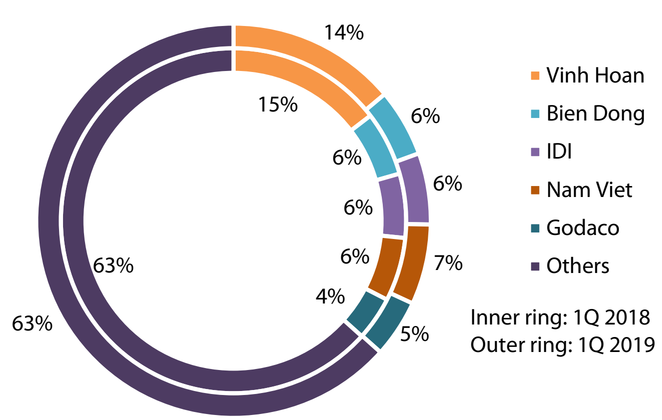
Source: Department of Commerce DoC, Internation Trade Administration ITA, Rong Viet Securities

- The shortage of pelagic fish in 2019-2021 will be the main factor stimulating European demand for pangasius. In the coming months, we forecast exports to Europe will not be as high as in Q1 when concerns around ASF relieved, Brexit has been postponed until October 31, 2019, and the EVFTA is unlikely to come into effect this year.
- As for the Chinese market, geographic location, ASF on pigs, the decline of import tax on frozen pangasius fillets to 7% from 12% (from July 1st, 2018), the reduction in VAT on imported seafood to 9% from 10% (from April 1st, 2019) and strictly controlled border trade are creating favorable conditions for exports to China for the whole industry. The cooperation with Alibaba will increase VHC's competitiveness and support its growth in this "lucrative" market. However, risks of a China economic downturn as well as the depreciation of CNY in the context of prolonged trade tensions with the US may corrode purchasing power.

We estimate 2019 net revenue to reach VND 10,086 billion, up 8.8% YoY and gross profit margins to reach 18.8%, lower than 22% margin in 2018 as a result of market developments and material fish volume analyzed above. Then, PAT is estimated to reach VND 1,273 billion, down 12% YoY. EPS is VND 13,448 (-12% YoY).

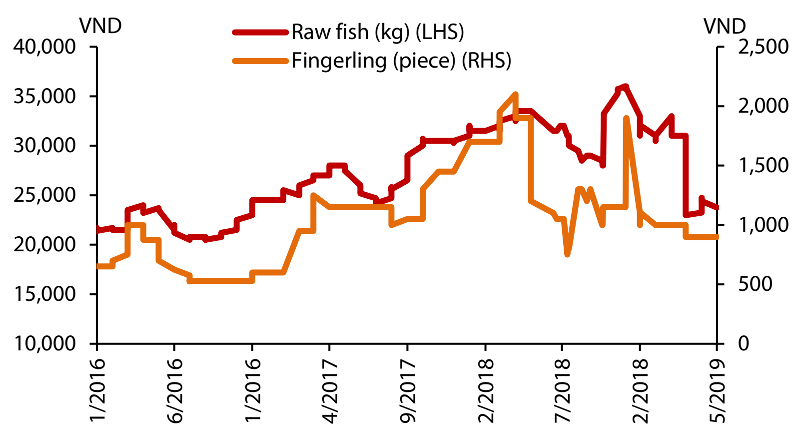
Appendix

Figure 6: Market share of Vietnamese pangasius companies



Source: VASEP, Rong Viet Securities

Figure 7: Material fish price and fingerling price



Source: VASEP, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	8,152	9,271	10,086	12,197
COGS	6,980	7,232	8,198	10,095
Gross profit	1,172	2,039	1,888	2,102
Selling Expense	269	210	303	354
G&A Expense	141	144	161	195
Finance Income	58	137	154	267
Finance Expense	89	167	122	70
Other profits	-8	-46	-46	-46
Profit from affiliates	0	79	87	96
PBT	723	1,688	1,497	1,799
Prov. of Tax	118	245	224	269
Minority's Interest	0	0	0	0
PAT to Equity S/H	605	1,442	1,273	1,530
EBIT	761	1,685	1,424	1,553
EBITDA	945	1,842	1,501	1,596

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	11.6%	13.7%	8.8%	19.4%
Operating Income	14.8%	94.9%	-18.5%	6.3%
EBITDA	11.0%	121.4%	-15.5%	-1.0%
PAT	6.7%	138.5%	-11.7%	10.2%
Total Assets	13.3%	24.9%	10.3%	24.2%
Equity	23.3%	36.4%	25.2%	22.7%
Profitability (%)				
Gross margin	14.4%	22.0%	18.7%	16.2%
EBITDA margin	11.6%	19.9%	14.9%	13.2%
EBIT margin	9.3%	18.2%	14.1%	11.7%
Net margin	7.4%	15.6%	12.6%	11.6%
ROA	12.0%	22.9%	18.3%	16.3%
ROE	20.5%	35.9%	25.3%	22.3%
Efficiency				
Receivable Turnover	6.1	4.6	6.3	6.3
Inventory Turnover	5.8	5.2	5.7	5.7
Payable Turnover	11.4	7.7	11.8	11.8
Liquidity				
Current	1.9	1.9	2.7	2.8
Quick	1.1	1.2	1.9	2.0
Finance Structure (%)				
Total Debt/Equity	47.9%	31.6%	23.6%	25.3%
Current Debt/Equity	34.3%	31.6%	23.6%	23.6%
Long-term Debt/Equity	13.7%	0.0%	0.0%	1.8%

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	45	43	184	219
Short-term investments	373	608	1,737	2,422
Accounts receivable	1,329	2,002	1,601	1,912
Inventories	1,202	1,386	1,443	1,777
Other current assets	54	102	74	69
Property, plant & equipment	1,633	1,369	1,078	1,304
Acquired intangible assets	271	333	208	190
Long-term investments	1	389	476	572
Other non-current assets	134	67	147	168
Total assets	**5,043**	**6,298**	**6,948**	**8,633**
Accounts payable	614	945	697	858
Short-term borrowings	1,008	1,269	1,184	1,454
Long-term borrowings	402	0	0	108
Other non-current liabilities	27	23	29	35
Bonus and Welfare fund	48	0	0	0
Technology-science, dev. fund	0	10	10	10
Total liabilities	**2,100**	**2,247**	**1,920**	**2,465**
Common stock and APIC	1,140	1,148	1,148	1,148
Treasury stock (enter as -)	-3	0	0	0
Retained earnings	1,805	2,867	3,880	5,021
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	**2,943**	**4,015**	**5,028**	**6,168**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	6,433	15,489	13,448	14,823
P/E (x)	8.3	6.1	6.8	6.2
BV (dong)	31,883	43,452	54,416	66,754
P/B (x)	1.7	2.2	1.7	1.4
DPS (dong/cp)	2,000	2,000	2,000	3,500
Dividend yield (%)	3.8	2.1	2.1	3.7

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFF	107,980	40%	43,192
P/E	115,526	60%	69,316
Target price (VND)			**112,508**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
05/2018	61,100	Accumulate	1 year
09/2018	95,400	Accumulate	1 year
12/2018	125,000	Buy	1 year

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007. licensed to perform the complete range of securities services including brokerage. financial investment. underwriting. financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders. also our strategic partners. are reputable institutions. i.e Eximbank. Viet Dragon Fund Management. etc... Along with a team of the professional and dynamic staffs. RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially. RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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