September, 2020

VINH HOAN CORPORATION (HSX: VHC)

US market to be the recovery momentum

(VND bn)	2Q-FY20	1Q-FY20	+/- qoq	2Q-FY19	+/- yoy
Net revenue	1,630	1,636	-0.4%	2,025	-19.5%
PAT	215	152	41.6%	392	-45.0%
EBIT	247	136	82.5%	331	-25.3%
EBIT margin	15.2%	8.3%	6.9pps	16.4%	-1.2pps

Source: VHC, Rong Viet Securities

1H2020 – The pandemic caused sales of pangasius frozen fillet to plummet but sales of value added pangasius and collagen-gelatin rose

- Total sales reached VND 3,266 bn, a drop of 14.4% YoY. Sales of pangasius frozen fillets fell 11% YoY, affected by quarantine measures in April and May. Sales of collagen-gelatin (C-G) grew by 35% YoY, following the increasing demand for functional food and pharmaceuticals during the pandemic. Value-added pangasius increased largely 21.3% YoY, boosted by the new habit of home dining. Sales of other products sank 67% YoY, due to the low demand for aquatic feed.
- The overall gross profit margin declined to 16.4% (1H2019: 22.2%) mostly because of the sharp fall in pangasius ASP.
- Together with large changes in financial income and financial expense, PAT slumped 47% YoY to VND 368 bn. Excluding the non-recurring profit, PAT reduced by 40% YoY.
- There has been a financial investment amount of VND 200 bn (~3% total assets) in 2Q in some stocks that are fundamentally good.

2020 and 2021 outlook

We have become more optimistic about pangasius ASP because the US is VHC's largest market of pangasius and both ASP and volume there are recovering more quickly than other markets. As a result, **2020 revenue may reach VND 7,964 bn, up 1.2% YoY.** Sales of C-G could rise 46% YoY and sales of by-product and miscellaneous drop by 63% YoY. Gross profit margin may come at 17.7% vs 19.5% of 2019. **PAT could reach VND 995 bn (-15.7% YoY).**

Based on the good rally in the US market, we also expect that the pangasius ASP in 2021 will remain the same as in 2020, instead of dropping 5% as previously forecasted. Thus, **2021 revenue and profit may increase 19% and 35% YoY, respectively.**

Valuation and recommendation

Pangasius exports to the US, the company's largest market, has showed good signs of recovery in both ASP and volume, better than other major markets. We expect the US to be the major growth driver of the pangasius segment for the rest of 2020 and 2021. The "new normal state" and the public concerns on unpredicted health problems continue to boost growth of value-added pangasius as well as collagen. We are more optimistic about the company's ability to stabilize pangasius ASP in 2021 in the face of global economic difficulties. Considering all these factors, we revise up the target price for VHC by 21% from VND 39,700/share to ***VND 48,300/share****. Together with a* ***cash dividend*** *in the next 12 months of* ***VND 1,500/share****,* ***the total return is 16%,*** *based on the closing price VND 42,950/share as of Sep 22, 2020. Thus, we have an* ***ACCUMULATE*** *recommendation for this stock.*

ACCUMULATE +18%

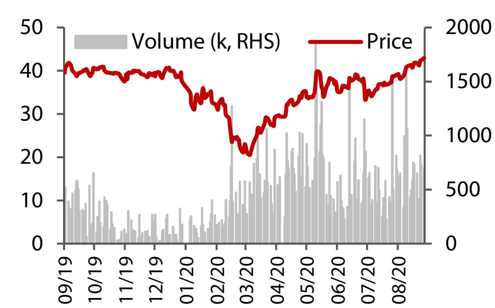
Target price (VND)	48,300
Current market price (VND)	42,800
Cash dividend in next 12 month	*2,000*

Stock Info

Sector	F&B
Market Cap (VND billion)	7,824
Current Shares O/S	181,946,026
Avg. Daily Volume (in 20 sessions)	692,602
Free float (%)	50.1
52 weeks High	43,000
52 weeks Low	20,100
Beta	1.1

	FY2019	Current
EPS	6,109	4,548
EPS Growth (%)	-17.5	-68.7
Diluted EPS	6,109	4,548
P/E	5.6	9.4
P/B	1.3	1.5
EV/EBITDA	5.5	8.2
Cash dividend yield (%)	0.0	4.7
ROE (%)	26.5	16.7

Price performance



Major Shareholders (%)

Truong Thi Le Khanh (Chairwoman)	43.5
Vo Phu Duc	6.0
Foreign ownership room (%)	67.9

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Exhibit 1: 2Q/2020 Results

(VND Bn)	2Q-FY20	1Q-FY20	+/-(qoq)	2Q-FY19	+/-(yoy)
Net revenue	1,630	1,636	-0.4%	2,025	-19.5%
Gross profit	320	215	49.0%	428	-25.3%
SG&A	72	79	-8.5%	97	-25.4%
Operating income	247	136	82.5%	331	-25.3%
EBITDA	296	182	62.8%	373	-20.7%
EBIT	247	136	82.5%	331	-25.3%
Financial expenses	40	18	125.2%	24	65.8%
- Interest Expenses	9	12	-24.5%	15	-39.3%
Dep. and amortization	49	46	5.0%	42	15.0%
Non-recurring items (*)				104	
Extraordinary items (*)					
PBT	241	172	40.0%	449	-46.5%
PAT	215	152	41.6%	392	-45.0%
(*) Adjusted PAT	215	152	41.6%	288	-25.3%

Source: VHC, Rong Viet Securities

Exhibit 2: 2Q/2020 Performance Analysis

Particulars	2Q-FY20	1Q-FY20	+/-(qoq)	2Q-FY19	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	19.6	13.1	6.5pps	21.2	-1.5pps
EBITDA Margin	18.2	11.1	7.0pps	18.4	-0.3pps
EBIT Margin	15.2	8.3	6.9pps	16.4	-1.2pps
Net Margin	13.2	9.3	3.9pps	19.4	-6.1pps
Adjusted Net Margin	13.2	9.3	3.9pps	19.4	-6.1pps
Turnover *(x)					
-Inventories	5.3	4.7	0.6	6.4	-1.2
-Receivables	3.9	4.2	-0.3	5.7	-1.8
-Payables	3.8	4.1	-0.4	3.6	0.2
Leverage (%)					
Total Debt/ Equity	28.2	27.7	0.5pps	37.9	-9.7pps

Source: Rong Viet Securities

Exhibit 3: 3Q/2020 Performance Forecast

Particulars (VND Bn)	3Q-FY20	+/- qoq	+/- yoy
Revenue	2,050	25.8%	8.9%
Gross profit	361	12.8%	-2.5%
EBIT	270	9.3%	-1.1%
PAT	243	13.0%	-4.3%

Source: Rong Viet Securities

Main assumptions:

- Pangasius ASP may decrease 9% YoY while the export volume may increase 28% YoY.
- Collagen-Gelatin accounts for 9% of total revenue and 31% of PAT.
- Gross profit margin 17.6%.

Update

1H2020: The pandemic caused sales of pangasius frozen fillet to plummet but sales of value added pangasius and collagen rose

Table 1: 1H2020 business results

Unit: VND bn	1H2020	1H2019	YoY %
Net revenue	**3,266**	**3,814**	**-14.4**
Cost of good sold	-2,732	-2,964	-7.8
Gross profit	535	850	-37.1
Gross profit margin	*16.4%*	*22.2%*	
Financial income	94	179	-47.1
Financial expenses	-58	-49	19.3
Interest expenses	-22	-33	-34.2
Selling expenses	-75	-111	-32.2
Operating expenses	-76	-80	-5.0
PAT	**368**	**699**	**-47.4**

Source: VHC, Rong Viet Securities

Total sales reached VND 3,266 bn, equivalent to a drop of 14.4% YoY. Sales of pangasius frozen fillets reached VND 2,314 bn, down 11% YoY, affected by quarantine measures on foodservice consumption in April and May. In details, pangasius ASP plummeted 23% YoY while volume rose 12% YoY, per our estimation. Sales of collagen-gelatin (C-G) grew by 35% YoY, reaching VND 338 bn, following the increasing demand for functional food and pharmaceuticals boosting by the fear of the pandemic. On the QoQ basis, C-G sales in 2Q surged 45% compared to 1Q. Value-added pangasius also posted a strong growth of 21.3% YoY, boosted by the rising demand of ready-to-eat and ready-to-cook food when people eat out less and cook more at home. In contrast, sales of other products decreased by 67% YoY, due to the low demand for aquatic feed.

The overall gross profit margin declined to 16.4% (1H2019: 22.2%) because of the sharp fall (-23% YoY) in pangasius ASP and the VND 59 bn provision for inventory devaluation. Excluding the provisions for inventory devaluation in 1H2019 and 1H2020, the overall gross profit margin was 18.6% in 1H2020 vs 23.4% in 1H2019.

Table 2: Revenue by product

VND bn	1H 2020	1H 2019	Change (%)	Weight 1H 2020 (%)	Weight 1H 2019 (%)
Frozen fillet	2,314	2,602	-11.1	69.4	68.3
By-product	493	513	-3.9	14.8	13.5
Collagen-Gelatin	338	250	35.2	10.1	6.6
Value-added pangasius	57	47	21.3	1.7	1.2
Other products	131	399	-67.2	3.9	10.5
Total	**3,266**	**3,814**	**-14.4**		

Source: VHC, Rong Viet Securities

Table 3: Revenue by market

VND bn	1H 2020	1H 2019	Change (%)	Weight 1H 2020 (%)	Weight 1H 2019 (%)
US	1,187	1,567	-24.3	35.6	41.1
EU	691	504	37.1	20.7	13.2
China	354	621	-43.0	10.6	16.3
Rest of World	1,102	1,119	-1.5	33.1	29.4
Total	**3,266**	**3,814**	**-14.4**		

Source: VHC, Rong Viet Securities

Financial income dropped 47% YoY as in 2Q2019 the company recorded a non-recurring profit of VND 104 bn from divestment from affiliates. Despite a fall in interest expense thanks to debt settlement, the loss on exchange rate difference surged 72% YoY and there was

VND 9 bn of provision for securities devaluation and loss from securities trading. The company has reported an investment of VND 200 bn (~3% total assets) in 2Q in some stocks that are fundamentally good.

In total, PAT was VND 368 bn, down 47% YoY. Excluding the non-recurring profit, PAT was reduced by 40% YoY.

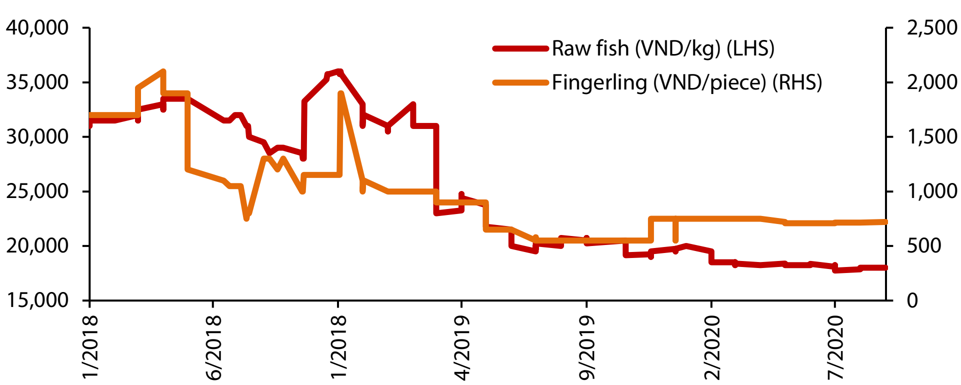
Outlook

Pangasius ASP stayed flat MoM in July and August but exhibited different developments in each major market. **Pangasius ASP in July rose by nearly 6% MoM and have been stable in August in the US.** This is better than our previous forecast, where we expected an increase of 3% MoM. In contrast, in the EU, ASP has not showed signs of recovery and in China, it is declining.

While pangasius export volume to the US could maintain a strong growth momentum in the coming month versus 2Q (volume of July rose by approximately 38% MoM vs 27% MoM as expected previously), **export to the EU and China may face low or negative growth** as (1) a new wave of contagion has started in the EU, forcing some member countries to implement travel restrictions again and (2) new developments in China including the prolonged heavy rain and flood from the end of May 2020, and the concerns about coronavirus contagion from imported seafoods. In June and July, China reported that coronavirus has been found on a salmon chopping board in a traditional market, on outside package of some shrimp shipments from Ecuador and in a seafood processing factory, which later caused a contagion among a group of nearly 30 people. According to Undercurrent News, surveys conducted by some large Chinese seafood importers, 50% of Chinese consumers have decided not to buy imported seafoods. We believe the adverse effects of those incidents in China may result to low pangasius imports in particular, at least in 3Q2020. We have revised our forecast to account for these developments.

We forecast 2020 revenue to reach VND 7,964 bn, up 1.2% YoY. Of which, pangasius ASP declines 4.5% YoY (-7.2% YoY in our previous forecast) and volume increase 8.8% YoY (12.3% in our previous forecast), resulting to sales of this segment of USD 282.6 mn. We have become more optimistic about pangasius ASP because the US is VHC's largest market of pangasius (54% total pangasius exports in 2019) and both ASP and volume there are recovering more quickly than other markets. Sales of C-G rises 46% YoY to USD 32 mn because of the production capacity expansion from 2,000 tons/year to 3,500 tons/year from Oct 2020. Sales of by-product and miscellaneous drops 63% YoY due to the plummet in demand for aquatic feed. Fingerling and material fish prices have started rising from the end of August. Material fish bought from the market may increase 2.7% YoY. **Gross profit margin may come at 17.7% vs 19.5% of 2019. PAT could reach VND 995 bn (-15.7% YoY).**

Figure 1: Fingerling and material prices



Source: VASEP, Rong Viet Securities

We also made changes in pangasius ASP in 2021. In our previous assumptions, we viewed China as an indicator of global export pangasius prices post-pandemic. However, up to now, consumption in China is being affected by local factors while the leading market of VHC, the US, is showing more positive signs of recovery than expected. This situation makes us more optimistic about the company's ability to stabilize the selling price of pangasius in 2021 in the face of global economic difficulties. Therefore, we expect that the pangasius ASP in 2021 will remain the same as in 2020, instead of dropping 5% as previously forecasted. As a result, **revenue and profit growth in 2021 are forecasted to increase by 19% and 35% YoY, respectively.**

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	**9,271**	**7,867**	**7,964**	**9,468**
COGS	7,232	6,334	6,555	7,656
Gross profit	**2,039**	**1,533**	**1,409**	**1,812**
Selling Expense	210	252	183	256
G&A Expense	144	149	183	161
Finance Income	137	254	132	180
Finance Expense	167	93	45	46
Other income/loss	-46	1	0	0
Gain/(loss) from JV	79	14	0	0
PBT	**1,688**	**1,309**	**1,130**	**1,530**
Tax	245	129	136	184
Minority's Interest	0	0	0	0
PAT to Equity S/H	**1,442**	**1,180**	**995**	**1,346**
EBIT	1,685	1,132	1,043	1,396
EBITDA	1,842	1,298	1,163	1,620

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	13.7	-15.1	1.2	18.9
Operating Income	94.9	-29.5	-10.4	39.3
EBITDA	121.4	-32.8	-7.9	33.8
PAT	138.5	-18.2	-15.7	35.3
Total Assets	24.9	5.0	14.1	15.0
Equity	36.4	21.5	20.2	17.5
Profitability (%)				
Gross margin	22.0	19.5	17.7	19.1
EBITDA margin	19.9	16.5	14.6	17.1
EBIT margin	18.2	14.4	13.1	14.7
Net margin	15.6	15.0	12.5	14.2
ROA	22.9	17.8	13.2	15.5
ROE	35.9	24.2	17.0	19.5
Efficiency				(times)
Receivable Turnover	4.6	5.2	4.5	5.0
Inventory Turnover	5.2	4.5	4.5	5.0
Payable Turnover	7.7	7.8	7.7	8.3
Liquidity				(times)
Current	1.9	2.7	3.1	3.5
Quick	1.2	1.9	2.2	2.6
Finance Structure (%)				
Total Debt/Equity	31.6	17.8	13.7	12.2
Current Debt/Equity	31.6	17.8	13.7	12.2
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	41	49
Short-term investments	608	1,492	1,813	2,603
Accounts receivable	2,002	1,516	1,781	1,894
Inventories	1,386	1,414	1,448	1,531
Other current assets	102	103	75	77
Property, plant & equipment	1,369	1,551	1,944	2,062
Acquired intangible assets	333	329	328	327
Long-term investments	389	1	1	1
Other non-current assets	67	121	112	130
Total assets	**6,298**	**6,613**	**7,544**	**8,674**
Accounts payable	945	815	852	919
Short-term borrowings	1,269	866	804	838
Long-term borrowings	0	0	0	0
Other non-current liabilities	23	11	15	18
Bonus and Welfare fund	36	0	0	0
Technology-science, dev. fund	10	9	9	9
Total liabilities	**2,283**	**1,701**	**1,680**	**1,784**
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	3,920	4,947
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	**4,015**	**4,877**	**5,863**	**6,890**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	15,489	6,437	5,381	7,282
P/E (x)	6.1	6.2	8.0	5.9
BV (dong)	43,452	26,593	31,974	37,573
P/B (x)	2.2	1.5	1.3	1.1
DPS (dong/cp)	2,000	0	1,500	2,000
Dividend yield (%)	2.1	0.0	3.5	4.6

VALUATION MODEL	Price	Weight	Average
FCFF	58,928	50%	29,464
P/E	37,668	50%	18,834
Target price (VND)			**48,298**

VALUATION HISTORY	Price	Recommendation	Period
Dec 2019	49,200	Buy	1 year
Mar 2020	31,700	Accumulate	1 year
Jun 2020	40,200	Accumulate	1 year
Aug 2020	39,700	Accumualte	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%

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