September 2021

Vinh Hoan Corporation (HSX: VHC)

High fillet ASP will offset SG&A increase

(VND bn)	Q2-FY21	Q1-FY21	+/- qoq	Q2-FY20	+/- yoy
Net revenue	2,343	1,788	31.0%	1,658	41.3%
PAT	261	131	98.9%	224	16.3%
EBIT	283	133	112.1%	259	9.2%
EBIT margin	12.1%	7.5%	461bps	15.6%	-355bps

Source: VHC, Rong Viet Securities

1H-FY21– NPAT only rose 4% YoY due to surging logistics costs

- Net revenue in 1H-FY21 went up 24% YoY to reach VND 4,131 Bn (or USD 180 Mn), mainly driven by fillet revenue (+17% YoY) and by products revenue (+60% YoY). Fillet export revenue to the US surged 39% YoY. On the contrary, C&G revenue flattened YoY due to weak demand amid COVID-19.
- Gross profit was VND 706 Bn (or USD 31 Mn), edging up 55% YoY due to the rebound of the US selling prices (ranging 3-3.5 USD/kg, up 15% YoY).
- 1H-FY21 NPAT only rose 4% YoY to reach VND 392 Bn (or USD 17 Mn) as soaring freight costs and container shortage caused logistics costs to surge 208% YoY.

2021 outlook – Fillet ASP improvement to offset SG&A cost increase

For 3Q-FY21, we estimate VHC's total revenue to be VND 2,249 Bn (or USD 98 Mn, +25% YoY) premised by fillet segment's revenue growth of 30% YoY on the back of a 24% YoY sharp increase in fillet average selling prices (ASP) while fillet volume will only rise 5% YoY due to social distancing's disruptions. NPAT will reach VND 233 Bn (or USD 10 Mn, +33% YoY) driven by revenue growth and widening gross margin.

In FY21, we expect an expanding gross margin (+491bps YoY to 19.1%) will offset a 132% YoY surge of SG&A expenses, backed by fillet volume and ASP to step up 9% and 11% YoY, respectively. We estimate VHC's FY21 revenue and NPAT at VND 8,771 Bn (or USD 381 Mn, +25% YoY) and VND 872 Bn (or USD 38 Mn, +24% YoY) respectively.

Valuation and Recommendation:

Despite soaring SG&A costs, the strong pangasius fillet demand and ASP recovery will help VHC's NPAT record a double-digit growth in FY21. Beyond FY21, we believe VHC's earnings will accelerate due to fillet ASP improvement, cooling-down costs after COVID-19 under control and brighter long-term perspective of collagen & gelatin segment.

*Using the 50:50 valuation mix of FCFF and SoTP methods, we arrive at the fair value of VHC share at **VND 60,000**, equivalent to an expected **return of 22%** with a 2% cash dividend yield on September 20th, 2021. We upgrade VHC to **BUY** from **ACCUMULATE.** Our target price increase is driven by (1) expanding GPM buoyed by higher ASP projections, resulting in a strong YoY NPAT-MI growth of 24%/32%/22% in the FY21-FY23 period, (2) a change in our valuation approach from PE multiple to PE-based SoTP as we believe C&G should trade at a premium versus the pangasius segment, (3) applying a 2021 PE ratio of 10x for pangasius segment as we view that the new growth cycle of the pangasius industry will bolster VHC to maintain its high business growth in FY22.*

BUY	+22%
CMP (VND)	49,900
Target Price (VND)	60,000
Cash dividend (VND)*	1,000

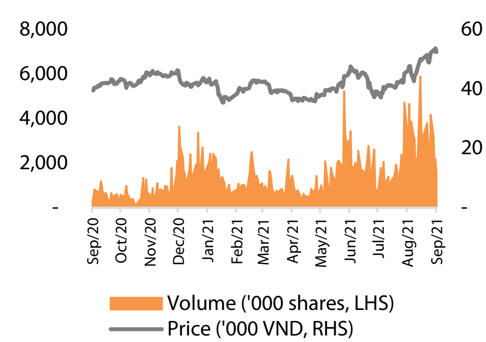
**Expected in the next 12 months*

Stock Info

Sector	F&B
Market Cap (VND bn)	9,424
Current Shares O/S (mn)	181.9
Avg. Daily Volume (in 20 sessions)	2,937,390
Free float (%)	50.2
52 weeks High	53,800
52 weeks Low	34,550
Beta	1.15

	FY2020	Current
EPS	3,844	4,035
EPS Growth (%)	-37.1	-11.3
Diluted EPS	3,844	4,035
P/E	10.8x	13.0x
P/B	1.5x	1.8x
EV/EBITDA	8.1x	10.4x
Cash dividend yield (%)	4.8	4.8
ROE (%)	13.6	13.8

Price performance



Major Shareholders (%)

Truong Thi Le Khanh	43.5%
Mitsubishi Corp	6.6%
Foreign ownership room (%)	73.9%

Loan Nguyen
(084) 028- 6299 2006 – Ext 1531
loan.nh@vdsc.com.vn
Toan Dao
(084) 028- 6299 2006 – Ext 1518
toan.dp@vdsc.com.vn

Exhibit 1: Q2-FY2021 Results

(VND bn)	Q2-FY21	Q1-FY21	+/- (qoq)	Q2-FY20	+/- (yoy)
Net revenue	2,343	1,788	31.0%	1,658	25.4%
Gross profit	433	273	58.8%	331	29.3%
SG&A	150	139	7.8%	72	91.4%
Operating income	283	133	112.1%	259	5.5%
EBITDA	355	204	74.4%	307	14.2%
EBIT	283	133	112.1%	259	5.5%
Financial expenses	30	19	58.3%	37	-10.9%
- Interest Expenses	8	6	22.7%	10	-38.0%
Dep. and amortization	72	70	2.9%	49	50.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	302	152	98.4%	252	7.2%
PAT	261	131	98.9%	224	4.2%
(*) Adjusted PAT	261	131	98.9%	224	4.2%

Source: VHC, Rong Viet Securities

Exhibit 2: Q2-FY2021 Performance Analysis

Particulars	Q2-FY21	Q1-FY21	+/- (qoq)	Q2-FY20	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	18.5%	15.2%	324 bps	20.0%	-147 bps
EBITDA Margin	15.2%	11.4%	377 bps	18.5%	-339 bps
EBIT Margin	12.1%	7.5%	461 bps	15.6%	-355 bps
Net Margin	11.1%	7.3%	380 bps	13.5%	-239 bps
Adjusted Net Margin	11.1%	7.3%	380 bps	13.5%	-239 bps
Turnover *(x)					
-Inventories	3.9	4.5	-0.6	4.0	-0.1
-Receivables	5.7	5.2	0.5	5.0	0.7
-Payables	9.9	9.7	0.2	8.8	1.1
Leverage (%)					
Total Liability/ Equity	44.2%	33.0%	1124 bps	29.7%	1452 bps

Source: VHC, (*) Annualized turnover

Exhibit 3: Q3-FY21 Performance Forecast

Particulars (VND Bn)	Q3-FY21	+/- (qoq)	+/- (yoy)	Assumptions
Net revenue	2,249	-4%	25%	- Fillet revenue will surge 30% YoY, driven by export volume to rise 5% YoY and ASP to soar 24% YoY. - 3Q-FY21 C&G revenue to reach VND 170 Bn (or USD 7.4 Mn, +29% YoY). - By-product revenue to decline 10% YoY due to low manufacturing capacity. - SGC will contribute VND 120 Bn (or USD 5.2 Mn) in revenue.
Gross profit	472	9%	106%	- GPM in 3Q-FY21 is expected to reach 21% (+825 bps YoY). - We expect 3Q-FY21 will see no inventory provision as raw material is more stable. In 3Q-FY20, gross profit included an inventory provision of VND 71 Bn (USD 3 Mn).
EBIT	252	-11%	58%	- SG&A costs will soar 215% YoY due to surging logistics costs (+230% YoY) and social-distancing-related costs of VND 40 Bn (or USD 1.7 Mn). - 3Q-FY20 financial income included a net gain of VND 24 Bn (or USD 1 Mn) from trading securities.
NPAT	233	-11%	33%	3Q-FY21 NPM is expected to widen 147 bps YoY to 10.4%.

Source: Rong Viet Securities

1H-FY21 Update: Strong revenue growth driven by exports to the US

Fillet and by-products boosted revenue

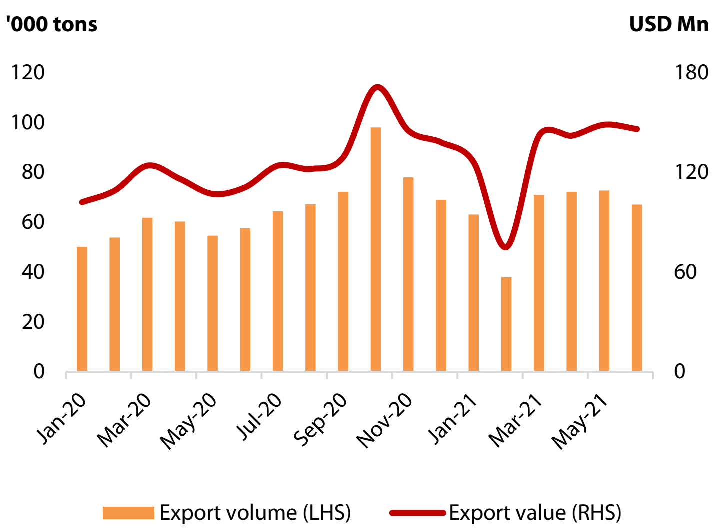
1H-FY21, VHC recorded VND 4,131 Bn (or USD 180 Mn, +24% YoY) revenue, mainly driven by the recovery of fillet export revenue in major markets, especially the US.

- 1H-FY21 fillet revenue escalated by 17% YoY to reach VND 2,718 Bn (or USD 118 Mn) due to a sharp increase in VHC's export volume (41 thousand tons, +25% YoY, per our estimates) while 1H-FY21 average selling prices (ASP) was still low (2.9 USD/kg, -7% YoY, per our estimate). Per VASEP, Vietnam's pangasius export value in 1H-FY21 rose strongly by 18% YoY to reach USD 788 Mn, driven by the re-opening of economy in the US to boost F&B demand.
- By-product revenue recorded VND 791 Bn (or USD 34 Mn), surging 60% YoY due to demand increase of products such as fish oil and fish meal (the main ingredient in the production of livestock nutrition).
- In contrast, 1H-FY21 collagen & gelatin revenue flattened at VND 312 Bn (or USD 14 Mn). Per VHC, second C&G production line currently only run at 10-15% design capacity in 1H-FY21. In our view, the main reasons are: 1) Weak demand for high-end products amid COVID-19, 2) Customers have temporarily switched to cheaper products such as bovine and porcine collagen; and 3) Container shortages delayed C&G's export orders.
- Sa Giang (HNX: SGC) – the largest shrimp chips manufacturer in Vietnam which is acquired 76.72% by VHC in early FY21, recorded VND 145 Bn revenue (or USD 6 Mn), contributing 3.5% into VHC's revenue. Shrimp chips revenue accounted for 76% in SGC's revenue and the remaining was from rice-related products. In the long run, SGC will expand the latter, which achieves higher profit margin than shrimp chips segment.

NPAT only rose 4% YoY due to soaring logistics costs

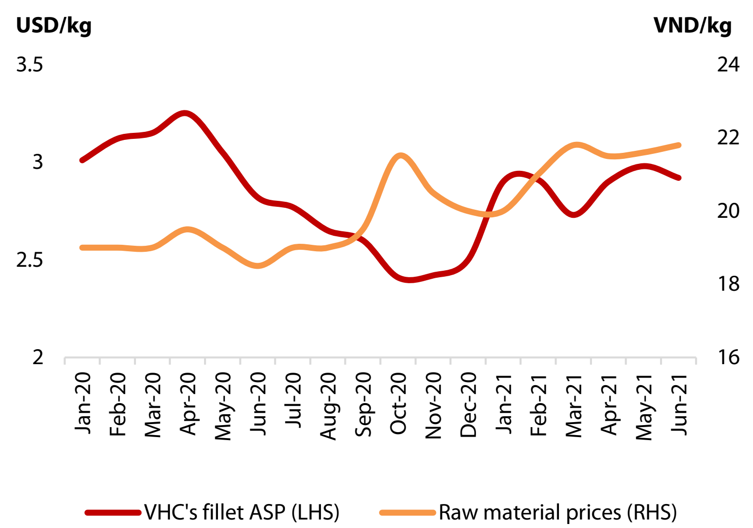
1H-FY21 gross profit recorded VND 706 Bn (or USD 31 Mn), up 29% YoY due to ASP improvement in the US market to offset the increase in raw materials prices. 1H-FY21 NPAT was VND 392 Bn (or USD 19 Mn), only rising 4% YoY mainly due to soaring logistics costs. SG&A expenses went up 92% YoY to reach VND 289 Bn (or USD 13 Mn), equivalent 7% SG&A/revenue compared to that of 4.5% in 1H-FY20. In which, logistics costs soared 208% YoY at VND 162 Bn (or USD 7 Mn), boosting logistics costs/revenue to 3.9% (vs 1.6% in 1H-FY20) as the lack of containers has pushed up freight rates. Per AgroMonitor, Vietnamese pangasius exporters to the US increased contracts under CFR terms (accounting for 75% of total exports) instead of mainly FOB as usual in 1H-FY21. VHC's 1H-FY21 net margin decreased to 9.5%, contracting 179bps YoY.

Figure 1: Vietnam's pangasius export volume and value



Source: AgroMonitor, Rong Viet Securities

Figure 2: VHC's ASP and Vietnam pangasius raw materials prices



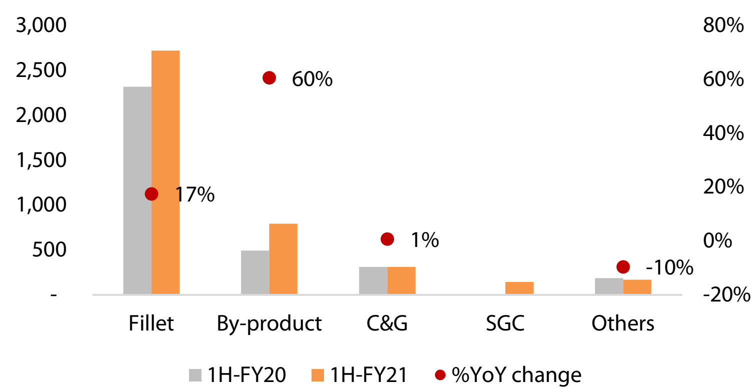
Source: AgroMonitor, Rong Viet Securities

Export revenue to the US and China markets recovered

VHC's export revenue to the US rose solidly 39% YoY to reach VND 1,610 Bn (or USD 70 Mn). With 50% market share in the US, VHC has benefited from the demand recovery in the US after the fully economic re-opening. In 2Q-FY21, VHC's export revenue to the US soared 124% YoY on the back of 2Q-FY20's low base, due to F&B service closures in this region in last year. Per VASEP, Vietnam's export value to the US recorded USD 160 Mn, up nearly 60% YoY, in which export volume surged over 60% YoY and ASP stayed flat. Meanwhile, 1H-FY21 export revenue to China jumped by 61% YoY to reach VND 569 Bn (or USD 25 Mn) on the back of a 1H-FY20 low base.

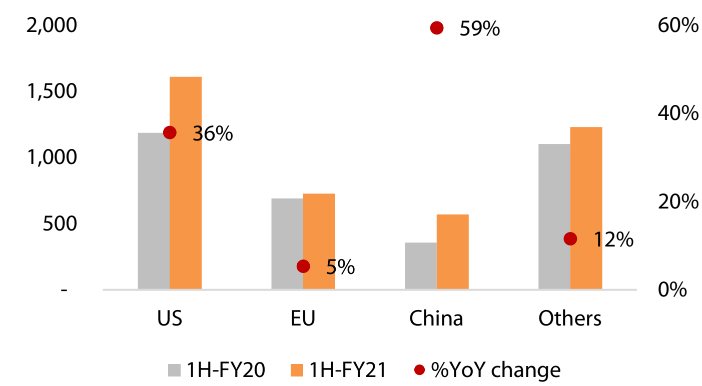
VHC's export revenue to EU in 1H-FY21 rose 5% YoY, at VND 728 Bn (or USD 32 Mn). Excluding the contribution of SGC (VND 80 Bn or USD 3.5 Mn), export revenue to EU went down 6% YoY due to slow demand amid new COVID-19 outbreaks. We note that VHC's export revenue to EU in FY20 was at the high base, backed by demand boom for pangasius consumption of retail channel.

Figure 3: VHC revenue breakdown by product (VNDbn)



Source: VHC, Rong Viet Securities

Figure 4: VHC's 1H 2021 revenue by market (VNDbn)



Source: VHC, Rong Viet Securities

2021 Outlook: High fillet ASP to offset SG&A cost increase

For FY21, we have a positive view on VHC's revenue growth (VND 8,771 Bn or USD 381 Mn, +25% YoY) and NPAT growth (VND 872 Bn or USD 38 Mn, +24% YoY), mainly driven by (1) the increase in fillet volume (81,610 tons, +9% YoY) and ASP (3.13 USD/kg, +11% YoY), resulting in a 23% YoY jump of fillet revenue; (2) C&G revenue increase of 16% YoY; (3) SGC's revenue contribution of VND 383 Bn (or USD 16.7 Mn); and (4) expanding GPM (+491bps YoY to 19.1%) to offset a 132% YoY surge of SG&A expenses. Particularly:

Pangasius fillet segment – Expanding gross margin due to ASP increase

Fillet export volume is expected to drop slightly 3% YoY in 2H-FY21 amid Vietnam's strict social distancing

On Jul 19th, Vietnam started to apply strictest social distancing measures under Directive 16 to prevent the spread of the coronavirus delta variant in 19 Southern provinces and cities, including areas located VHC's factories. To maintain operating activities, manufacturing firms must implement "3 on-site" rule (eating, working and resting at factory). VHC's operating capacity has declined to 50% compared to normal. Per VASEP, Vietnam's pangasius export value declined 5% YoY and 35% YoY in July and August, respectively.

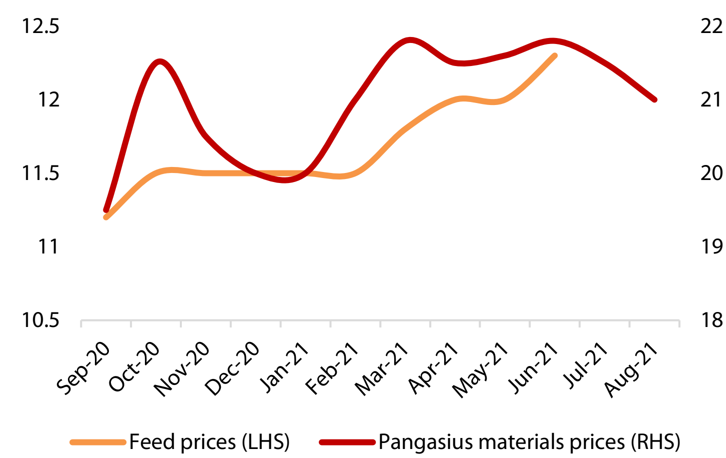
We believe that VHC's fillet export volume will be less affected by capacity reduction versus smaller companies, as VHC's fillet inventory is enough for two-month exports, per our estimate. Therefore, we forecast VHC's fillet export volume will decrease slightly 3% YoY in 2H-FY21 to 41,310 tons. For FY21, we forecast fillet export volume will step up 9% YoY to 81,610 tons.

Improving gross margin driven by rising fillet ASP

Pangasius fillet ASP is on track to increase due to year-end buoyant demand and fillet supply shortage, especially in the US market. We forecast VHC's ASP will be 3.36 USD/kg, surging 31% YoY in 2H-FY21 *(see **Figure 6**)*. For 2021, we expect VHC's ASP will edge up 11% YoY to reach 3.12 USD/kg.

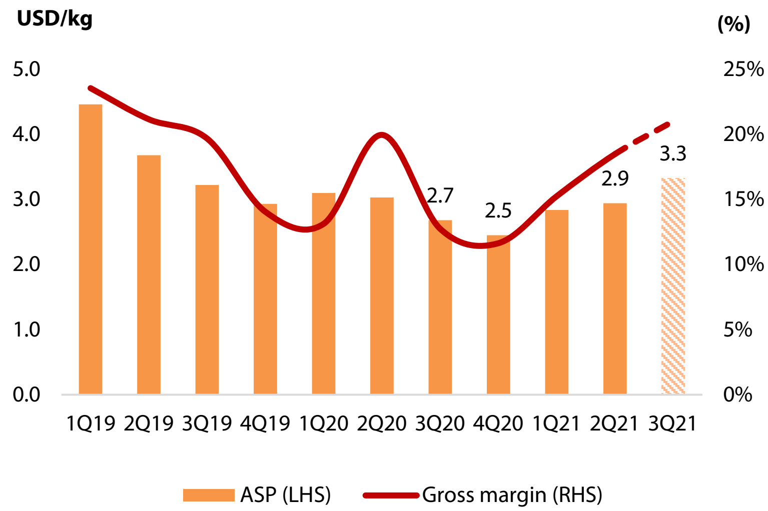
Previously, we expect raw materials price will witness a jump in the second half on the back of soaring feed prices and tightening pangasius supply. However, intense Covid-19's resurgence since July has caused to three-on-site solution. Many small processing factories have to stop working temporarily due to heavily raising operating cost, leading to abundant raw material supply in the market and the decrease of raw material price by 5-10% month-over-month in Aug 2021 *(see **Figure 5**)*. As several processors have resumed their operating capacity since the mid September, raw materials price is expected to step up in the final quarter of this year. Therefore, we expect VHC's gross margin to widen in 3Q-FY21 on the back of more favorable raw material price while export price is still on the increasing trend.

Figure 5: Raw materials prices and feed prices ('000 VND)



Source: AgroMonitor, Rong Viet Securities

Figure 6: VHC's quarterly gross margin (%) and ASP (USD/kg)



Source: VHC, AgroMonitor, Rong Viet Securities

Gross profit increase to offset surging SG&A expenses

On Sept 9th, 2021, Drewry's composite World Container index increased continuously to 10,084 USD per 40ft container, surging 309% YoY to climb to its highest level since 2011. Drewry also forecasts reefer container freight rates to rise further in 2022, driven by continued disruption across container supply chains and containerized reefer traffic expand (*read more: here*). Therefore, we expect soaring logistics costs to stay around continue in 2H-FY21 by 164% YoY. Overall, we forecast SG&A costs will surge 169% YoY in 2H-FY21 and 132% YoY in FY21.

However, we expect a sharp increase by 114% YoY in gross profit to reach VND 973 Bn (or USD 42 Mn) in 2H-FY21 will offset SG&A cost increase, resulting in a 46% YoY increase in 2H-FY21 NPAT to be VND 480 Bn (or USD 21 Mn). 2H-FY21 GPM and NPM are projected at 21.0% (+882 bps YoY) and 10.4% (+157 bps YoY). For FY21, we forecast GPM at 19.1%, up 491 bps YoY and NPM to be flat YoY at 10%.

Table 1: VHC's quarterly pangasius fillet export value forecast

	Q1-FY21	Q2-FY21	Q3-FY21	Q4-FY21	2020A	2021F
Export volume (tons)	**18,200**	**22,100**	**20,160**	**21,150**	**74,952**	**81,610**
%YoY change	*9%*	*42%*	*5%*	*-10%*	*11%*	*9%*
Average selling prices (USD/kg)	**2.84**	**2.94**	**3.32**	**3.41**	**2.82**	**3.12**
%YoY change	*-8%*	*-3%*	*24%*	*39%*	*-21%*	*11%*
Export value (USD Mn)	**51.7**	**64.9**	**67.0**	**72.0**	**207.9**	**255.7**
%YoY change	*0%*	*38%*	*30%*	*25%*	*-11%*	*23%*

Source: Rong Viet Securities

The US market to bolster VHC's fillet export revenue

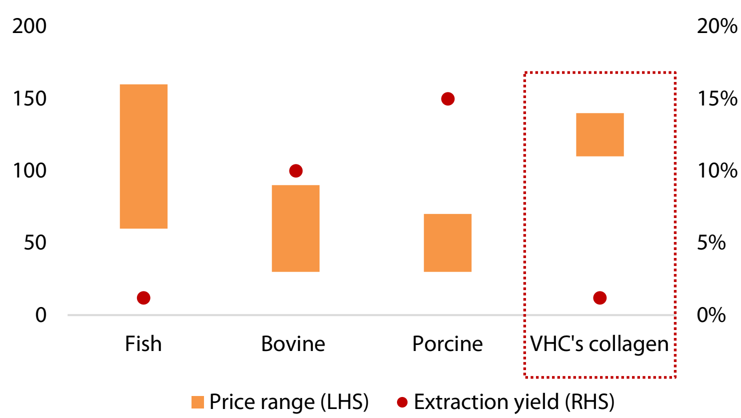
- ***US market:*** In 2H-FY21, we expect that the US market will continue to lead the fillet revenue growth due to year-end buoyant demand and spiking fillet export ASP to the US. Due to narrowing operating capacity in 2H-FY21 amid Vietnam's strict social distancing, we expect VHC will cut non-US orders to focus on the high-margin US exports. We estimate export revenue to the US to rise 28% YoY in 2H-FY21 and 34% YoY in FY21.
- ***EU and China market:*** We estimate that export revenue to the EU will rise only by 4% YoY in FY21 due to the sharp rise in Asia-EU container freight rates to hit the volume and slower demand increase than the US's one. In terms of China, we anticipate that export revenue will only grow 10% YoY in the whole FY2021 compared to 61% YoY growth of 1H-FY21, due to negative revenue growth in 2H-FY21 (-25% YoY, per our estimate) as a result of stricter COVID-19-related controls and inspection requirements on frozen-food imports. Several Chinese ports are closed due to stricter disinfection measures under China's "zero-tolerance" coronavirus policy, such as Yantian, Meishan and a part of Ningbo – Zhoushan (the world's third-largest port). China has banned import from many seafood firms from India, Pakistan, Indonesia and Ecuador since May 2021.

Collagen & gelatin segment – Weak demand and fierce competition amid COVID-19

In FY21, C&G segment will face to weak demand for high-priced beauty products due to global COVID-19 outbreak, per VHC. Hence, we anticipate that VHC's second C&G factory (put into operation in end-2020) will only run at 20% capacity in FY21. Apart from that, we also expect fish C&G will compete with other low-priced C&G such as bovine and porcine, putting pressure on VHC's selling prices. Given these impacts, we expect C&G volume will increase 20% YoY while C&G's NPM will contract 340 bps YoY to 39% in FY21. We expect FY21 C&G revenue and NPAT to rise 16% YoY and 6% YoY, contributing 8% and 30% to the company's revenue and NPAT, respectively.

In the long run, we are optimistic about the prospect of collagen demand due to rising global awareness about health consciousness, driving the consumption of nutritional products after the pandemic. Per Research Dive, global collagen market is anticipated to grow at a CAGR of 8.1% in 2021-2027F to reach USD 1.2 Bn in 2027. VHC could expand the C&G segment rapidly as a result of: (1) tiny global market share (<1%); (2) shifting consumer preferences towards fish collagen owing to its more efficient absorption and metabolism than bovine and porcine collagen and (3) ASP of fish collagen are much higher than those of other types due to high contraction yield and superior bioavailability *(see **Figure 7**)*. Therefore, we forecast C&G revenue and NPAT to grow at 18% and 20% CAGR in 2021-2025F, respectively, reaching VND 1,285 Bn (or USD 56 Mn) revenue and VND 500 Bn (or USD 22 Mn) NPAT in FY25 *(see **Figure 8**)*.

Figure 7: Collagen's price range (USD/kg) and extraction yield (%) by source

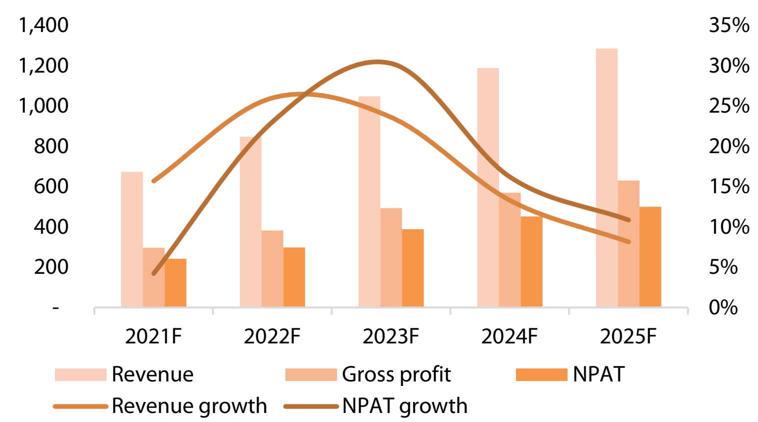


**Note: 1) Price ranges of other collagen products (retail sales) are compiled from Amazon.com by Rong Viet;*

2) Extraction yield (%) = kg of collagen/ 1 kg of raw materials

Source: Meat & Livestock Australia, Rong Viet Securities

Figure 8: VHC's C&G segment – income statement forecast, FY2021-2025



Source: Rong Viet Securities

Large CAPEX in FY21-FY23

VHC aims to implement three new projects financed 100% by equity including a hatchery plant (VND 200 Bn or USD 9 Mn), feed mill (VND 500 Bn or USD 22 Mn) and Agri-Aqua Culture Complex (VND 1,200 Bn or USD 52 Mn), starting in 2021. The third project is considered a long-term strategy towards the FMCG industry. We have included CAPEX of these projects into our forecast with VND 600 Bn in 2021F (VND 200 Bn of the hatchery plant, VND 200 Bn of the feed mill and VND 200 Bn of Agri-Aqua Culture Complex), VND 900 Bn in 2022F (VND 300 Bn of the feed mill and VND 600 Bn of Agri-Aqua Culture Complex) and VND 400 Bn in 2023F (Agri-Aqua Culture Complex).

VHC will return to the feed industry after leaving it from 2014. The "Feed One" factory with a capacity of 350,000 tons/year is being built in Dong Thap province, expected to come into operation in FY22 and break-even after three years. In our view, the objectives of "Feed One" are to enhance the quality of raw materials by developing new aquafeed formula and optimize production costs. We anticipate that this factory will also help reduce raw materials costs by 3% by the end of 2022F.

Agri-Aqua-Culture Complex providing raw materials and fruits will be the largest project of VHC in the long run. The integration of fruit planting to generate a circular model is to maximize the efficiency of all farms and plants as well as diversifying business lines to reduce volatility risks of the fillet segment. Fish will be farmed with new technology and plants will be grown for fruit products and other production process. Those products will be used for fruit processing and feed milling as well as products from rice. Waste from these cultivation activities will be re-used and recycled from one zone to the other. The fruit farm has been on trial on a small area and will not contribute into the company's revenue in 2021F. However, we have not yet forecasted results of this project in our report because no guidance has been revealed.

2021 Forecast

Table 2: 2021 Forecast

Unit: VND Bn	2020A	2021F	2022F	% 2021 (YoY)	% 2022 (YoY)	Assumptions
Net revenue	**7,037**	**8,771**	**10,098**	**25%**	**15%**	
- Pangasius products	4,836	5,929	6,913	23%	17%	• In FY21, we forecast pangasius fillet export volume and ASP to rise 9% YoY (at 81,610 tons) and 11% YoY (at 3.13 USD/kg, respectively, backed by impressive demand recovery and surging selling prices of the US market. • In FY22, we forecast pangasius fillet export volume and ASP to rise 10% YoY (90,126 tons) and 7% (at 3.35 USD/kg).
- By-products	1,225	1,450	1,537	18%	6%	
- Collagen & Gelatin	581	673	848	16%	26%	• In FY21, we expect the second C&G factory to run at only 20% design capacity in 2021 due to weak demand towards high-end products such as collagen amid COVID-19. Therefore, we forecast volume to go up 20% YoY while C&G's NPM will contract 340 bps YoY to 39% in FY21. • In FY22, C&G revenue is expected to rise 26% YoY, buoyed by a 20% YoY increase in volume and a 5% YoY increase in C&G's ASP.
- SGC (HNX: SGC) (*)	N/A	383	430	N/A	12%	• We expect SGC (standalone) revenue will edge up 23% YoY and 12% YoY in FY21 and FY22, respectively, driven by higher operation capacity of rice-related products.
- Others	405	336	370	-17%	10%	
Gross profit	**1,001**	**1,679**	**2,022**	**68%**	**20%**	
SG&A expenses	318	739	752	132%	2%	• In FY21, we forecast: (1) selling expenses to surge 160% YoY due to soaring logistic costs and container shortage; (2) VHC will incur an amortization cost of SGC goodwill (VND 31 Bn, per our estimate) in 2021; (3) three-on-site-related

						costs caused by social distancing are estimated to incur VND 50 Bn (or USD 2.2 Mn). • In FY22, we expect selling expenses to remain high, up 7% YoY while SG&A to drop 6% YoY.
EBIT	**683**	**939**	**1,270**	**38%**	**35%**	
Non-operating income	108	51	45	-53%	-11%	• FY20 financial income included a net gain of VND 48 Bn (or USD 2.1 USD) from trading securities. We trim by 50% YoY of FY21 financial income. Besides, we also forecast deposit interest to decline 20% YoY and interest expense to rise 13% YoY in FY21.
NPAT-MI	**705**	**872**	**1,146**	**24%**	**32%**	
GPM	14.2%	19.1%	20.0%	491 bps	89 bps	
SG&A/Revenue	4.5%	8.4%	7.4%	390 bps	-98 bps	
EBIT margin	9.7%	10.7%	12.6%	101 bps	187 bps	
Net margin	10.0%	10.0%	11.4%	-7 bps	141 bps	

*Source: VHC, Rong Viet Securities (*Consolidated from 1Q-FY21 with current ownership of 76.72%)*

Valuation

We use a combination of DCF (50%) and SoTP (50%) to derive a one-year TP of VND 60,000/share for VHC. We change the P/E method from the previous valuation into SoTP to value each segment (pangasius, C&G and SGC). We believe the C&G segment deserve to be valued at a higher PER than the pangasius segment due to outperforming revenue growth and solidly higher profit margin (40-60%). We estimate C&G will contribute 30% in the company's NPAT in 2021F versus 0% in 2017.

Table 3: VHC's valuation summary

Method	Weight	Valuation (VND/share)
FCFF (g= 2.5%)	50%	64,500
SoTP	50%	55,000
Total	**100%**	**60,000**
2021F P/E at target price		12.7x
2022F P/E at target price		9.7x

Source: Rong Viet Securities

Table 4: Discounted cash flow

Unit: VND Bn	2021F	2022F	2023F	2024F	2025F
Net income	872	1,147	1,396	1,674	1,804
(+) Depreciation	231	281	355	422	458
(+) Interest*(1-t)	59	75	85	101	104
(-) Changes in working capital	205	218	138	112	103
(-) CAPEX	860	1,260	860	360	360
FCFF	**-172**	**-249**	**554**	**1,382**	**1,598**

Source: Rong Viet Securities

Table 5: FCFF model

Cost of capital		FCFF	VNDbn
Beta	1.1	PV of cumulative FCFF	2,021
Risk free rate	1.0%	PV of terminal value	11,257
Equity risk premium	11.0%	(-) Debt	1,607
Cost of equity	13.1%	(+) Cash and Cash Equivalents	92
After-tax cost of debt	5.2%	Equity value	11,763
D/E	0.25	Number of outstanding shares (mn)	183
WACC	**11.5%**	**Target price (VND)**	**64,500**

Table 6: Sum-of-the-parts valuation

SOTP	Method	VND/share	Comments
Pangasius	P/E @ 10x	33,924	We apply a PE ratio of 10x, which is 25% higher than VHC's 5Y median PE ratio on the back of a strong YoY pangasius NPAT growth of 33%/36%/20% in the FY21-FY23 period when VHC enters in a new growth cycle of the pangasius industry.
Collagen & Gelatin	P/E @ 13x	18,468	We believe the C&G segment deserves a higher PE ratio than pangasius thanks to its high-margin products and increasing contribution to VHC's profits. We use the PE ratio of global peers then discount 20% due to its small size.
SGC (ownership: 76.72%)	P/E @ 12x	2,552	We use 5Y median PE ratio of SGC because of lack of comparable domestic peers, then discount 20% resulting from acquisition costs. SGC is the leading company which 80% domestic market of shrimp chips.
Valuation		**55,000**	

Source: Rong Viet Securities

VND billion

INCOME STATEMENT	2019	2020	2021F	2022F
Revenue	**7,867**	**7,037**	**8,771**	**10,098**
COGS	6,334	6,036	7,092	8,076
Gross profit	**1,533**	**1,001**	**1,679**	**2,022**
Selling Expense	252	171	444	476
G&A Expense	149	147	295	276
Finance Income	254	233	175	181
Finance Expenses	93	107	124	136
Other profits	1	-18	-	-
PBT	**1,309**	**791**	**990**	**1,315**
Prov. of Tax	129	86	109	157
Minority's Interest	-	-	9	11
PAT to Equity S/H	**1,180**	**705**	**872**	**1,146**
EBIT	1,132	683	939	1,270
EBITDA	1,298	883	1,226	1,619

FINANCIAL RATIO	2019	2020	2021F	2022F
Growth (%)				
Revenue	-15.1	-10.5	24.6	15.1
EBITDA	-29.5	-31.9	38.8	32.0
EBIT	-32.8	-39.7	37.6	35.2
PAT	-18.2	-40.3	23.7	31.5
Total Assets	5.0	8.9	14.3	15.2
Equity	21.5	6.1	8.4	16.6
Profitability (%)				
Gross margin	19.5	14.2	19.1	20.0
EBITDA margin	16.5	12.6	14.0	16.0
EBIT margin	14.4	9.7	10.7	12.6
Net margin	15.0	10.0	10.0	11.4
ROA	17.9	9.8	10.6	12.1
ROE	23.0	12.8	16.2	18.7
Efficiency				
Receivable Turnover	5.2	4.1	4.4	4.6
Inventory Turnover	4.5	4.0	4.4	4.6
Payable Turnover	7.8	7.9	7.4	7.4
Liquidity				
Current	2.7	2.5	1.9	1.8
Quick	1.9	1.7	1.2	1.2
Finance Structure (%)				
Total Debt/Equity	17.8	22.7	28.6	27.1
Current Debt/Equity	17.8	21.4	26.5	24.4
Long-term Debt/Equity	-	1.3	2.1	2.7

VND billion

BALANCE SHEET	2019	2020	2021F	2022F
Cash and cash equivalents	86	41	92	118
Short-term investments	1,492	1,365	828	699
Account receivables	1,516	1,699	1,991	2,189
Inventories	1,414	1,498	1,610	1,772
Other current assets	103	124	137	159
Property, plant & equipment	1,551	1,887	2,532	3,525
Acquired intangible assets	329	339	802	751
Long-term investments	1	62	62	62
Other non-current assets	121	177	175	202
Total assets	**6,612**	**7,202**	**8,229**	**9,478**
Account payables	815	762	961	1,102
Short-term borrowings	866	1,106	1,488	1,596
Long-term borrowings	-	69	119	176
Other non-current liabilities	11	13	14	16
Bonus and Welfare fund	-	-	-	-
Technology-science, dev. fund	9	4	4	4
Total liabilities	**1,735**	**2,026**	**2,585**	**2,894**
Common stock and APIC	2,058	2,058	2,058	2,058
Treasury stock (enter as -)	-114	-114	-114	-114
Retained earnings	2,933	3,214	3,667	4,599
Other comprehensive income	-	-	-	-
Inv. and Dev. Fund	-	-	-	-
Total equity	**4,877**	**5,176**	**5,611**	**6,542**
Minority Interest	2	4	33	41

VALUATION RATIO	2019	2020	2021F	2022F
EPS (VND)	6,437	3,844	4,717	6,202
P/E (x)	6.2	10.8	10.6	8.1
BV (VND)	26,597	28,225	30,597	35,677
P/B (x)	1.5	1.5	1.6	1.4
DPS (VND/cp)	-	2,000	1,000	1,000
Dividend yield (%)	-	4.0	2.0	2.0

VALUATION MODEL	Price	Weight	Average
FCFF	64,500	50%	32,250
SoTP	55,000	50%	27,500
Target price VND		**100%**	**60,000**

VALUATION HISTORY	Price	Recommendation	Period
3/2021	46,200	Accumulate	1 year
6/2021	45,000	Accumulate	1 year
9/2021	60,000	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%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer
- Market Strategy

Tam Pham
Manager
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank
- Insurance

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- Aviation
- Logistics
- Market Strategy

Toan Dao
Manager
toan.dp@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- F&B

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Building Materials
- Pharmaceutical

Thanh Nguyen
Analyst
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Bank
- Insurance
- Securities

Kiet Tran
Analyst
kiet.tht@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Real Estate
- Market Strategy

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Textile
- Fishery

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities

Thu Anh Tran
Analyst
anh.tt@vdsc.com.vn
+ 84 28 6288 2006 (2221)
- Sea Port
- Logistics

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Trang Tran
Assistant
trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

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