

BUY

Current price
(05/6/2019) 89,100VND

Target price 115,000VND

Investment term **MID-TERM**

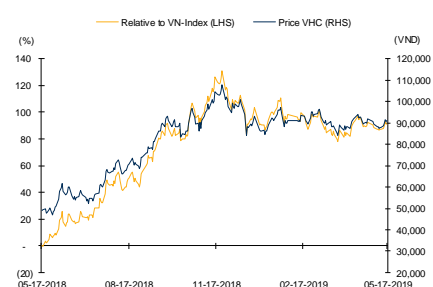
Share information

Sector	Food
Capitalization (VND Bil.)	8,270.15
Share volume (Mil.)	92,403
Highest price in 52 weeks	108,850
Lowest price in 52 weeks	51,692
Average trading volume in 10 days	481,473
Foreign ownership	34.08%

Major shareholders

Truong Thi Le Khanh	42.9%
Dragon Capital Fund	5.00%
Mitsubishi Corp.	6.50%
The rest	41.6%

Price movements



Source: Finn Pro, KBSV

OVERVIEW & VALUATION

We believe that Vinh Hoan is having the right development steps in the long-term by investing in production lines, expanding farming areas and self-controlling its own fingerling source. Besides, we are optimistic about Vinh Hoan's ability to develop in the US and EU markets in the coming time. Collagen & Gelatin products will also be potential new steps for Vinh Hoan.

In 2019, we estimate that Vinh Hoan's revenue and NPAT will increase by 10% and 7%. Thereby, EPS 2019 of Vinh Hoan will be around VND 16,000. Based on DCF valuation and P/E comparison method, we recommend to BUY Vinh Hoan stocks with a target price of VND115,000, equivalent to a P/E forward at 7x in 2019.

INVESTMENT VIEWPOINT

Positive export outlooks on the US market

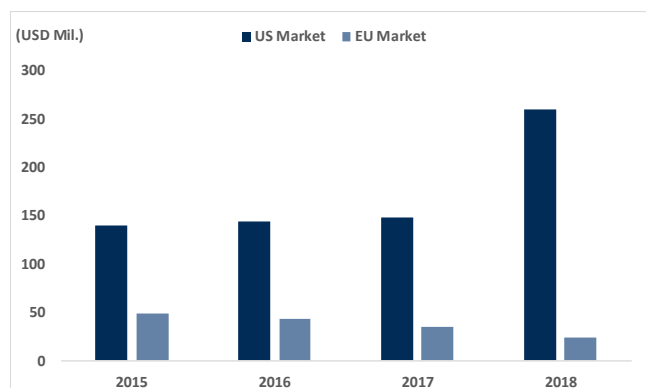
The US market is a crucial export market to Vinh Hoan, accounting for a major proportion (68%) of total revenue. In 2018, Vinh Hoan recorded outstanding growth on this market (+63% YoY) with total export turnover reaching USD242 million. In 2019, we are still optimistic that Vinh Hoan will maintain a good growth on the US market thanks to favorable business conditions: (1) Results from POR14 show that Vinh Hoan still enjoys export tax rate at 0%, while other companies in the same sector (except for Bien Dong) are subjected to high anti-dumping tax on pangasius; (2) The fish types that directly compete with pangasius suffer a great disadvantage, particularly in the supply of cod is expected to drop sharply and the price of tilapia imported by the US from China will be subject to a new tax of 25%.

Table 1. POR14 results

Exporters	Port 14
Vinh Hoan Corp	\$0.00
Bien Dong Seafood	\$0.19
Hung Vuong Corp	\$3.87
Vinh Quang Fisheries Corp	\$1.37
Cuu Long Fish Corp	\$1.37

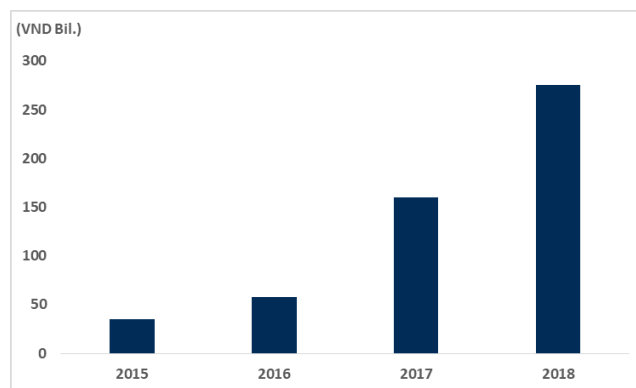
Source: VASEP, KBSV

Figure 1. Sales to the US & EU markets



Source: VHC, KBSV

Figure 2. The revenue of Collagen & Gelatin



Source: VHC, KBSV

The new booster to develop in the EU market comes from EVFTA

When the EVFTA agreement is signed (expected at the end of this year), the import tax on pangasius to the European Union will be reduced from 5.5% to 0% within three years (for raw pangasius), from 7% to 0% within seven years (for processed pangasius). This will be a powerful booster for value-added products (processed pangasius) of Vinh Hoan - currently accounting for more than 50% of sales on the EU market. To grab that opportunity, Vinh Hoan this year has planned the Thanh Binh factory separately to specialize in producing VAT products and to cooperate with British partners to develop fried flour products.

Collagen & Gelatin Potential developing direction for Collagen & Gelatin products

Vinh Hoan began manufacturing and launching Collagen & Gelatin products since mid-2015, to optimize fish skin, which is a by-product of fillet processing. This project shows the bold direction of management in bolstering high technology to produce high quality products with good profit margins (22-24%). Only in a short period, the revenue from this product group has made strong breakthroughs, reaching nearly VND 300 billion in 2018 (+181% YoY) and accounting for 3% of total revenue. With such bright results, we assess that Collagen & Gelatin products will become an important growth driver for Vinh Hoan in the future.

Self-control in fingerling source

In early 2019, the company launched the phase 1 of a high-tech pangasius breeding project on an area of 48 hectares in An Giang and then expanded to a total area of over 200 hectares in phase 2. The project of breeding fingerlings plays a key role in enhancing the competitiveness and production efficiency of Vinh Hoan. Self-control of fish breeds helps Vinh Hoan solve many technical challenges on the market, especially the issue of controlling the quantity of antibiotics and banned drugs on products. Furthermore, Vinh Hoan can also limit the risk of fluctuations in fingerling prices on the market. In the past two

years, there have been serious supply constraints of fingerlings, which has increased the production costs of pangasius enterprises, including Vinh Hoan.

Enhance the production capacity

The focus of Vinh Hoan's 3-year growth strategy from 2018 to 2020 is to increase investment in production expansion. In 2018, the company built a 220 ha farming area in Long An and expanded Thanh Binh's factory to increase its capacity to 200 tons of raw materials per day. VHC also acquired two existing farming areas with an area of nearly 70 hectares and an existing factory in Dong Thap province. In 2019, the company continued to raise the total investment capital by VND 800 billion. In particular, VND120 billion was invested in upgrading existing farming areas and expanding new breeding areas; and VND115 billion was invested in automatic packaging system and building more Gelatin production lines. Therefore, we expect that the production capacity of Vinh Hoan will increase by 18-20% this year.

Table 2. Forecast investment activities in 2019

Investment	Investment cost (VND bil.)	Capacity growth
Raise the capacity in Vinh Phuoc Factory	477	Increase by 150 tons/day & increase the total estimated capacity to 750 tons of raw materials/day
Upgrade existing farming areas & expand new ones	120	N/A
Upgrade Collagen & Gelatin production lines	115	Expect to raise 75% YoY capacity
Raise the capacity in Vinh Hoan & Thanh Binh Factories	88	Expect to raise 50% YoY capacity
Total	800	

Source: VHC, KBSV

RISKS

- Increasing global trade barriers and the risk of re-evaluating the annual US seafood import policy.
- Adverse weather conditions affect fingerlings.
- Stronger competition from rivals in China, India and Indonesia.

Investment portfolio recommendations

Buy: +15% or more

Take profit: +15% and -15%

Sell: -15% or less

DISCLAIMER

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