

December 22, 2020

Fisheries Analyst
Nguyen Thanh Danh
danhnt@kbsec.com.vn

Vinh Hoan Corp (VHC)

China's tighter import rules hit November exports

November *pangasius* sales flat but weak feed trading leads to modest drop in overall revenue

— November revenue down 6% YoY to VND660 billion as feed trading continues to drag on overall sales performance. Sales of *pangasius* – VHC's main revenue generator – were flat at VND475 billion (–1% YoY) as steady EU and US recovery offset the sharp drop in China shipments following tighter guidelines for frozen food imports. Feed sales fell by 64% YoY to VND15 billion and despite farm-gate prices for mature *pangasius* now at VND22,000 per kg from 3Q's VND18,000 per kg, farmers remain reluctant to start new fish stocks given uncertainty in export markets. Sales from wellness products (collagen & gelatin) dipped by 10% YoY to VND42 billion in November but continue to perform well since VHC introduced the world's first ASC-certified Collagen Supplement in Sweden in October 2019.

China disruption hits hard but hopeful signs of recovery in the EU

— On a sequential basis, the sudden drop in China exports pulled down November sales by 10% MoM after tighter guidelines on frozen food imports were announced on November 10. Despite September and October's demand recovery, China's additional disinfection protocols for cold-chain products – that are likely to stay in place until 2Q 2021E – extended customs clearing to 20–30 days and led to a 28% MoM and 20% YoY drop in China exports to VND150 billion. Sales to the most important US market were up 3% MoM to VND250 billion amid further recovery in ASPs that are still down 8% YoY due to the pandemic. The one – albeit short-lived – bright spot was the EU market with exports up 27% MoM and 85% YoY to VND89 billion and having recovered since September after the second wave, leaves open the possibility of similar recovery once the current third wave ends.

Already met pessimistic sales guidance; Maintain BUY at VND56,100 target price

— We reiterate our BUY rating on Vinh Hoan Corporation (VHC, BUY, TP VND56,100) as our sector top pick and the most leveraged to our expected 2021E turnaround in *pangasius* exports. While a third wave has pushed back recovery in most overseas markets, we continue to expect Vietnam's overall *pangasius* exports to turnaround by 1H 2021E. VHC's total revenue reached VND6,500 billion for the first eleven months of the year or down 8% YoY and already met the management's pessimistic guidance as well as being on track to meet the 2020E consensus (but unlikely to meet the company's optimistic sales scenario). That said, the negative impacts from Vietnam being officially labelled as a currency manipulator may weigh on share price performance as VHC's exports rely heavily on the US market at about 35% of its revenue.

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity analyst – Tran Thi Phuong Anh

anhttp@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Nguyen Ngoc Hieu

hieunn@kbsec.com.vn

Equity (Ho Chi Minh)

Head of International Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Oil & Gas & Fisheries Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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