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Vin Hoan Corp (VHC)

1Q China export volumes hit hard by COVID-19

Preliminary 1Q earnings halve to VND152 billion on weak China exports

— Preliminary 1Q earnings fell by 51% YoY to VND153 billion on VND1,636 billion in revenue (down 9% YoY) due largely to lower export volumes to China amid the COVID-19 pandemic. With most *pangasius* demand in China coming from onsite sales in restaurants, China's lockdown hit hard on export volumes. Export volumes were still up compared to last year – when the lack of fish led to unusually low volumes in 1Q19 – but fell below expectations with lower China exports. One silver lining from weaker demand was the accelerated normalization in *pangasius* ASPs from 2018's lofty levels, which have now reached more sustainable levels. Lower ASPs and sufficient fish stocks also helped boost some volumes to offset weaker sales into China but this may prove short lived in 2Q as the impact from the coronavirus spreads to other export markets. The gross profit margin fell to 13% from 24% a year ago for VND215 billion in gross profit due to the sharp drop in ASPs. Management indicated this level of margin should be maintained for the rest of the year as the full extent of falling ASPs has been seen, while fish input costs have remained flat at VND18,500/kg since mid-2019 or near farming costs.

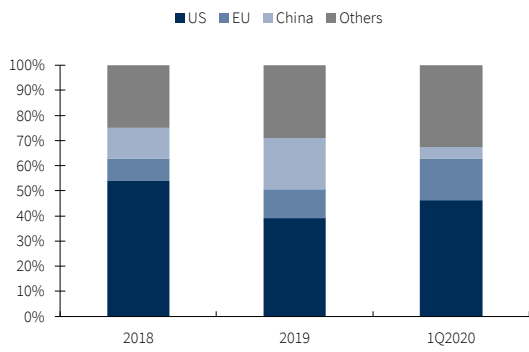
China exports drop by 68% but concerns now shift to the US/EU markets

- The biggest hit to volumes came from China, where the COVID-19 pandemic started. Although VHC has tried to diversify its overseas markets, China still represented about 20% of revenue in 2019 and the company's reliance on this market forced 1Q results to take the brunt of the impact. Given the early signs that the pandemic may be coming under control in China, management is cautiously optimistic that China may stage a full recovery by mid-2020.
- But concerns now turn to the US and EU markets as the epicenter of the pandemic shifted to these markets since April. Management warned that the impact will likely be reflected in 2Q results – especially the US – given the proportion of exports for these two markets were 40% and 12%, respectively, in 2019 and 46% and 17%, respectively, in 1Q.

Earnings guided down and optimistic scenario expects 10% drop from 2019

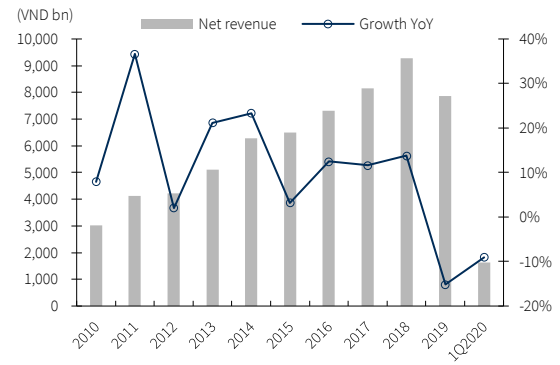
- Management's optimistic scenario looks for 2020 earnings of VND1,063 billion or a 10% drop from 2019 assuming worldwide *pangasius* exports recover by 3Q. In terms of a worst-case scenario, management estimates a prolonged slowdown in global demand and volatility in currency rates could see earnings fall to as low as VND800 billion or down 33% on revenue of VND6,450 billion (down 18% YoY).

Fig 1. VHC – Revenue breakdown by market, 2018–1Q 20 (%)



Source: Company reports

Fig 2. VHC – Net revenue & sales growth, 2010–1Q20 (VNDbn, %)



Source: Company reports

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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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