

Vinh Hoan Corp (VHC)

Challenges ahead

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4Q22 business results plummeted due to lower product prices and production output

Vinh Hoan Corporation recorded a sharp drop in 4Q22 business results due to low purchasing power, especially in the main markets like the US, and plunging product prices in export markets, shown in earnings of VND190 billion (-58% YoY) and revenue of VND2,484 billion (-8% YoY).

2023 may be a challenging year to pangasius industry

According to VASEP, January 2023 pangasius export turnover reached USD107 million USD (-50 YoY). We maintain the view that the pangasius industry may face many challenges in the coming time as the world economic slowdown would make customers not willingly place new orders even though inventories in the export markets have been partly sold.

More positive but not clear recovery signs from the China market

Although Chinese traders have asked for prices more actively, compared to the pre-Tet period, but the number of orders has not changed significantly as demand in China has not recovered strongly, and inventories are still abundant.

Raw fish prices are expected to recover slightly given better demand from China

The prices of pangasius for export plunged to the level of early 2021 while the prices of raw pangasius climbed to VND28,500-29,500/kg, the prices of fingerlings rebounded to VND43,000/kg due to tight supply after falling to early 2022 levels.

HOLD recommendation with target price of VND68,100/share

We forecast VHC's 2023 profit would reach VND1,462 billion (-27% YoY) on revenue of VND11,326 billion (-14.4% YoY) and recommend HOLD for VHC shares with the target price of VND68,100 /share.

Hold maintain

Target price VND68,100

Upside	6.7%
Current price (Feb 15, 2023)	VND63,800
Market cap (VNDbn)	11,700

Trading data

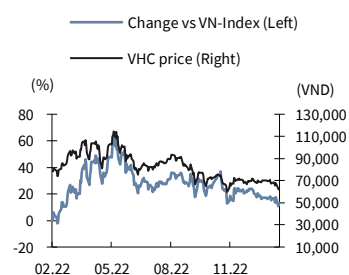
Free float	49.8%
3M avg trading value (VNDbn/USDmn)	36.4/1.5
Foreign ownership	30.1%
Major shareholder	Truong Thi Le Khanh 43.16%

Share price performance

(%)	1M	3M	6M	12M
Absolute	-8	-15	-27	-14
Relative	-6	-25	-9	17

Forecast earnings & valuation

FY-end	2020A	2021A	2022A	2023F
Net sales (VNDbn)	7,037.2	9,054.2	13,239	11,323.5
Operating income (VNDbn)	821.2	1,287.4	2,317	1,682.8
NPAT of the parent company (VNDbn)	719	1,099	1,977	1,449
EPS (VND)	3,923	5,993	10,815	7,901
EPS growth (%)	-39.0	52.8	79.1%	-29.4
P/E (x)	18.2	11.9	1.8	8.1
P/B (x)	2.5	2.2	0.5	1.3
ROE (%)	13.9	18.7	29.7%	15.8
Dividend yield (%)	5	4.3	2.5	2.9



Business operation

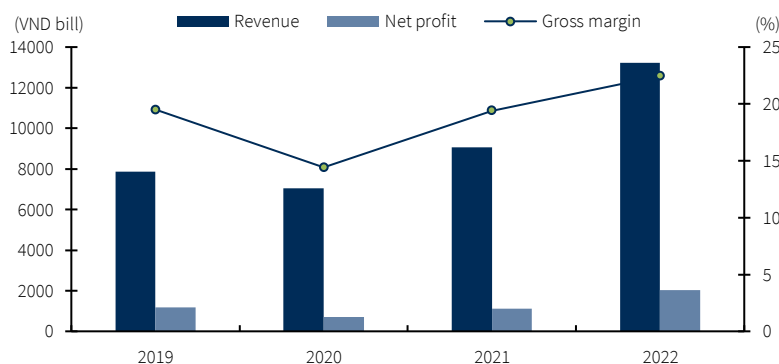
4Q22 business results plummeted due to lower product prices and production output

VHC's 4Q22 profit minus minority interest reached VND190 billion (-58% YoY) on revenue of VND2,484 billion (-8% YoY) due to low purchasing power, especially in the main market – the US, and falling product prices in export markets. Revenue from frozen fillets was VND1,378 billion (-21% YoY), by-products VND505 billion (-3% YoY), and collagen & gelatin VND247 billion (+51% YoY). The US continues to be VHC's key market with revenue of VND890 billion (-26% YoY), Europe VND442 billion (+20% YoY), and China & Hong Kong VND161 billion (-61% YoY). VHC's gross profit margin (GPM) reached 19.1% in 4Q22, which is a steep fall from 23.4% in 4Q21 mainly due to the high provision for inventories and a sharp drop in product prices while the raw material prices fell to a lesser extent because of high costs.

Impressive growth at the beginning of the year keeps business results for the whole year 2022 positive

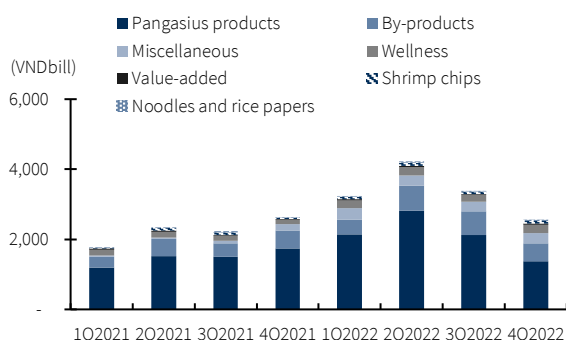
Accordingly, 2022 earnings hit VND1,977 billion (+80% YoY) on revenue of VND13,239 billion (+46% YoY) mainly supported by sudden profit at the beginning of the year which is thanks to increased export volume and improved gross profit. Of that, revenue from frozen fillet reached VND8,451 billion (+42% YoY), by-products VND2,319 billion (+37% YoY), and collagen & gelatin VND886 billion (+38% YoY).

Fig 1. VHC – Business results in 2019–2022



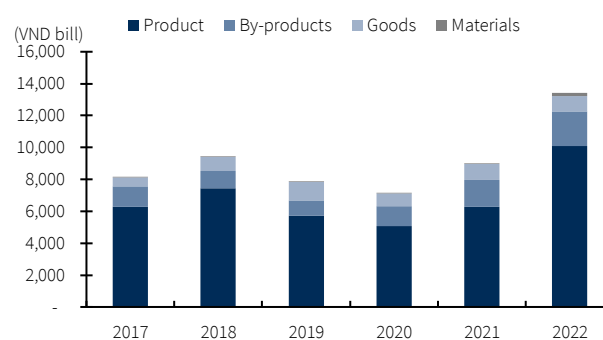
Source: Vinh Hoan Corporation, KB Securities Vietnam

Fig 2. VHC – Revenue structure



Source: Vinh Hoan Corporation, KB Securities Vietnam

Fig 3. VHC – Revenue structure

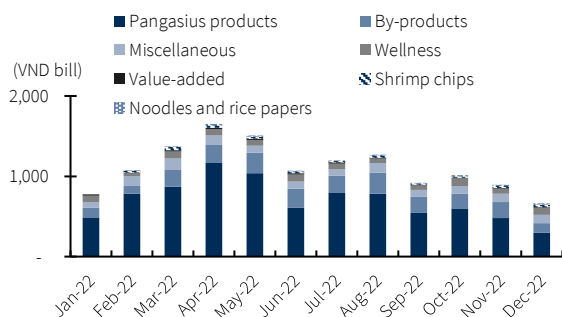


Source: Vinh Hoan Corporation, KB Securities Vietnam

December business results are the lowest since Q3/2021

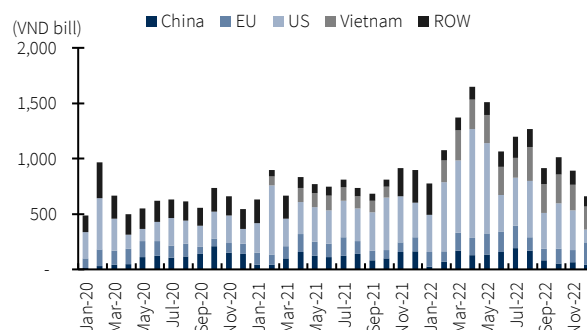
VHC recorded revenue of VND661 billion in December (down 44% YoY and 26% MoM), which is much lower than the peak in February–August period. Pangasius sales only reached VND297 billion (–44% YoY), and by-products decreased by 45% YoY. Revenue from the two main export markets, the US and China, saw declines of 63% and 73% YoY, respectively.

Fig 4. VHC – Revenue structure by product



Source: Vinh Hoan Corporation, KB Securities Vietnam

Fig 3. VHC – Revenue structure by region



Source: Vinh Hoan Corporation, KB Securities Vietnam

Pangasius export turnover in January 2023 continued to decrease deeply

According to VASEP, pangasius export turnover reached USD107 million (–50 YoY) in January 2023. This is the third month VHC recorded a decrease YoY, which was supposed to result from falling demand in many key markets and operation disruption during Tet holiday.

The pangasius industry may experience many challenges in 2023

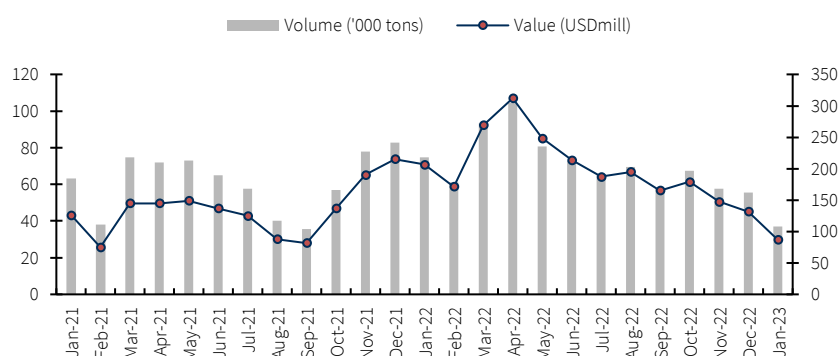
We maintain our view that the pangasius industry has reached its peak, at least in the short term, and it may face many challenges in the coming time due to the tightened policies of many central banks and fear of an economic slowdown in many major countries such as the US and EU – Vietnam’s major export markets. Consumption demand in these markets also decreased, and customers hesitate about placing new orders.

There are positive recovery signs from the China market although they are not very clear

On the positive side, we see some more positive signs from the Chinese market when many traders reported many Chinese traders asked for prices more frequently compared to the period before Tet, and customs clearance at ports and border gates became easier. As a result, enterprises with a large market share in this market will be able to have brighter business prospects. However, the number of orders has not increase much as the demand in China has not increased strongly, and there is no lack of inventories, so it takes more time to evaluate this factor more clearly. In addition, freight rates continue to decrease, helping businesses reduce the burden of logistics costs and offset profit margins when they have to reduce selling prices. Currently, freight rates for many routes have dropped sharply and returned to near pre-pandemic levels, which bodes well for exporters.

Pangasius export peaked in 1H22 and started turning down

Fig 6. Vietnam – Pangasius export volume and value (thousand tons, USDmn)



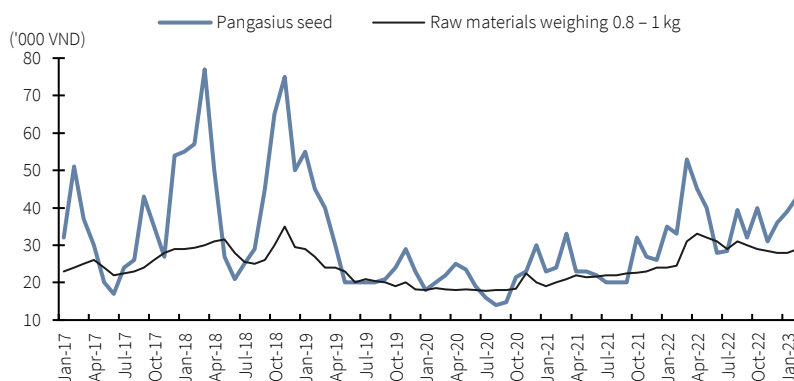
Source: General Statistics Office, General Department of Vietnam Customs, VASEP

Export prices fell to a low level, and raw fish prices recovered slightly given higher demand from China

The prices of pangasius for export have fell to the level of early 2021, corresponding to a decrease of 20-40% compared to the peak in 2Q22. Meanwhile, the prices of raw pangasius, after falling and leveling off around VND27,000-28,000/kg (up about 30% compared to the average in 2021), reached VND28,500-29,500/kg, especially for large-sized pangasius to be exported to China. Raw pangasius prices are forecasted to remain at a high level due to high production costs. The prices of fingerlings, after falling to the level of early 2022, have rebounded to VND43,000 /kg due to the scarcity of supply and the low percentage of juvenile fish.

The prices of raw pangasius and fingerlings cooled down but are still higher than the previous period

Fig 7. Mekong Delta – Raw pangasius and fingerling prices (thousand VND)

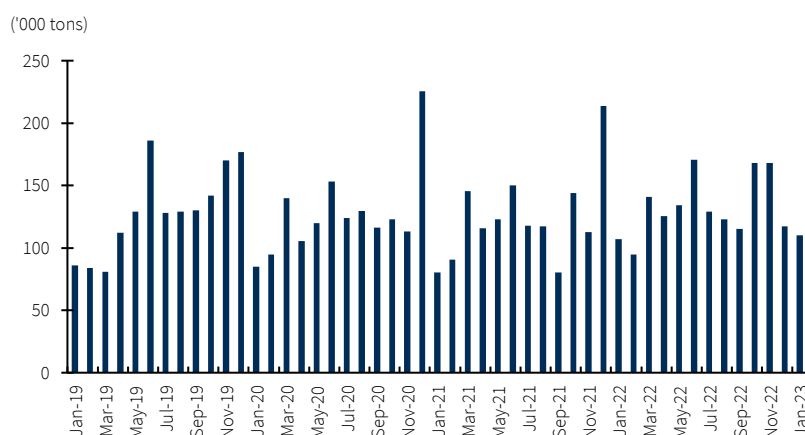


Source: General Statistics Office, General Department of Vietnam Customs, VASEP

Inventories tend to increase as demand eases and orders are limited from the end of 2022

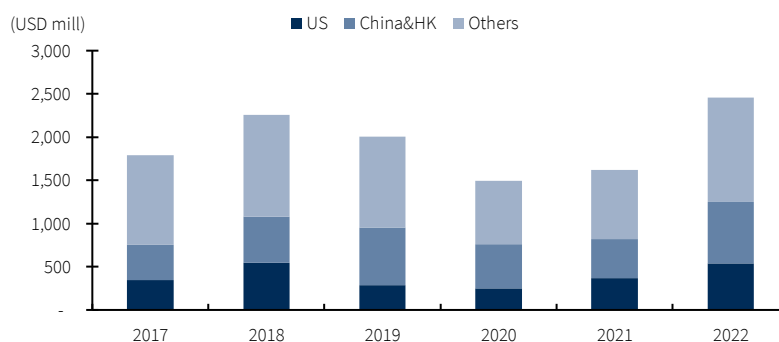
Inventories are increasing after reaching the lowest level in mid-2022 as exports decrease while farming output remains stable. The General Statistics Office estimated the output of pangasius in January 2023 at 110 thousand tons, up 3% YoY. We believe that inventories will continue to accumulate as demand remains low amid global economic slowdown and recession risks.

Fig 8. Mekong Delta – Pangasius output (thousand tons)



Source: General Statistics Office

Fig 9. Vietnam – Pangasius export turnover by region (USDmn)



Source: General Statistics Office

Forecast

2023 will be a challenging year for Vinh Hoan with a high base in 2022

For 2023, we maintain our forecast that consumption demand in VHC's main export market, the US, will decrease due to concerns about economic slowdown after the Fed's hawkish interest rate hikes. In the positive case that the US may have a "soft landing", it will not be until the end of the year that the economy can recover. Although there is a brighter spot from the Chinese market, we think it is not enough to offset the decline in other markets as China only accounts for 10–15% of VHC's export market share, and the demand recovery here is also low. Profit margin should decrease as the product prices fall faster than the prices of raw materials which would hardly see a steep fall because of high farming costs. With the expected cost higher than the previous estimate due to VHC's larger loans and lower USD/VND exchange rate, we lower our forecast for the corporation's performance in 2023 with profit of VND1,462 billion (–27% YoY) and revenue of VND11,326 billion (–14.4% YoY), which are above the high base of 2022 and equivalent to a decrease in industry forecast and average profit margin at 19.4%.

Table 1. VHC – 2023F business results

	2020	2021	2022	2023F
Net revenue	7,037.2	9,054.2	13,548.2	11,326.5
COGS	6,022.4	7,298.4	10,403.5	9,129.1
Gross profit	1,014.8	1,755.8	3,144.7	2,197.5
Administrative expenses	148.1	213.1	284.3	256.0
Selling expenses	171.2	343.5	375.1	335.3
Profit before taxes	803.3	1,279.6	2,553.4	1,688.1
NPAT of the parent	719.3	1,099.0	2,195.8	1,448.8

Source: KB Securities Vietnam

Valuation

VHC is trading at an appropriate level, the target price is VND68,100/share

Based on valuation, we think VHC is trading at a level which is in line with the current outlook. The supporting factor that may change the valuation is a more positive outlook from the main market. Combining the two valuation methods DCF and P/E at the ratio 40/60, we recommend a HOLD for VHC shares, and the target price is VND68,100, 6.7% higher than the closing price on February 15, 2023. Currently, VHC is trading with FY2022 P/E of 8.1x.

Table 2. VHC – Share price according to valuation

Valuation method	Forecast price	Weight	Forecast price according to weight
FCFF	74,700	40%	29,800
P/E	64,000	60%	38,300
Target price			68,100
Upside			+6.7%

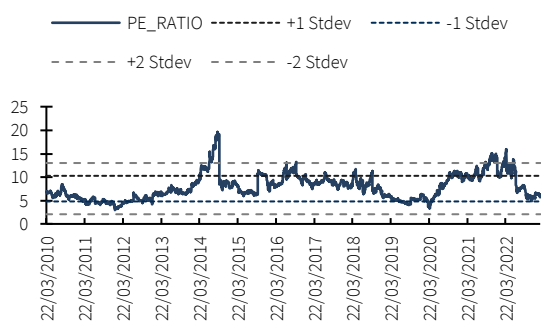
Source: KB Securities Vietnam

Table 3. VHC – Valuation model

Assumption	Value
WACC	12.4%
Risk-free rate	5%
Risk premium	8.1%
Beta	1.1%
Long term growth	2%
Projection time	5 years

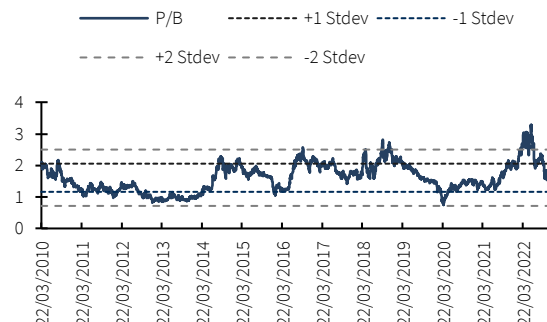
Source: KB Securities Vietnam

Fig 10. VHC – P/E BMP



Source: Bloomberg

Fig 11. VHC – P/B BMP



Source: Bloomberg

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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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