

Vinh Hoan Corporation (VHC)

Recovery continues into August

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Negative sales growth slowed to 5% YoY in August from July's 9% YoY fall due to stable pangasius sales but feed trading remains weak; maintain BUY recommendation & VND47,100 target price

Negative sales growth slowed to 5% YoY in August from July's 9% YoY drop as pangasius sales registered another month of stability despite continuing weakness in feed trading. Total August sales were VND617 billion with pangasius sales down 9% YoY to VND410 billion but only down 6% MoM after showing the first signs of stabilization in July. Feed sales remain weak at VND22 billion or down 64% YoY due to record low farm-gate prices for mature pangasius that still discourages farmers from starting new crops. One bright spot were revenues from wellness products (ie, collagen & gelatin) that maintained impressive 84% YoY growth to VND54 billion but were still insufficient to turnaround overall revenue to positive growth.

One-by-one major overseas markets recovering from the pandemic

VHC's August revenues were largely flat on a sequential basis and only down 2% MoM, indicating continuing recovery in most overseas markets. China sales were up 11% MoM to VND114 billion with the end of disruptions in the food services sector; EU export sales were up 4% MoM and 40% YoY to VND117 billion to maintain positive growth since the start of the year; while US export sales remained flat compared to last year at only VND208 billion albeit down 17% MoM.

On track to meet the company's optimistic scenario for 2020E revenue guidance into stronger 4Q seasonality

Total revenue of VND4,551 billion for the first eight months of the year are still down 12% YoY but at 53% of company's optimistic sales scenario for 2020E should be well on track to meet full-year guidance into stronger 4Q seasonality. Moreover, August's start of the EVFTA reduced import tariffs on pangasius to 4.1% from 5.5% and should further support continuous recovery in the EU market.

Buy maintain

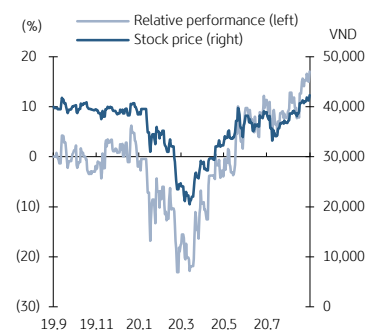
Target Price	VND47,100
Total return (%)	19.0%
Current price (Sep 17)	VND41,250
Consensus target price	VND43,900
Mkt capitalization (USDbn)	USD325mn

Trading data	
Free float (%)	50.1%
Avg trading value (3M)	USD0.91mn
Foreign available (%)	68.2%
Major shareholders (%)	Truong Thi Le Khanh (43.2%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	14.3	13.3	71.3	5.8
Relative	7.4	7.5	42.1	17.0

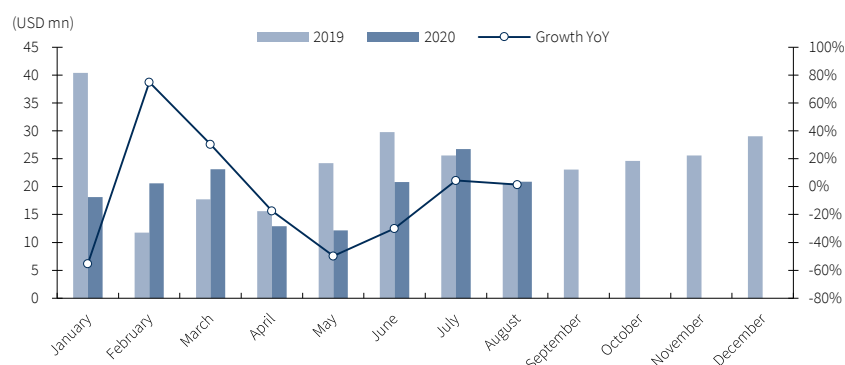
Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	7,867	8,036	9,472	10,419
EBIT	1,132	1,022	1,220	1,372
NP attributable to parent	1,179	965	1,133	1,262
EPS (VND)	6,430	5,262	6,176	6,880
EPS growth (%)	(18.2)	(18.2)	17.4	11.4
P/E (x)	6.4	7.8	6.7	6.0
EV/EBITDA (x)	6.4	7.0	5.8	5.2
P/B (x)	1.6	1.4	1.2	1.1
ROE (%)	26.5	18.6	19.6	19.8
Div yield (%)	2.5	4.8	7.3	8.5



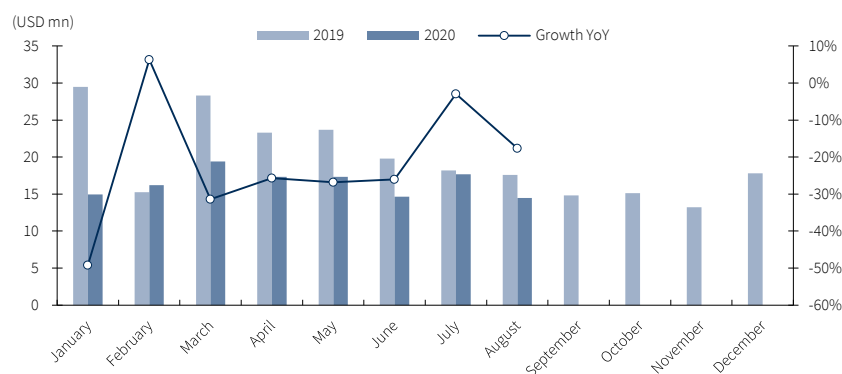
Source: Bloomberg, KB Securities Vietnam

Fig 1. Vietnam fisheries – Monthly pangasius export values to the US & growth, Jan 2019–Aug 2020 (million USD, % YoY)



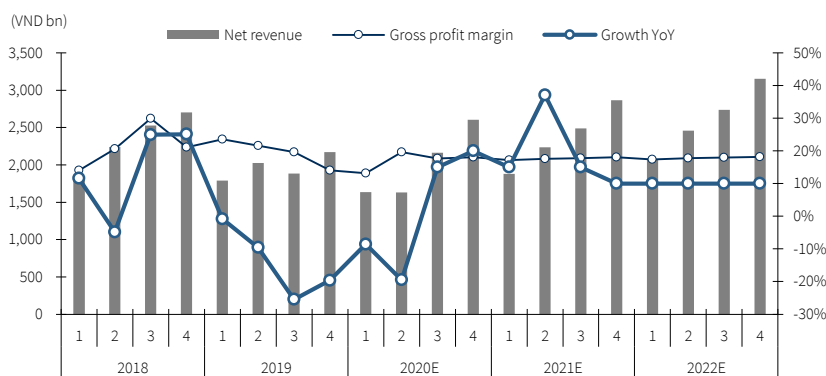
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 2. Vietnam – Monthly pangasius export values to the EU & growth, Jan 2019–Aug 2020 (million USD, % YoY)



Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 3. Vinh Hoan (VHC) – Quarterly revenue, growth & gross profit margin forecasts, 2018–2022E (billion VND, %)



Source: Company reports, KB Securities Vietnam

Vinh Hoan Corp (VHC) – Discounted cash flow model

DCF VALUATION

	Terminal value (VND in billions)					Terminal value (US\$ in millions)				
	8,200	9,840	11,480	13,120	14,760	352	423	493	564	634
	Present value of firm					Present value of firm				
WACC	5.0x	6.0x	7.0x	8.0x	9.0x	5.0x	6.0x	7.0x	8.0x	9.0x
8.6%	8,163	9,249	10,334	11,420	12,505	349	396	442	489	536
9.6%	7,920	8,957	9,994	11,031	12,067	339	383	428	472	517
10.6%	7,690	8,681	9,671	10,662	11,653	329	371	414	457	499
11.6%	7,472	8,419	9,366	10,313	11,261	319	360	401	442	482
12.6%	7,265	8,171	9,077	9,983	10,889	311	350	388	427	466
	Present value of equity per share					Present value of equity per share				
WACC	5.0x	6.0x	7.0x	8.0x	9.0x	5.0x	6.0x	7.0x	8.0x	9.0x
8.6%	38,900	44,800	50,700	56,700	62,600	1.70	1.90	2.20	2.40	2.70
9.6%	37,600	43,200	48,900	54,500	60,200	1.60	1.80	2.10	2.30	2.60
10.6%	36,300	41,700	47,100	52,500	57,900	1.60	1.80	2.00	2.20	2.50
11.6%	35,100	40,300	45,500	50,600	55,800	1.50	1.70	1.90	2.20	2.40
12.6%	34,000	38,900	43,900	48,800	53,800	1.50	1.70	1.90	2.10	2.30

Projected Unlevered Free Cash Flows (VNDbn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	416	432	686	761	1,685	1,132	1,022	1,220	1,372	1,541	1,676	1,771
Taxes on EBIT @ 15.0%	62	65	103	114	253	170	153	183	206	231	251	266
Earnings before interest	354	368	583	647	1,433	963	869	1,037	1,166	1,309	1,425	1,505
Depreciation & provisions	117	139	144	198	144	162	187	231	235	239	240	244
(Profit)/loss from investing	-210	-51	-33	-30	-42	-221	-81	-81	-81	-81	-81	-81
Other adj for oper activities	222	71	-29	-169	-291	45	-214	-20	-23	-25	-27	-28
Cash flow from operations	483	527	665	646	1,243	949	761	1,166	1,298	1,442	1,558	1,640
Change in working capital	-528	-335	308	-160	-573	323	-671	-93	-299	-329	-271	-194
Capital expenditures	-484	-287	-334	-489	-22	-349	-546	-271	-276	-281	-287	-293
Decrease in investments	6	-18	2	16	-388	388	0	0	0	0	0	0
Unlevered free cash flow	-524	-112	641	13	260	1,312	-456	802	723	832	1,000	1,153
Forecasted exchange rate	21,388	22,445	22,761	22,698	23,175	23,173	23,266	23,359	23,453	23,547	23,641	23,736
Unlevered FCF (US\$m)	-24	-5	28	1	11	57	-20	34	31	35	42	49

Firm Value Calculations

WACC	10.6%	PV of future cash flows (VNDbn)	2,736	2020E Total debt (VNDbn)	1,233
DCF period	5 Yrs	PV of terminal value (VNDbn)	6,936	2020E Cash (VNDbn)	204
Terminal EBITDA (VNDbn)	1,640	PV of Firm (VNDbn)	9,671	Terminal value as % of firm value	71.7%
Terminal multiple (x)	7.0x	Current exchange rate (VND)	23,270	Current shares outstanding (mn)	183.4

Cost Of Capital Calculations

WACC	10.6%	Re-levered beta	0.982	Risk free rate	3.0%
Cost of equity	11.8%	Debt beta	0.448	Market risk premium	8.9%
Cost of debt	7.0%	Unlevered beta	0.810	Target gearing	25.0%
		Statutory corporate tax rate	15.0%	Debt premium	4.0%

Memorandum

(VNDbn, US\$mn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Discount Factor	0.00	0.00	0.00	0.00	0.00	0.00	1.04	1.15	1.27	1.40	1.55	1.72
Present value in VND	0	0	0	0	0	0	-439	699	569	593	643	671
Present value in US\$	0	0	0	0	0	0	-19	30	24	25	27	28

Source: Company reports, KB Securities Vietnam

Vinh Hoan Corp (VHC) – Summarized financials & forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	7,867	8,036	9,472	10,419	Total assets	6,612	7,656	8,468	9,101
Cost of sales	6,334	6,647	7,795	8,557	Current assets	4,611	5,302	6,079	6,663
Gross Profit	1,533	1,389	1,677	1,862	Cash & equivalents	86	204	435	461
Financial income	251	175	161	161	ST investments	1,492	1,315	1,650	1,808
Financial expenses	90	106	94	100	Accounts receivable	1,516	1,942	1,981	2,179
of which: interest expenses	60	54	62	64	Inventory	1,414	1,699	1,869	2,056
Gain/(loss) from joint ventures	14	0	0	0	Other current assets	103	142	145	159
Selling expenses	252	211	302	332	Long-term assets	2,001	2,354	2,388	2,438
General & admin expenses	149	156	156	157	LT trade receivables	6	3	3	3
Operating profit/(loss)	1,308	1,090	1,287	1,434	Fixed assets	1,447	1,928	1,972	2,028
Other income	12	5	0	0	Investment properties	0	0	0	0
Other expense	11	12	0	0	LT incomplete assets	392	257	254	240
Net other income/(expenses)	1	(7)	0	0	LT investments	1	1	1	1
Pretax profit/(loss)	1,309	1,084	1,287	1,434	Goodwill	40	34	28	23
Income tax	130	119	154	172	Other LT assets	114	130	129	142
Net profit/(loss)	1,179	965	1,133	1,262	Liabilities	1,735	2,175	2,397	2,402
Minority interests	0	0	0	0	Current liabilities	1,716	2,145	2,364	2,365
Net profit after MI	1,179	965	1,133	1,262	Trade accounts payable	440	462	521	573
					Advances from customers	20	28	25	27
					ST borrowings	866	1,233	1,333	1,233
					Special reserves	33	20	20	20
					Other current liabilities	357	402	465	512
					Long-term liabilities	19	30	33	36
					LT payables	0	0	0	0
					LT borrowings	0	0	0	0
					Other LT liabilities	19	30	33	36
					Shareholders' equity	4,877	5,480	6,070	6,699
					Paid-in capital	1,834	1,834	1,834	1,834
					Share premium	224	224	224	224
					Treasury stock	(114)	(114)	(114)	(114)
					Undistributed earnings	2,932	3,535	4,125	4,754
					Reserve & others	0	0	0	0
					Minority interests	2	2	2	2
					Total liabilities & equity	6,612	7,656	8,468	9,101
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	(15.1)	2.1	17.9	10.0	Valuations				
EBIT growth	(32.8)	(9.8)	19.3	12.5	P/E	6.4	7.8	6.7	6.0
EBITDA growth	(29.5)	(5.8)	18.7	10.8	P/E diluted	6.3	7.7	6.6	5.9
NP after MI growth	(18.2)	(18.2)	17.4	11.4	P/B	1.6	1.4	1.2	1.1
Gross profit margin	19.5	17.3	17.7	17.9	P/S	1.0	0.9	0.8	0.7
EBITDA margin	16.5	15.2	15.3	15.4	EV/EBITDA	5.8	6.2	5.2	4.7
EBIT margin	14.4	12.7	12.9	13.2	EV/EBIT	6.7	7.4	6.2	5.5
Pre-tax profit margin	16.6	13.5	13.6	13.8	Dividend yield, ordinary (%)	2.5	4.8	7.3	8.5
Net profit margin	15.0	12.0	12.0	12.1	EPS	6,430	5,262	6,176	6,880
					BVPS	26,597	29,886	33,103	36,531
					SPS	42,901	43,823	51,651	56,817
					DPS (annual, ordinary)	1,023	2,000	3,000	3,500
					Dividend payout ratio (%)	15.7	37.5	47.9	50.2
					Operating performance				
					ROE	26.5	18.6	19.6	19.8
					ROA	18.3	13.5	14.0	14.4
					ROIC	23.1	18.0	19.6	20.2
					Financial structure				
					Total liab/equity	35.6	39.7	39.5	35.9
					Net debt/equity	16.0	18.8	14.8	11.5
					Current ratio (x)	2.7	2.5	2.6	2.8
					Interest coverage (x)	19.0	19.0	19.8	21.3
					Activity ratios				
					Asset turnover	1.2	1.1	1.2	1.2
					Receivables turnover	4.5	4.6	4.8	5.0
					Inventory turnover	5.6	5.2	5.3	5.3
					Payables turnover	15.6	16.9	18.3	18.2

Source: Company reports, KB Securities Vietnam

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+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

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

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