

Vinh Hoan Corporation (VHC)

Raising target price on new collagen expansion

November 19, 2020

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New expansion line for collagen & gelatin completed; maintain BUY and raise our 12-month target price to VND56,100 from VND47,100

VHC completes expansion of the collagen & gelatin line in October that boosts capacity by 75% to 3,500 tonnes. The impact should not be underestimated and we maintain BUY on VHC after raising our 12-month target price to VND56,100 from VND47,100 on this event. We now expect the lucrative wellness product line to add about VND210 billion in earnings or about 15% to our current forecasts. Importantly, timely expansion offsets our more cautious outlook for exports as we extend pandemic assumptions for slower overseas sales into 1H2021E.

New capacity should increase earnings by VND210 billion or 15% annually when fully ramped up We expect utilization at the new line to reach 55% in 2021E or an additional VND100 billion or 9% of earnings and VND248 billion or 3% of sales. Full utilization should be achieved by 2022E when we estimate VND210 billion or 15% in additional earnings over our forecast period and nearly double our previous estimates for new wellness product lines. This should more than offset the slower recovery in exports expected to continue into 1H2021E and we raise our 2021E earnings forecast by 4% to VND1,174 billion or VND6,401 per share (up 40% YoY).

Cutting 4Q earnings forecast by 11% to VND289 billion to reflect delayed recovery from the pandemic We cut our 4Q earnings forecast by 11% to VND289 billion to reflect slower-than-expected recovery from the pandemic in overseas markets. Recovery in China is promising but lingering pandemic conditions in the US and EU continue to pressure earnings although we continue expect recovery to gain momentum well into 2021E. As a result of these changes (and weaker-than-expected 3Q results), we reduce full-year 2020E earnings by 13% to VND840 billion or VND4,583 per share.

Buu maintain

Forecast earnings & valuation

Target Price	VND56,100
Total return (%)	30.5%
Current price (Nov 17)	VND45,300
Consensus target price	VND51,200
Mkt capitalization (USDbn)	USD357mn

Trading data	
Free float (%)	50,2%
Avg trading value (3M)	USD1.03mn
Foreign available (%)	66.9%
Major shareholders (%)	Truong Thi Le Khanh (43,2%)

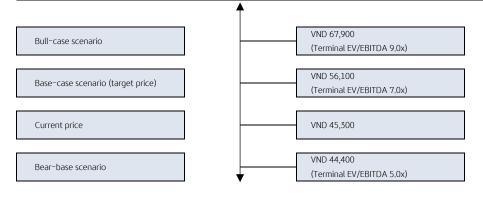
Strate price perio	Ulliance			
(%)	1M	3M	6M	12N
Absolute	4.6	23.3	40.5	14.7
Relative	1.9	8.2	19.9	18.7

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	7,867	7,373	9,218	10,882
EBIT	1,132	859	1,256	1,604
NP attributable to parent	1,179	840	1,174	1,472
EPS (VND)	6,430	4,583	6,401	8,026
EPS growth (%)	(18.2)	(28.7)	39.7	25.4
P/E (x)	7.0	9.9	7.1	5.6
EV/EBITDA (x)	7.0	8.3	6.2	4.9
P/B (x)	1.7	1.6	1.4	1.2
ROE (%)	26.5	16.5	20.9	23.2
D: : 11(0/)	2.7	4.4		

(%) Relative performance (left) Stock price (right)	VND 50,000
20	40,000
	30,000
(10)	20,000
(20)	10,000
19.11 20.1 20.3 20.5 20.7 20.9	Lo

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) New *Tan Hung* farm from 2021E
- 2) 4Q pangasius export turnaround
- 3) Steady recovery in ASPs

Bull-case scenario: upside risk

- 1) Tan Hung farm ahead of schedule
- 2) Export turnaround before 4Q
- 3) Strong recovery in ASPs

Bear-case scenario: downside risk

- 1) Tan Hung farm delays
- 2) Turnaround pushed back to 2021E
- 3) Weak ASPs

Revised earnings estimates

	Revise	ed .	Previo	us	Chang	je
(VNDbn, %)	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,373	9,218	8,036	9,472	(8.3)	(2.7)
EBIT	859	1,256	1,022	1,220	(16.0)	2.9
OP	963	1,334	1,090	1,287	(11.6)	3.6
NP after MI	840	1,174	965	1,133	(12.9)	3.6

Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

	KBSV estimates		Consen	sus	Difference		
(VNDbn, %)	2020E	2021E	2020E	2021E	2020E	2021E	
Revenue	7,373	9,218	7,191	8,589	2.5	7.3	
EBIT	859	1,256	923	1,230	(6.9)	2.1	
OP	963	1,334	920	1,243	4.7	7.3	
NP after MI	840	1,174	860	1,162	(2.3)	1.0	

Source: Bloomberg, KB Securities Vietnam

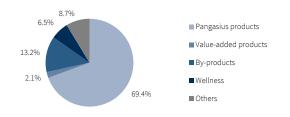
Valuation & target price

- 1) Valuation method: Discounted cash flow (DCF) model
- 2) Target price calculation Terminal EV/EBITDA 7x WACC 10.6%
- 3) Target price range:

VND44,400 - VND67,900

4) Valuation at target price 9.9x P/E 1.6x P/B

Revenue composition (2019)



Source: Company reports, KB Securities Vietnam

Peer group comparison

WF	Mkt 12m fw	J 3y EPS	12m fwd	12m fwd
Ca	Cap P/	CAGR	ROE	P/B
0.	0.4 7.	-6,2	19.8	1.4
0.	0.2 7.	-11.5	15.3	0.9
0.	0.1 8.	-15.8	13.0	1.2
0.	0.1 n	na	na	na

Source: Bloomberg, KB Securities Vietnam

Wellness products powering through the pandemic

Overseas demand for new wellness products beating original expectations despite pandemic We reiterate our BUY recommendation on VHC after upgrading our 12-month target price to VND55,600 fromVND47,100. VHC's new wellness products continue to outperform in overseas markets despite the pandemic. Moreover, the company was able to successfully complete the expansion of the collagen and gelatin line after two months of delays as management moved overseas technicians to online channels to have the line ready despite travel restrictions. Margins for the new wellness products are impressive and we estimate that earnings from the expansion alone at VND210 billion per year or about 15% of earnings throughout our forecast period.

Export recovery on track but being delayed by the second wave of the pandemic

While we continue to believe export recovery is on track for Vietnam's *pangasius* exports, a second wave has delayed the recovery in the US and EU. As a result, we cut our 2020E earnings by 13% to VND840 billion or VND4,583 per share to reflect weaker-than-expected 3Q results and an 11% cut to our 4Q earnings estimate to VND289 billion. That said, timely expansion of wellness products more than compensates for our weaker outlook for exports in 1H2021E and we raise our 2021E earnings by 4% to VND1,174 billion or VND6,401 per share (up 40% YoY).

Table 1. Vinh Hoan (VHC) - Earnings revisions, 2020E-2021E (VND billion, %)

(VNDbn, %)	Revised		Previous		Change		
	2020E	2021E	2020E	2021E	2020E	2021E	
Revenue	7,373	9,218	8,036	9,472	(8.3)	(2.7)	
EBIT	859	1,256	1,022	1,220	(15.9)	3.0	
OP	963	1,334	1,090	1,287	(11.7)	3.7	
NP after MI	840	1,174	965	1,133	(13.0)	3.6	

Source: Company reports, KB Securities Vietnam

Table 2. Vinh Hoan (VHC) - Earnings versus consensus estimates, 2020E-2021E (VND billion, %)

(VNDbn, %)	KBSV estimates	i	Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,373	9,218	7,191	8,589	2.5	7.3
EBIT	859	1,256	923	1,230	(6.9)	2.1
OP	963	1,334	920	1,243	4.7	7.3
NP after MI	840	1,174	860	1,162	(2.3)	1.0

Source: Company reports, KB Securities Vietnam

Table 3. Vinh Hoan (VHC) - 2020E Quarterly Revised & Previous Estimates (VND billion, %)

		Rev	vised		Previous				
(VND bn, %)	1Q20	2Q20	3Q20	4Q20E	1Q20	2Q20	3Q20	4Q20E	
Sales	1,636	1,658	1,800	2,280	1,636	1,630	2,165	2,605	
GP	215	331	229	412	215	320	384	471	
EBIT	136	259	160	305	136	247	289	350	
OP	172	258	208	324	172	247	307	364	
EBITDA	182	307	215	359	182	295	341	404	
NP after MI	152	224	175	289	152	215	273	324	
GPM	13.1	20.0	12.7	18.1	13.1	19.6	17.7	18.1	
EBIT margin	8.3	15.6	8.9	13.4	8.3	15.2	13.3	13.4	
OPM	10.5	15.6	11.6	14.2	10.5	15.1	14.2	14.0	
NPM	11.1	18.5	11.9	15.7	11.1	18.1	15.8	15.5	

Source: Company reports, KB Securities Vietnam

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



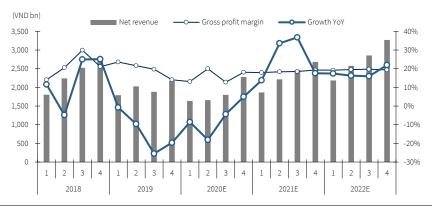
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 2. Vietnam – Monthly *pangasius* export values to the EU & growth, Jan 2019–June 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 v	value (VND in	billions)				Terminal	value (US\$ in	millions)	
	-	8,906	10,688	12,469	14,250	16,032	-	383	459	536	612	689
			Pres	ent value of f	irm				Pres	ent value of f	irm	
_	WACC	5.0x	6.0x	7.0x	8.0x	9.0x	-	5.0x	6.0x	7.0x	8.0x	9.0
-	8.6%	9,159	10,338	11,517	12,695	13,874	-	392	442	493	544	59
	9.6%	8,894	10,021	11,147	12,273	13,399		380	429	477	526	574
	10.6%	8,644	9,721	10,797	11,873	12,949		370	416	462	508	55
	11.6%	8,408	9,437	10,465	11,494	12,523		359	404	448	492	536
-	12.6%	8,183	9,167	10,151	11,135	12,119	-	350	392	434	477	519
	<u>-</u>		Present va	lue of equity	per share		<u>-</u>		Present va	lue of equity	per share	
-	WACC	5.0x	6.0x	7.0x	8.0x	9.0x		5.0x	6.0x	7.0x	8.0x	9.0
	8.6%	47,200	53,600	60,000	66,500	72,900		2.00	2.30	2.60	2.80	3.10
	9.6%	45,700	51,900	58,000	64,200	70,300		2.00	2.20	2.50	2.70	3.00
	10.6%	44,400	50,200	56,100	62,000	67,900		1.90	2.10	2.40	2.70	2.90
	11.6% 12.6%	43,100 41,900	48,700 47,200	54,300 52,600	59,900 58,000	65,500 63,300		1.80 1.80	2.10 2.00	2.30 2.30	2.60 2.50	2.8 2.7
-	12,070	41,700	47,200	32,000	30,000	05,500	-	1,00	2.00	2.50	2,30	2.7
Projected Unlevered Free Cash (VNDbn)	n Flows 2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	20251
EBIT	416	432	686	761	1,685	1,132	859	1,256	1,604	1,693	1,832	1,938
Taxes on EBIT @ 15.0%	62	65	103	114	253	170	129	188	241	254	275	29:
Earnings before interest	354	368	583	647	1,433	963	730	1,067	1,363	1,439	1,557	1,64
Degraciation & provisions	117	139	144	198	144	162	250	230	234	239	240	24
Depreciation & provisions (Profit)/loss from investing	-210	-51	-33	-30	-42	-221	-116	-79	-79	-79	-79	-7 ¹
Other adj for oper activities	222	71	-29	-169	-291	45	-197	-21	-26	-27	-29	-3.
Cash flow from operations	483	527	665	646	1,243	949	667	1,197	1,492	1,572	1,689	1,78
Change in working capital	-528	-335	308	-160	-573	323	-310	-262	-612	-208	-271	-194
Capital expenditures	-484	-287	-334	-489	-22	-349	-492	-264	-268	-272	-276	-28
Decrease in investments	6	-18	2	16	-388	388	0	0	0	0	0	20
Unlevered free cash flow	-524	-112	641	13	260	1,312	-135	672	612	1,092	1,142	1,300
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\$mn)	-24	-5	28	1	11	57	-6	29	26	46	48	55
Firm Value Calculations												
WACC	10.6%		PV of future	e cash flows ((VNDbn)	3,264		2020E Tota	ıl debt (VNDt	on)		864
DCF period	5 Yrs		PV of termi	nal value (VN	Dbn)	7,533		2020E Cash	(VNDbn)			35'
Terminal EBITDA (VNDbn)	1,781		PV of Firm	(VNDbn)		10,797		Terminal va	lue as % of f	irm value		69.89
Terminal multiple (x)	7.0x		Current exc	:hange rate (\	VND)	23,270		Current sha	res outstand	ling (mn)		183.
Cost Of Capital Calculations												
WACC	10.6%		Re-levered	beta		0.982		Risk free ra	te			3.09
Cost of equity	11.8%		Debt beta			0.448		Market risk	premium			8.9%
Cost of debt	7.0%		Unlevered b		rato	0.810		Target gear Debt premi	,			25.09
			Statutory C	orporate tax	ıate	15.0%		nent bremi	uifl			4.09
Memorandum												
(VNDbn, USDmn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	20251
Discount Factor	0.00	0.00	0.00	0.00	0.00	0.00	1.02	1.13	1.25	1.38	1.53	1.69
Present value in VND	0	0	0	0	0	0	-132	595	490	791	747	773
Present value in US\$	0 curities Vietn	0	0	0	0	0	-6	25	21	34	32	33

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

Income statement (VNDbn)	2019A	2020E	2021E	2022E	Balance sheet (VNDbn)	2019A	2020E	2021E	20228
Net sales	7,867	7,373	9,218	10,882	Total assets	6,612	7,046	8,097	9,050
Cost of sales	6,334	6,186	7,507	8,763	Current assets	4,611	4,767	5,782	6,678
Gross Profit	1,533	1,187	1,710	2,120	Cash & equivalents	86	357	191	400
Financial income	251	201	158	158	ST investments	1,492	1,099	1,855	1,723
Financial expenses	90	96	80	89	Accounts receivable	1,516	1,699	1,853	2,259
of which: interest expenses	60	44	49	52	Inventory	1,414	1,487	1,748	2,13
Gain/(loss) from joint ventures	14	(0)	0	0	Other current assets	103	124	135	165
Selling expenses	252	177	294	347	Long-term assets	2,001	2,279	2,315	2,37
General & admin expenses	149	152	161	169	LT trade receivables	6	2	3	,-
Operating profit/(loss)	1,308	963	1,334	1,672	Fixed assets	1,447	1,921	1,958	2,02
Other income	12	10	0	0	Investment properties	0	0	0	,-
Other expense	11	28	0	0	LT incomplete assets	392	207	204	16
Net other income/(expenses)	1	(19)	0	0	LT investments	1	1	1	
Pretax profit/(loss)	1,309	945	1,334	1,672	Goodwill	40	34	28	2
Income tax	130	104	160	201	Other LT assets	114	114	121	14'
Net profit/(loss)	1,179	840	1,174	1,472	Liabilities	1,735	1,749	2,169	2,28
Minority interests	0	0	0	0	Current liabilities	1,716	1,723	2,138	2,24
Net profit after MI	1,179	840	1,174	1,472	Trade accounts payable	440	404	487	59
nee prone drear in	1,177	0.10	1,177	1, . , L	Advances from customers	20	25	23	2
Operating ratios					ST borrowings	866	864	1,114	1,01
(%)	2019A	2020E	2021E	2022E	•	33	79	1,114 79	1,01
			25.0	18,1	Special reserves				
Revenue growth	(15.1)	(6.3)			Other current liabilities	357	352	435	53
EBIT growth	(32.8)	(24.2)	46.3	27.7	Long-term liabilities	19	26	31	3
EBITDA growth	(29.5)	(18.1)	39.8	23.7	LT payables	0	0	0	
NP after MI growth	(18.2)	(28.7)	39.7	25.4	LT borrowings	0	0	0	-
Gross profit margin	19.5	16.1	18.6	19.5	Other LT liabilities	19	26	31	3
EBITDA margin	16.5	14.4	16.1	16.9	Shareholders' equity	4,877	5,297	5,928	6,76
EBIT margin	14.4	11.6	13.6	14.7	Paid-in capital	1,834	1,834	1,834	1,83
Pre-tax profit margin	16.6	12.8	14.5	15.4	Share premium	224	224	224	. 22
Net profit margin	15.0	11.4	12.7	13.5	Treasury stock	(114)	(114)	(114)	(114
					Undistributed earnings	2,932	3,352	3,983	4,82
Cash flow					Reserve & others	0	0	0	(
(VNDbn)	2019A	2020E	2021E	2022E	Minority interests	2	2	2	
Net profit	1,179	840	1,174	1,472	Total liabilities & equity	6,612	7,046	8,097	9,05
Plus: depreciation & amort	162	250	230	234					
Plus: investing (profit)/loss	(221)	(116)	(79)	(79)	Key ratios				
Change in working capital	323	(310)	(262)	(612)	(x, %, VND)	2019A	2020E	2021E	2022
(Inc)/dec - receivables	481	(180)	(154)	(407)	Valuations				
(Inc)/dec - inventory	(28)	(73)	(262)	(383)	P/E	7.0	9.9	7.1	5.
(Inc)/dec - other curr assets	(1)	(21)	(11)	(30)	P/E diluted	6.9	9.8	7.0	5.
Inc/(dec) - payables	(98)	(36)	83	107	P/B	1.7	1.6	1.4	1.
Inc/(dec) - advances	9	5	(1)	5	P/S	1.1	1.1	0.9	0.
Inc/(dec) - other curr liab	(39)	(5)	83	95	EV/EBITDA	6.4	7.8	5.6	4.
Other adj for operations	71	(29)	(169)	(291)	EV/EBIT	7.3	9.7	6.6	5.
Operating cash flow	1,489	468	1,042	988	Dividend yield, ordinary (%)	2.3	4.4	6.6	7.
ST investments	(884)	393	(755)	131	EPS	6,430	4,583	6,401	8,02
Capital expenditures	(349)	(492)	(264)	(268)	BVPS	26,597	28,885	32,327	36,90
Investment properties	0	0	0	0	SPS	42,901	40,207	50,267	59,34
Investment in subsidiaries	388	0	0	0	DPS (annual, ordinary)	1,023	2,000	3,000	3,50
Other assets	(43)	6	(1)	(21)	Dividend payout ratio (%)	15.7	43.0	46.2	43
Other adj for investments	144	260	128	108	Operating performance	13.,	.5.0		.5.
Investing cash flow	(743)	167	(892)	(50)	ROE	26.5	16.5	20.9	23.
Free cash flow	1,140	(24)	778	720	ROA	18.3	12.3	15.5	17.
Issuance/(repayment) of debt	1,140	0	0	0	ROIC	23.1	15.6	20.6	23.
ST debt	(403)	(2)	250	(100)	Financial structure	2.7.1	13.0	20.0	دے
Other liabilities		(2) 7		(100)		ZE Z	ZZ 0	76.6	77
	(13)		5		Total liab/equity	35.6 16.0	33.0	36.6	33
Issuance/(retirement) of equity	910	(7.63)	(F 47)	(677)	Net debt/equity	16.0	9.6	15.6	9
Dividends paid	(185)	(362)	(543)	(633)	Current ratio (x)	2.7	2.8	2.7	3
Less: changes in equity	(1,042)	(59)	0	(0)	Interest coverage (x)	19.0	19.7	25.9	30
	31	53	(29)	(3)	Activity ratios				
Other adj for financing					•				
	(703)	(364)	(317)	(730)	Asset turnover	1.2	1.1	1.2	1
Financing cash flow					•	1,2 4,5	1.1 4.6	1.2 5.2	
Other adj for financing Financing cash flow Net increase in cash & equivalents Cash & equivalents – beginning	(703)	(364)	(317)	(730)	Asset turnover				1. 5. 5.

Source: Company reports, KB Securities Vietnam

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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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