

Vinh Hoan Corporation (VHC)

Raising target price on new collagen expansion

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

November 19, 2020

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

New capacity should increase earnings by VND210 billion or 15% annually when fully ramped up

Cutting 4Q earnings forecast by 11% to VND289 billion to reflect delayed recovery from the pandemic

Buy maintain

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

Forecast earnings & valuation

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
Div yield (%)	2.5	4.4	6.6	7.7

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.

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).

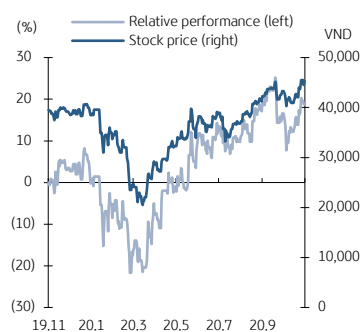
We cut our 4Q earnings forecast by 11% to VND289 billion to reflect slower-than-expected recovery from the pandemic in overseas markets. Recovery in China is promising but lingering pandemic conditions in the US and EU continue to pressure earnings although we continue expect recovery to gain momentum 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.

Trading data

Free float (%)	50.2%
Avg trading value (3M)	USD1.03mn
Foreign available (%)	66.9%
Major shareholders (%)	Truong Thi Le Khanh (43.2%)

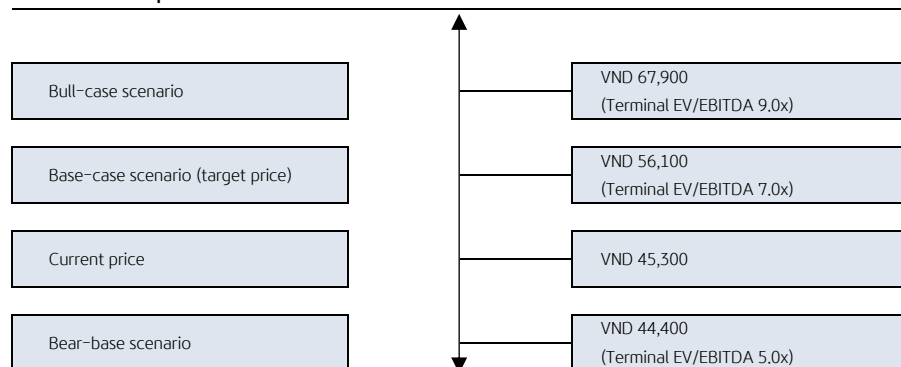
Share price performance

(%)	1M	3M	6M	12M
Absolute	4.6	23.3	40.5	14.7
Relative	1.9	8.2	19.9	18.7



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

(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	(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

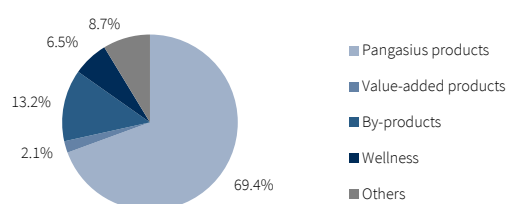
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		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: Bloomberg, KB Securities Vietnam

Revenue composition (2019)



Source: Company reports, KB Securities Vietnam

Peer group comparison

(USDbn, x, %)	Mkt Cap	12m fwd P/E	3y EPS CAGR	12m fwd ROE	12m fwd P/B
VHC VN	0.4	7.3	-6.2	19.8	1.4
MPC VN	0.2	7.9	-11.5	15.3	0.9
ANV VN	0.1	8.5	-15.8	13.0	1.2
FMC VN	0.1	na	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 from VND47,100. 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		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

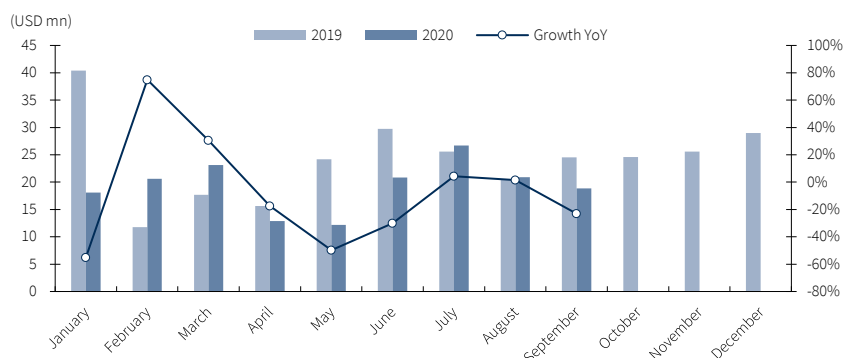
Source: Company reports, KB Securities Vietnam

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

(VND bn, %)	Revised				Previous			
	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

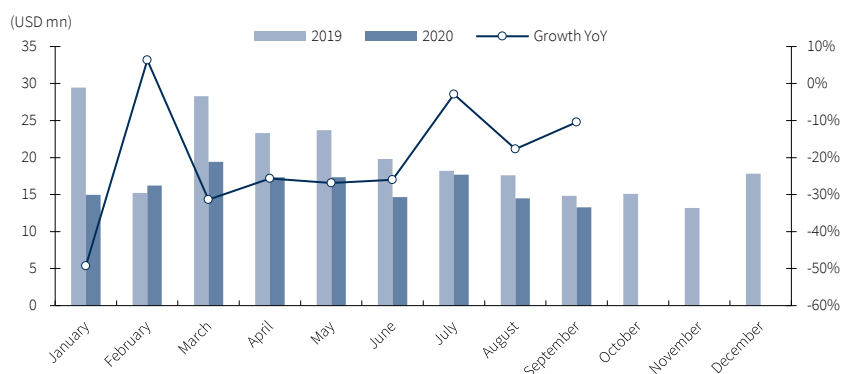
Source: Company reports, KB Securities Vietnam

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



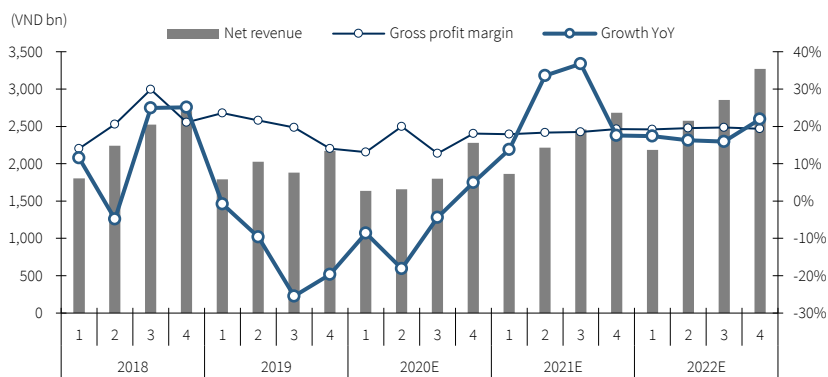
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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 value (VND in billions)					Terminal value (US\$ in millions)				
	8,906	10,688	12,469	14,250	16,032	383	459	536	612	689
	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%	9,159	10,338	11,517	12,695	13,874	392	442	493	544	594
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	555
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
	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%	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%	43,100	48,700	54,300	59,900	65,500	1.80	2.10	2.30	2.60	2.80
12.6%	41,900	47,200	52,600	58,000	63,300	1.80	2.00	2.30	2.50	2.70

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	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	291
Earnings before interest	354	368	583	647	1,433	963	730	1,067	1,363	1,439	1,557	1,647
Depreciation & provisions	117	139	144	198	144	162	250	230	234	239	240	244
(Profit)/loss from investing	-210	-51	-33	-30	-42	-221	-116	-79	-79	-79	-79	-79
Other adj for oper activities	222	71	-29	-169	-291	45	-197	-21	-26	-27	-29	-31
Cash flow from operations	483	527	665	646	1,243	949	667	1,197	1,492	1,572	1,689	1,781
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	-281
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	-135	672	612	1,092	1,142	1,306
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	-6	29	26	46	48	55

Firm Value Calculations

WACC	10.6%	PV of future cash flows (VNDbn)	3,264	2020E Total debt (VNDbn)	864
DCF period	5 Yrs	PV of terminal value (VNDbn)	7,533	2020E Cash (VNDbn)	357
Terminal EBITDA (VNDbn)	1,781	PV of Firm (VNDbn)	10,797	Terminal value as % of firm value	69.8%
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, USDmn)	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	1.02	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	0	0	0	0	0	-6	25	21	34	32	33

Source: Company reports, KB Securities Vietnam

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.