

Vinh Hoan Corp (VHC)

Slipping from the peak

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Business results increased dramatically in 9M22 but weakened at the end of the year

Vinh Hoan Corporation's (VHC) 9M22 business results grew strongly with profit of VND1,815 billion (+180% YoY) and revenue of VND10,755 billion (+69% YoY) thanks to higher export volume and gross profit improved by increased selling prices. However, the growth has slowed down since 3Q22 when the demand in export markets decreased, and inventories increased.

Export and raw materials prices have decreased compared to the middle of the year

The current prices of pangasius for export have sharply dropped from 2Q peak. However, the prices of raw pangasius are on a downward trend but are still high. The prices of fingerlings, after falling to the early 2022 level, rebounded on lower supply due to high lost output and high animal feed prices.

Higher demand thanks to China's reopening is a bright spot for Vietnam's pangasius industry in 2023

The reopening of China's economy after the Zero-Covid policy should become a booster to the fishery in 2023 as the demand increases and customs clearance at ports and border gates became easier. However, the impact on VHC is somewhat limited as China accounts for only 15% of VHC's exports

HOLD recommendation with the target price of VND70,100/share

For 2022, we expect VHC to achieve NPAT of VND2,210 billion (+99.7% YoY) on revenue of VND13,547 (+49.6% YoY). However, 2023 will be a challenging year for VHC because of high business results in 2022 and expected low demand in the US and EU. KBSV believes that VHC is being traded at an appropriate level, with a target price of VND70,100/share.

Hold

Target price VND70,100

Downside	1.1%
Current price (Dec 15, 2022)	VND70,900
Market cap (VNDbn)	13,100

Trading data

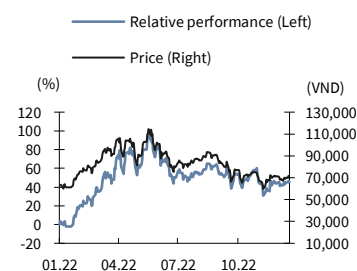
Free float	49.8%
3M avg trading value (VNDbn/USDmn)	38.7/1.6
Foreign ownership	30.36%
Major shareholder	Truong Thi Le Khanh 43.16%

Share price performance

(%)	1M	3M	6M	12M
Absolute	6	-6	-18	6
Relative	9	-3	-6	38

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	7,037.2	9,054.2	13,548.2	11,462.2
Operating income (VNDbn)	821.2	1,287.4	2,564.3	1,786.4
NPAT of the parent company (VNDbn)	719	1,099	2,196	1,533
EPS (VND)	3,923	5,993	11,974	8,362
EPS growth (%)	-39.0	52.8	99.8	-30.2
P/E (x)	18.2	11.9	6.0	8.5
P/B (x)	2.5	2.2	1.6	1.4
ROE (%)	13.9	18.7	27.0	15.9
Dividend yield (%)	5	4.3	2.5	2.9



Business operation

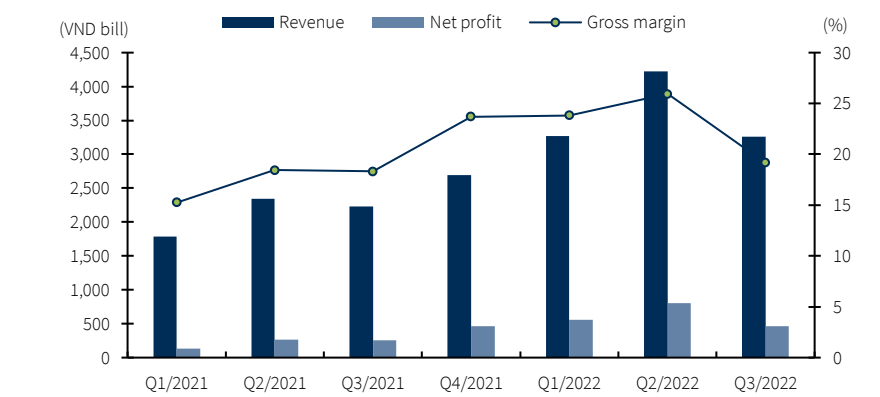
The growth momentum has slowed down since 3Q as the supporting factors for 1H22 business results gradually weakened

VHC's 3Q22 profit minus minority interest reached VND450 billion (+76% YoY) on revenue of VND3,261 billion (+46% YoY) thanks 3Q21 low base during the nationwide lockdown. However, the growth has slowed since 3Q22 when VHC's profit and revenue decreased by 43% and 23% YoY respectively due to declined demand in key export markets and increased inventories. To be more specific, frozen fillet reached VND2,118 billion (+41% YoY), and by-products were VND681 billion (+76% YoY), collagen & gelatin VND188 billion (+13% YoY). The US continues to be VHC's key market with revenue of VND1,262 billion (+30% YoY), Europe VND426 billion (+16% YoY), and China & Hong Kong VND444 billion (+28% YoY). 3Q gross profit margin (GPM) hit 19.2%, down sharply from 25.9% in 2Q mainly due to high inventory provision.

9M22 business results were strong

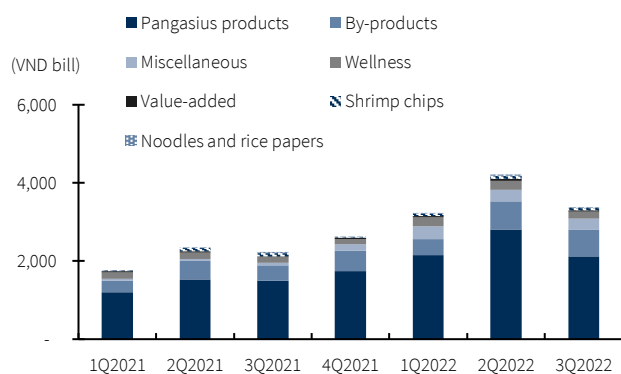
9M22 profit surged to VND1,815 billion (+180% YoY) on revenue of VND10,755 billion (+69% YoY) as export volume and gross profit rose on higher prices. Frozen fillet reached VND7,073 billion (+68% YoY), by-products VND1,826 billion (+55% YoY), and collagen & gelatin VND637 billion (+33% YoY).

Fig 1. VHC – Business performance by quarter



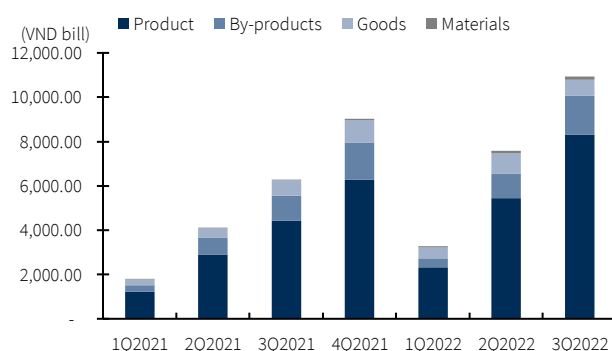
Source: Vinh Hoan Corporation, KB Securities Vietnam

Fig 2. VHC – Revenue structure (VNDbn)



Source: Vinh Hoan Corporation

Fig 3. VHC – Revenue structure (VNDbn)



Source: Vinh Hoan Corporation

Business results in October are more positive compared to the previous month and the same period last year

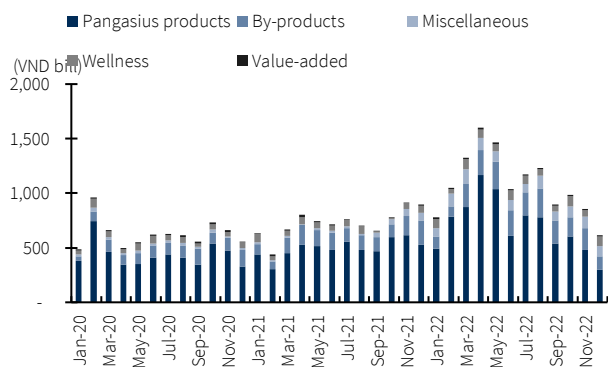
VHC's October export revenue was VND1,014 billion, increasing 25% YoY and 11% MoM but lower than the peak period in February–August. Revenue from pangasius increased to VND601 billion (+1% YoY) and contributed 59% to total export revenue, by-products and health care products grew by 49% and 117% YoY respectively. Of that, the two main export markets, the US and China, saw revenue declines of 13% and 43% YoY respectively.

November's business results slightly decrease compared to October

In November 2022, VHC's net revenue reached VND893 billion (–2.2% YoY and –12% MoM), showing that revenue growth continued to slow. This is also the first month in 2022 that VHC has recorded a decline in revenue compared to the same period last year. Specifically, pangasius revenue reached VND480 billion (–22% YoY and –20% MoM), and by-product revenue reached VND202 billion (+15% YoY, +12% MoM). Export revenue to the US and China dropped 13% and 60% respectively YoY.

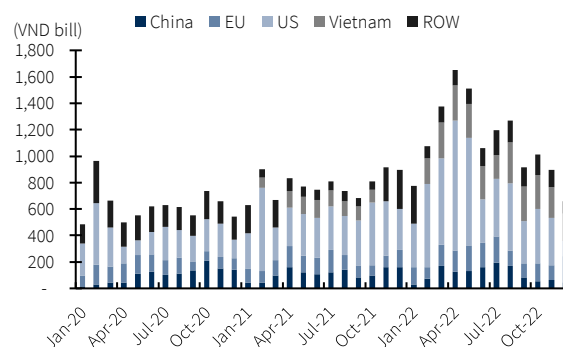
4Q business results declined compared to the first period of 2022 mainly due to a decrease in export volume as demand in exporting countries such as the US and EU was low amid impacts from the economic downturn (many countries simultaneously raised interest rates and cut money supply while prices are also on a downtrend and inventories in these markets are currently high).

Fig 4. VHC – Revenue structure by month (VNDbn)



Source: Vinh Hoan Corporation

Fig 5. VHC – Revenue structure by country (VNDbn)



Source: Vinh Hoan Corporation

Vietnam's pangasius export turnover in 2022 reached USD2.46 billion

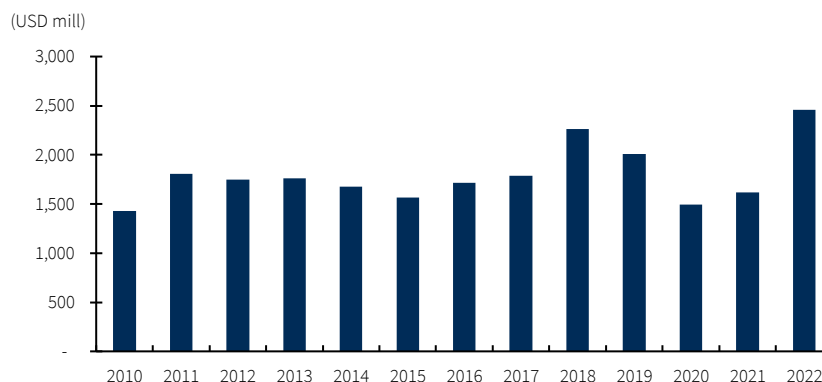
Vietnam's pangasius export turnover in 2022 reached USD2.46 billion, increasing 52% YoY (according to VASEP) and reaching a record high since 2010 thanks to higher output and selling prices YoY. However, the upward momentum has stalled and slowed down since the end of 3Q as the demand in many importing countries decreased while inventories increased, causing orders to drop significantly. Therefore, pangasius exports declined by 23% YoY to USD166.2 million in December. This was the second month to record a YoY decrease, although this is usually the time when demand increases to serve holidays, New Year's Eve or other holidays or large number of events.

2023 would be a challenging year to pangasius export, but the results are expected to be better

We believe that the peak of the pangasius cycle has passed and the pangasius industry may face many challenges in the coming time due to the tightening policies of many central banks and concerns about economic slowdown in many large countries such as the US and EU, Vietnam's major export markets. The purchasing demand would reduce while fish inventories in these markets are still high, and customers are quite cautious of placing new orders.

Vietnam's pangasius export turnover grew strongly and reached record highs in 2022

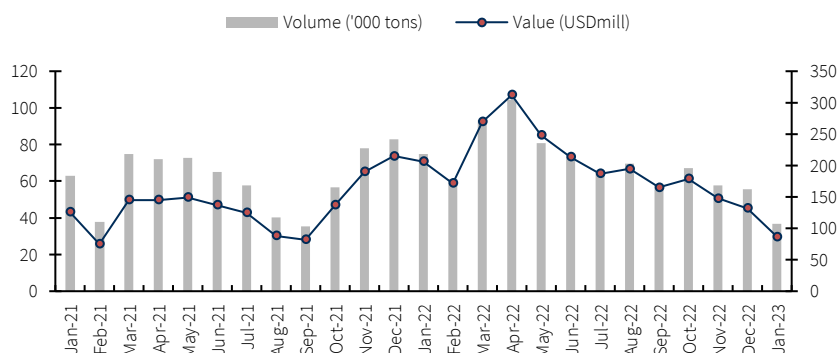
Fig 6. Vietnam – Pangasius export turnover (USDmn)



Source: General Statistic Office

Exports reached a high level in 1H22 and slowed down from the end of the year

Fig 7. Vietnam – Pangasius exported volume & value (thousand tons, USDmn)



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

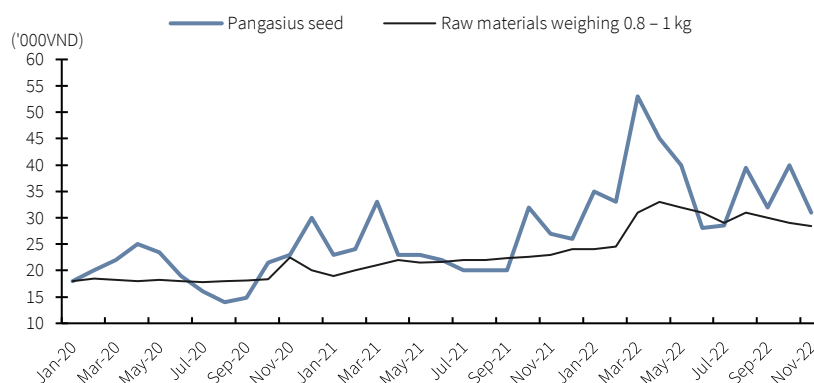
Export prices and raw materials have decreased compared to the middle of the year due to a decrease in demand in exporting countries but the cost of farming remains high.

The prices of pangasius for export have declined significantly, many products exported to major markets such as the US, China, and the EU are falling to the level of early 2021, corresponding to a decrease of 20–40% compared to the peak in 2Q22. However, the prices of raw pangasius are currently on a downward trend but still around VND27,000–28,000/kg (up about 30% compared to the average in 2021), which will directly affect the profit margin of businesses. We believe that the price of raw pangasius would continue to fall but remain high due to high production costs. According to a market survey, the prices of feed for catfish is still increasing by about 15–20% compared to 2021 and there is no sign of decrease. There is even a new increase in December as the costs of production materials are high due to the recent increase in inflation and the depreciation of the VND. The decrease in the

supply of feed ingredients in the 2022–2023 crop year and an increase in demand when China returns to normal production will make feed prices hardly decrease. Moreover, the price of fingerlings, after falling to the level of early 2022, has increased again due to a scarcer supply when the juvenile fish have low opportunity to live in cold weather and at the risk of catching Edwardsiella ictalurid disease.

Fig 8. Mekong Delta – Pangasius as raw material and fingerling prices (VND thousand)

The prices of pangasius as raw material and fingerlings have declined compared to the previous period

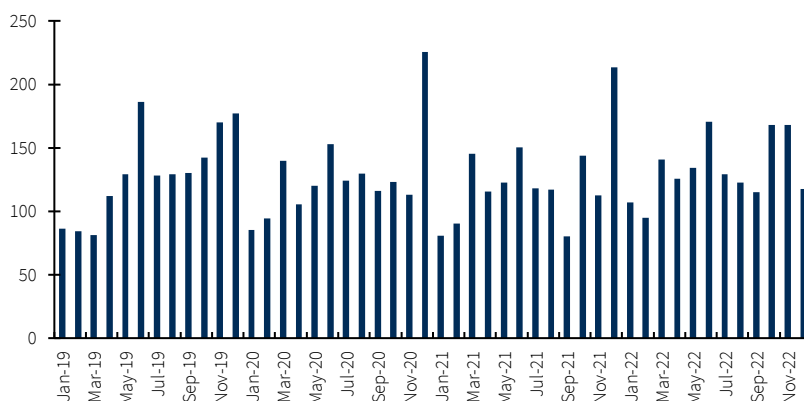


Source: KB Securities Vietnam

Inventories tend to go up as demand eases

Meanwhile, inventories fell to the lowest level in the middle of the year and are increasing gradually as exports decrease while the last months of the year are the peak time to harvest fish as raw material. According to the General Statistics Office, the output of pangasius in 4Q22 was estimated at 453.4 thousand tons, up 24% YoY. We believe that pangasius inventories will not change significantly in January since export and harvest activities slowed down during Tet holiday, but the inventory may increase gradually after Tet when the export volume for 2023 is forecast to decrease and decrease more sharply than the amount of pangasius harvested (in the scenario that there is no epidemic that makes the survival rate of fish fall sharply).

Fig 9. Mekong Delta – Harvested pangasius volume (thousand tons)



Source: General Statistic Office

Increased demand thanks to China's reopening is a bright spot for Vietnam's pangasius industry in 2023

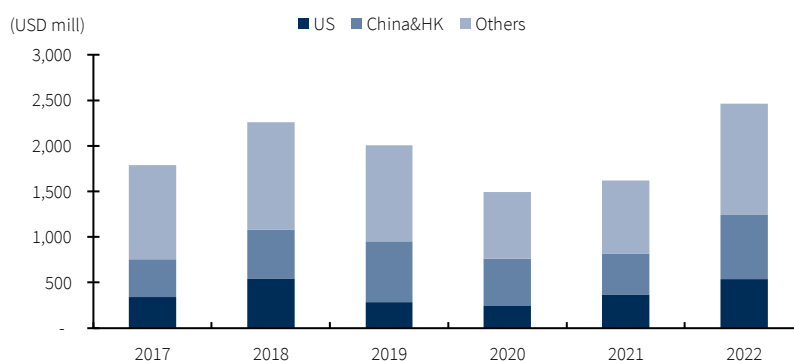
A positive factor that can support the pangasius industry in 2023 is the economy reopening of China, Vietnam's largest seafood importer, after lifting "Zero-Covid" policies. This should make the demand in restaurants and hotels increase significantly, which would also increase the orders from this market and make customs clearance at ports and border gates easier. China also announced the cancellation of Covid-19 monitoring and testing measures for imported goods at ports from January 8, 2023. We have seen some signs of improvement from the Chinese market in December as the volume and value of exports to this market are estimated to have decreased YoY but improved MoM, and the demand for raw fish to export to China also became stronger. However, the opening of China only reduces growth pressure but hardly creates a boom in this market because the value and volume of pangasius exported to China in 2022 still has positive growth and GDP of the country in 2023 is forecast to grow at 5% (which is not too high). For VHC, the Chinese market is not a key market like the US (~60%) as it only accounts for about 13-15% of total export turnover, so the opening of China will also affect VHC, but the impacts are limited. The more positive point is that VHC is also actively expanding into this market to take advantage of this opportunity.

Reduced freight rates help reduce cost pressure on businesses

In addition, the reduced freight charges help businesses reduce the burden of logistics costs and offset profit margins as they had to cut selling prices. Currently, freight rates for many routes have dropped sharply and returned to near pre-pandemic levels, which is a positive factor for exporters, especially seafood exporters to the US and EU markets.

2022 export turnover rose in most major markets

Fig 20. Global – Pagasius export turnover by region



Source: General Statistics Office

Forecast

We forecast VHC's profit after tax of VND 2,210 billion (+99.7% YoY) and revenue of 13,547 (+49.6% YoY) in 2022

2023 may be a challenging year for Vinh Hoan

In 2022, we forecast that VHC's NPAT and revenue will reach VND2,210 billion (+99.7% YoY) and VND13,547 (+49.6% YoY). Accordingly, 4Q profit is estimated at VND395 billion (-14% YoY) on revenue of VND 2,572 billion (-4.6% YoY), decreasing mainly due to a loss in export value when the demand in the US market weakens and inventories in exporting countries are high. The export prices also dropped significantly compared to the peak and fell more sharply than the prices of raw materials.

2023 may be a challenging year for VHC as consumption demand in the main export markets of the US and EU should decline on fears of a global economic slowdown (many major central banks raise interest rates and cut the balance sheet while support packages from the governments are no longer abundant as in the period of COVID-19 pandemic). Although there is a brighter spot from the China market, we think it is not enough to offset the decline in other markets. Profit margin is also forecast to decrease as selling prices should decrease faster than raw materials costs. Furthermore, it is unlikely for the prices of raw materials record a sharp fall because of high animal feed prices. Accordingly, we forecast 2023 profit would reach VND1,533 billion (-30.2% YoY) on a revenue of VND11,462 billion (-15.4% YoY), given the high base in 2022 and the forecast for the industry, while average profit margin should be 19.3%.

Table 1. VHC - 2022-2023E results

	2020	2021	2022F	2023F
Net revenue	7,037.2	9,054.2	13,548.2	11,462.2
COGS	6,022.4	7,298.4	10,403.5	9,255.6
Gross profit	1,014.8	1,755.8	3,144.7	2,206.6
Administrative expenses	148.1	213.1	284.3	242.3
Selling expenses	171.2	343.5	375.1	322.6
Profit before taxes	803.3	1,279.6	2,553.4	1,779.8
NPAT of the parent	719.3	1,099.0	2,195.8	1,533.4

Source: KB Securities Vietnam

Valuation

VHC is being traded at an appropriate level, the target price is 70,100 VND/share

Based on valuation, we think VHC is trading at an appropriate level after considering the company's potential and existing risks. The short-term support factor for VHC stock prices comes from the expectation of increased demand in the Chinese market while business results falling from the high base level of 1H22 will put pressure on stock prices in 1H23. Combining the two valuation methods DCF and P/E at the ratio 40/60, we give a HOLD recommendation for VHC shares, the target price is VND70,100, 1.1% lower than the closing price on December 15, 2022. Currently, VHC is trading with FY2022 P/E of 6.0x, corresponding to the P/E in the period of 2019 – the downward phase of the previous cycle – similar to the current period of the industry.

- P/E method:

According to the P/E method, the fair price of VHC is VND66,900/share assuming a 2023 forward EPS of VND8,362/share and VHC's five-year average P/E of 8.0x.

- DCF method:

According to the DCF valuation method, a suitable target price for VHC is VND75,100 with the main assumption including a WACC of 12.4% and a long-term growth rate of 2%.

Table 2. VHC – Valuation of share price (VND)

Valuation method	Forecast price	Weight	Weighted price
FCFF	75,200	40%	30,000
P/E	66,900	60%	40,100
Target price			70,100
Upside			-1.1%

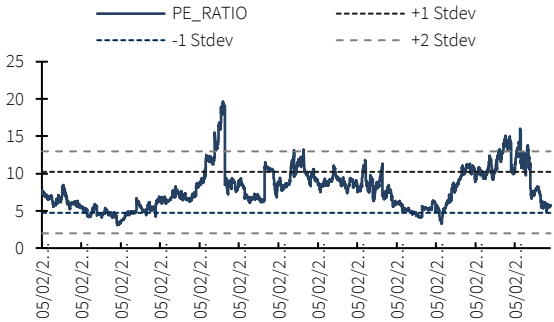
Source: KB Securities Vietnam

Table 3. VHC – Valuation model

Assumption	Value
WACC	12.4%
Risk-free rate	5%
Risk premium	7.8%
Beta	1.12%
Long term growth	2.0%
Forecast period	5 years

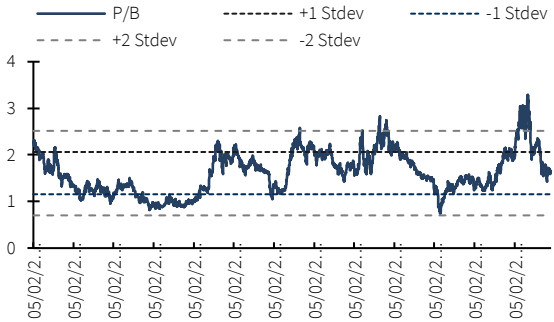
Source: KB Securities Vietnam

Fig 11. VCH - P/E BMP (x)



Source: Bloomberg

Fig 12. VCH - P/B BMP (x)



Source: Bloomberg

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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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