

05/05/2020

### FIRST POSITIVE SIGNAL FROM CHINA

#### Recommendation Neutral

|                    |        |
|--------------------|--------|
| Tu Nguyen (cơ bản) |        |
| tuntc@bsc.com.vn   |        |
| Target price       | 33,800 |
| Current price      | 29,450 |
| Upside             | 14.7%  |

|                   |        |
|-------------------|--------|
| Duc Nguyen (ptkt) |        |
| ducnt@bsc.com.vn  |        |
| Target price      | 37,500 |
| Buy zone          | 28,000 |

#### Market Data

|                         |             |
|-------------------------|-------------|
| Outstanding share (mil) | 183,376,956 |
| Mkt Cap (VND. bil)      | 6,368       |
| High of 52 w            | 56,150      |
| Avg Vol 10 days (share) | 159,571     |
| Foreign ownership       | 34.50%      |

#### Major shareholders (%)

|                                |        |
|--------------------------------|--------|
| Trương Thị Lệ Khanh            | 42.88% |
| Mitsubishi Corporation         | 6.50%  |
| Vietnam Investment Fund        | 4.98%  |
| Norges Bank                    | 2.63%  |
| KB Vietnam Focus Balanced Fund | 1.57%  |

#### Chart (1 year)



**Company Overview:** VHC is leading producer and exporter of Pangasius, supplying international customers with high – quality lines of products. Major exporting markets are USA, EU and China.

#### Valuation

We maintain our **NEUTRAL** recommendation and adjust the new target price to 33,800 VND/share, down 3.4% from the previous report due to factoring the changing condition of Covid 19 pandemic.

#### 2020 Business Forecast

In 2020, BSC forecasts VHC's net revenue and profit after tax reach VND 8,544 billion (+ 8.6% YoY) and VND 941 billion (-20.2% YoY) (lower 1.1% and 1.5% respectively compared to the previous forecast). 2020 EPS is forecast at 5,119 VND/share, equivalent to PE fw 2020 of 5.7.

#### 2020 Company Plan

(a) Scenario A: Revenue and PAT are respectively VND 8,600 billion (+9% YoY) and VND 1,063 billion (-9.8% YoY).

(a) Scenario A: Revenue and PAT are respectively VND 6,450 billion (-18% YoY) and VND 800 billion (-32.1% YoY).

#### Business update

**1Q2020 business results fell by more than half.** VHC's revenue and profit after tax reached VND 1,636 billion (-8.6% YoY) and VND 150 billion (-50.5% YoY), equivalent to completing 19% of the revenue plan and 14% of the plan PBT.

(a) By market structure: USA (VND 757 billion, -4% YoY), China (VND 73 billion, -68% YoY), EU (VND 272 billion, +11% YoY).

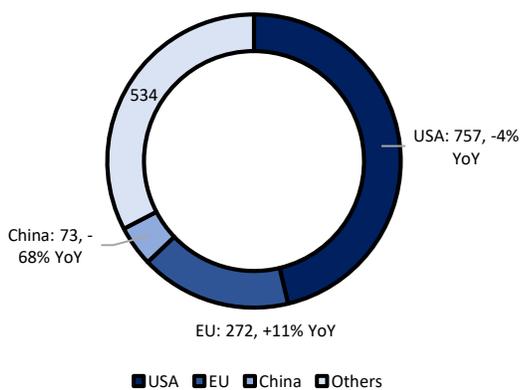
(b) By product structure: Fillet (VND 1,207 billion, -4% YoY), Added products (VND 197 billion, -11% YoY), Wellness products (VND 138 billion, +31% YoY).

**Currently, BSC think that what makes it all the more important is the rate of recovery in consumer demand after lockdown is ended.** By the end of April, China is the only in largest exporting markets that has lockdown ended. Therefore, we are watching closely the pangasius exported value to China and we are observing the first positive signals.

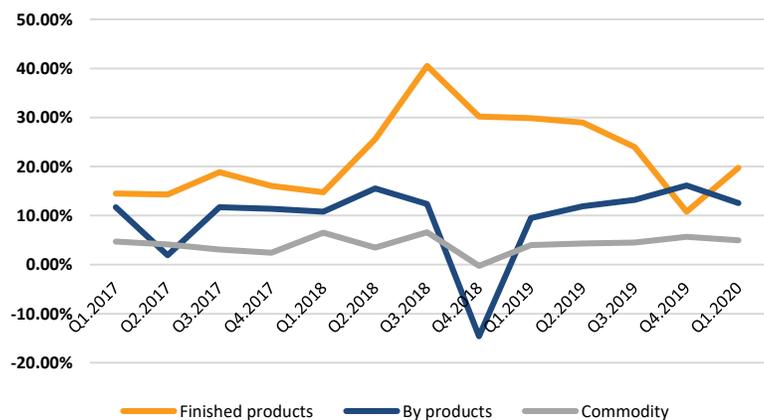
**UPDATE BUSINESS RESULT IN Q1 2020 AND FY 2020 PLAN**

**1Q2020 business result fell more than half due to (1) 2019 high base level (2) negative impact of Covid -19 pandemic.** VHC delivered VND 1,636 bil (-8.6% YoY) in net sales and VND 152 bil (-50.5% YoY) in after tax profit; having accomplishing 19% and 14% of 2020 targets respectively. Gross profit margin significantly dropped to 13.1% from the high level of 23.5% in 1Q2019. Comparing with the latest quarter, gross profit margin slightly decrease by 1%, due to (1) decreasing margin in By –products sector and (2) provision of the devaluation of inventory by VND 66 bil (equivalent to 30.7% of total gross profit).

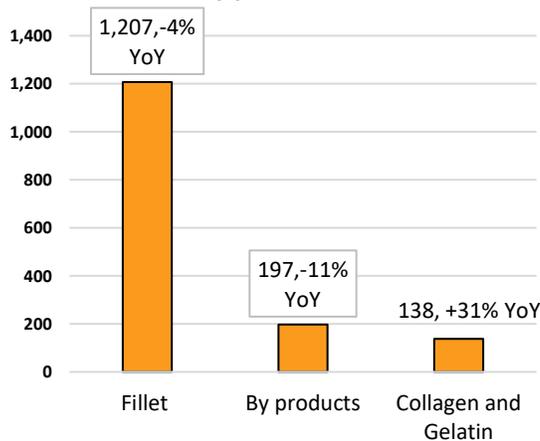
**Revenue by market in 1Q2020**



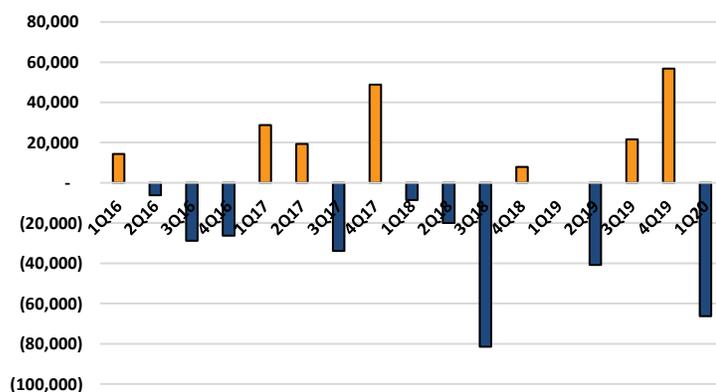
**Gross profit margin by products**



**Revenue by products in 1Q2020**



**(Provision)/ Reversal for devaluation of inventory**



Source: VHC

VHC recorded a squeeze in exporting value to China as the demand and trade flow were severely hit by Covid – 19 pandemic. Exporting revenue to China in 1Q2020 posted VND 73 bil (-68% YoY). However, BSC expects Chinese market will recover strongly in 2Q2020 as data in 4M2020 shows that volume exported to China are doubling compared to that in lockdown period. On the other side, USA and EU markets are about to record a huge decrease in value because the lockdown will have impact on 2Q2020.

## Vinh Hoan Corporation

### 2020 Business Plan

Due to the unpredictable progress of Covid – 19 pandemic, VHC set up two different business plan for FY 2020: the company expects a increase in volume by 15% and a decrease in average selling price (ASP) by 5% in 2020, indicating a higher probability for the Scenario 1.

| Unit: bil VND     | Revenue | YoY    | Profit after tax | YoY    | EPS fw | PE fw |
|-------------------|---------|--------|------------------|--------|--------|-------|
| <b>Scenario 1</b> | 8,600   | +9.3%  | 1,063            | -9.8%  | 5,779  | 5.0   |
| <b>Scenario 2</b> | 6,450   | -18.0% | 800              | -32.1% | 4,350  | 6.8   |

Source: VHC

In FY 2020, VHC continue to expand the facility with capital expenditure of VND 580 bil, including: VND 105 bil for the expansion of fingerling farm and Gelatin production line, VND 100 bil for fish oil factory and VND 160 bil for cold storage.

VHC set a target of USD 35 mil in revenue for Collagen and Gelatin, expecting a growth of 59% in revenue and 50% in net profit. In 1Q2020, Collagen and Gelatin's revenue reached VND 138 bil, completing 16% of revenue plan.

|                          | 2016 | 2017 | 2018<br>Plan | 2018 | 2019<br>Plan | 2019  | 2020<br>Plan |
|--------------------------|------|------|--------------|------|--------------|-------|--------------|
| <b>Revenue (bil VND)</b> | 28   | 157  | 260          | 283  | 473          | 550   | 875          |
| <b>PAT (bil VND)</b>     | -12  | -13  | 40           | 83   | 180          | 200   |              |
| <b>% of revenue</b>      | 0.4% | 1.9% |              | 3.0% |              | 7.0%  | 10.2%        |
| <b>% of PAT</b>          |      |      |              | 5.7% |              | 16.9% |              |

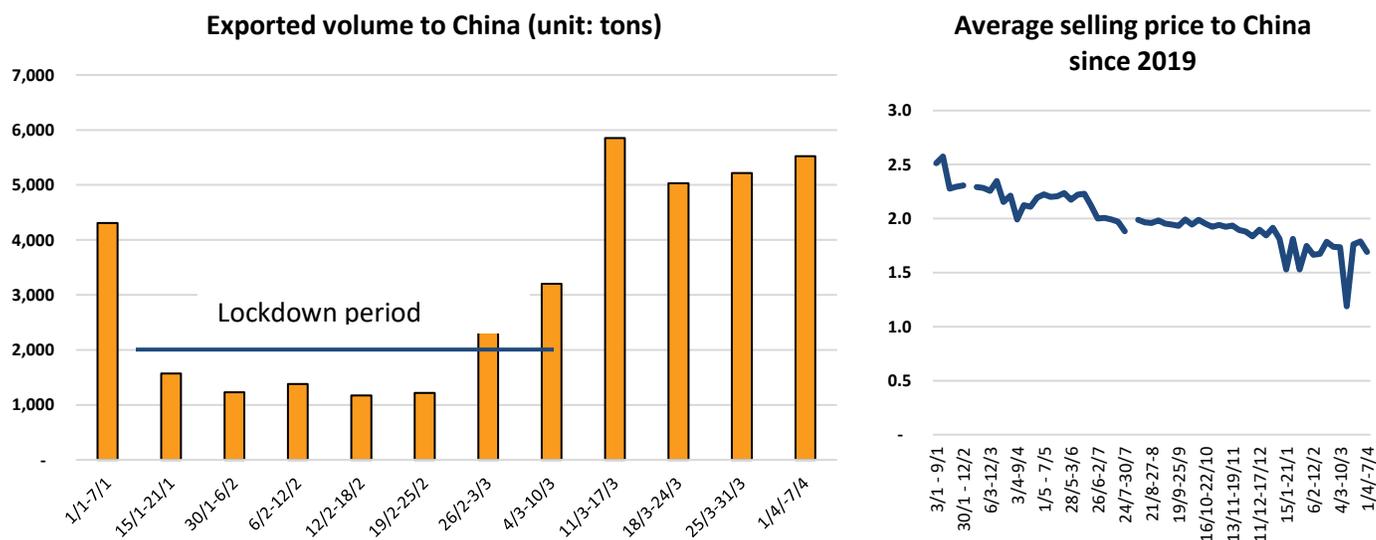
Source: VHC

## FY 2020 BUSINESS OUTLOOK

**VHC's 2020 business outlook:** We continue maintain our opinion in the previous report ([Link](#)): Covid – 19 will make pangasius companies face a squeeze from a global slump in consumer demand as hotels, restaurants and schools are main distribution channels.

**Currently, BSC think that what makes it all the more important is the rate of recovery in consumer demand after lockdown is ended.** By the end of April, China is the only in largest exporting markets that has lockdown ended. Therefore, we are watching closely the pangasius exported value to China and we are observing the first positive signals.

**Even the average selling price in China is still at low level, exported volume show a strong recovery: in consecutive 4 week (03/11 – 04/07), pangasius volume to China reached 5.4 thousand tons per week; nearly tripling weekly exported volume in the lockdown period and 57% higher than weekly volume in 3M.2019.**



Source: BSC

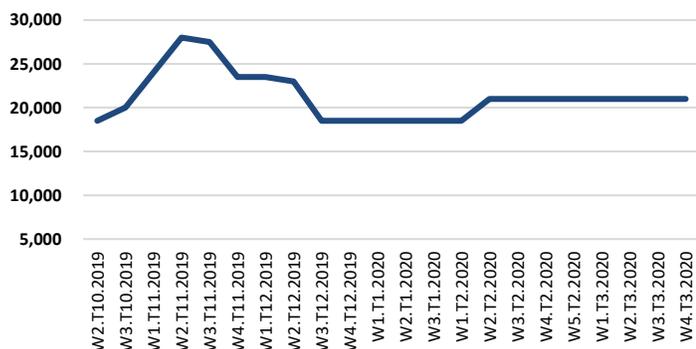
That raises our expectation that other largest markets (USA, EU) will follow Chinese recovery patterns, meaning a faster recovery than our initial forecast. **However, we stress that it is still too early to be able to confirm that 2020 outlook have changed.**

**Pangasius raw material price still fluctuated around the low level of 18,500 VND per kilogram while fingerling price stayed around 21,000 VND per kilogram.** Despite the strong recovery in Chinese market as mentioned above, the total demand was still weak. Therefore, we do not expect low level in raw material price before a slight increase in the second half of FY 2020.

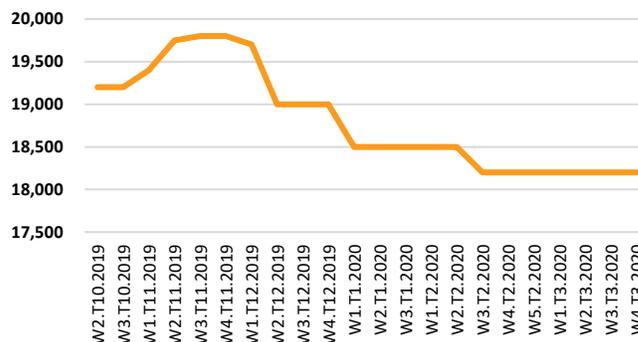
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Fingerling price in 6 months



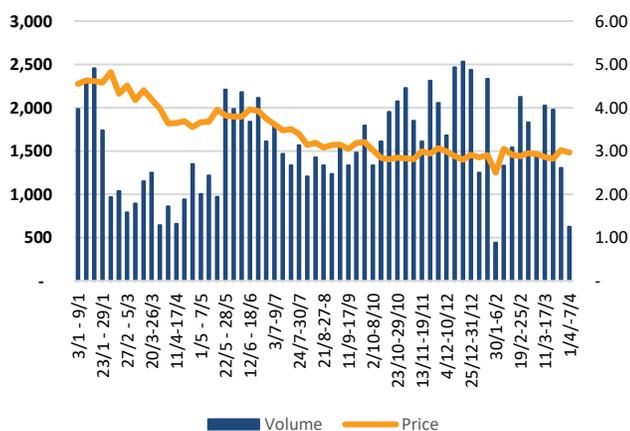
Raw material price in 6 months



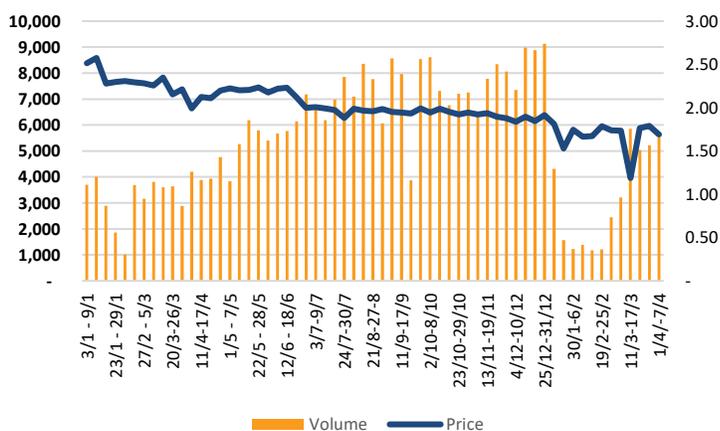
Source: VHC

**2020 average selling prices are not expected to observe a breakout.** By the end of March 2020, selling prices were flat at low levels: USA (~2.8 USD/kg, -39% YoY); China (~1.7 USD/kg, -29% YoY). We expect that at the second half of FY 2020, combined impacts of recovery of demands and low inventory levels in exporting markets will encourage an increase in selling prices.

Average selling price to USA



Average selling price to China



Source: BSC

**BSC BUSINESS FORECAST**

In 2020, BSC forecasts that VHC's net revenue and profit after tax will be respectively VND 8,544 billion (+ 8.6% YoY) and VND 941 billion (-20.2% YoY) based on the following assumptions:

+ Revenue breakdown: Pangasius fillets revenue is expected of VND 5,978 billion (+ 4.8% YoY), accounting for 69.9% of total revenue. Merchandise sales reached VND 1,441 billion (+ 23.9% YoY) and by-products revenue reached VND 960 billion (-0.7% YoY).

+ Price and volume: output + 20% YoY (BSC expects a recovery in USA and EU markets in second half of 2020), prices -10% YoY.

+ Gross profit margin in 2020 is forecast to reach 16.8%, down from 19.4% in 2019. BSC expects VHC's gross profit margin to sharply narrow because (1) the selling price is expected to decrease by 10% YoY and (2) material costs are expected to increase.

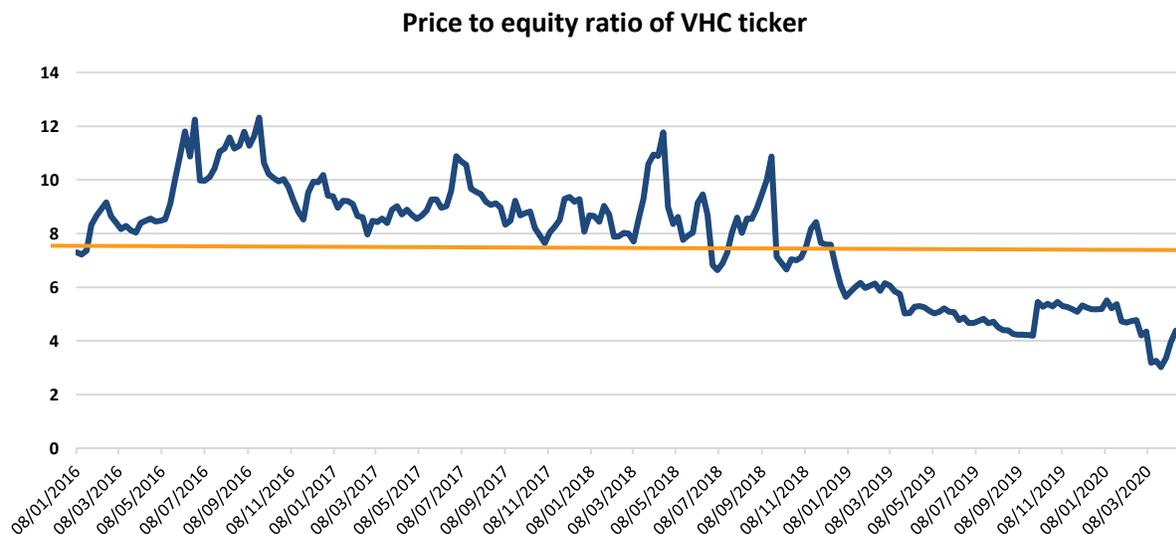
+ SG&A expense margin in 2020 is 4.7% of net revenue (same as 2019).

**Business Forecast Table**

| Unit: VND bill                       | 2018          | 2019          | 2020F old    | 2020F new    |
|--------------------------------------|---------------|---------------|--------------|--------------|
| <b>Net revenue</b>                   | <b>9,271</b>  | <b>7,867</b>  | <b>8,643</b> | <b>8,544</b> |
| <i>Growth</i>                        | 13.7%         | -15.1%        | 9.8%         | 8.6%         |
| Finished product revenue             | 7,366         | 5,699         | 6,189        | 5,978        |
| By – product revenue                 | 1,102         | 967           | 960          | 960          |
| Merchandise revenue                  | 864           | 1,163         | 1,441        | 1,441        |
| Raw material's revenue               | 21            | 9             | 47           | 47           |
| Service revenue                      | 53            | 55            | 5            | 5            |
| Cost of goods sold                   | (7,232)       | (6,334)       | (7,183)      | (7,111)      |
| <b>Gross profit</b>                  | <b>2,039</b>  | <b>1,533</b>  | <b>1,461</b> | <b>1,432</b> |
| <i>Gross margin</i>                  | 21.9%         | 19.4%         | 16.9%        | 16.8%        |
| Selling expense                      | (210)         | (252)         | (268)        | (273)        |
| <i>Selling expense margin</i>        | 2.2%          | 3.2%          | 3.1%         | 3.2%         |
| Administration expense               | (144)         | (149)         | (133)        | (131)        |
| <i>Administration expense margin</i> | 1.5%          | 1.8%          | 1.7%         | 1.5%         |
| <b>Profit before tax</b>             | <b>1,688</b>  | <b>1,309</b>  | <b>1,125</b> | <b>1,108</b> |
| Profit after tax                     | 1,442         | 1,180         | 956          | 941          |
| <b>EPS</b>                           | <b>15,489</b> | <b>12,573</b> | <b>5,197</b> | <b>5,119</b> |
| <i>Growth</i>                        | 137.9%        | -18.8%        |              |              |

## Vinh Hoan Corporation

**+ PE valuation:** Currently, VHC's stock price is trading around P/E trailing = 4.2. BSC still holds the target P/ E of 5.5 as in the previous report ([Link](#)) to determine the stock value after adjusting the business results forecasts in the coming years.



Source: Bloomberg

| PE Valuation     | 2020   | 2021   | 2022   |
|------------------|--------|--------|--------|
| EPS              | 5,119  | 6,039  | 7,110  |
| PE               | 5.5    | 5.5    | 5.5    |
| Value of a share | 28,150 | 33,215 | 39,100 |

### + FCF Valuation:

|                               | 2020          | 2021 | 2022 |
|-------------------------------|---------------|------|------|
| Free cash flow to firm        | 262           | 454  | 782  |
| Present value                 | 220           | 345  | 496  |
| Total firm value              | 8,112         |      |      |
| Debt                          | 866           |      |      |
| Equity value                  | 7,247         |      |      |
| Number of shares              | 183,376,956   |      |      |
| <b>Value of a share (VND)</b> | <b>39,517</b> |      |      |

| WACC     |        |
|----------|--------|
| Rf       | 6%     |
| Beta     | 0.9    |
| Ke       | 13.83% |
| Kd       | 8%     |
| E/A      | 60%    |
| Tax rate | 20%    |
| WACC     | 10.86% |
| g        | 1%     |

## Vinh Hoan Corporation

|      | <b>Price</b> | <b>Proportion</b>    | <b>Average price</b> |
|------|--------------|----------------------|----------------------|
| FCFF | 39,517       | 50%                  | 19,759               |
| P/E  | 28,150       | 50%                  | 14,075               |
|      |              | <b>Target price</b>  | <b>3,334</b>         |
|      |              | <b>Current price</b> | <b>29,150</b>        |
|      |              | <b>Upside</b>        | <b>14.70%</b>        |

We maintain our **NEUTRAL** recommendation for VHC stock with the target price of VND 33,800/share using P/E and FCFF methods with the proportion of 50% / 50%.

## Vinh Hoan Corporation

### VHC – Vinh Hoan Co. – Waves run when the wind blows

#### Technical Highlights:

- Current Trend: Recovery.
- MACD indicator: MACD line is about to cross over Signal line.
- RSI oscillator: Ascending but has not passed value of 50.
- MAs: EMA12 is below EMA26.

Outlook: VHC is in the process of recovering after having had a long-term downtrend for more than a year from the historical peak of 54 to the support level 21. VHC liquidity in recent weeks has tended to decrease, showing that traders are still quite hesitant to buy back this stock. Technical indicators have not yet escaped from the negative status. It is optimistic that the MACD indicator is about to create a Golden Cross, so the new bright cycle of this stock can be started in the near future. According to our assessment, in its medium-term upward trend, VHC may have short-term fluctuations around the current level of 28 or at 33.5, areas corresponding to important Fibonacci thresholds.

Recommend: Investors can buy shares at the price around 28 with the target of taking profit at the price around 37.5, consider cutting loss if the 24 level is penetrated.



Source: BSC, PTKT iTrade

## **Disclosure**

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