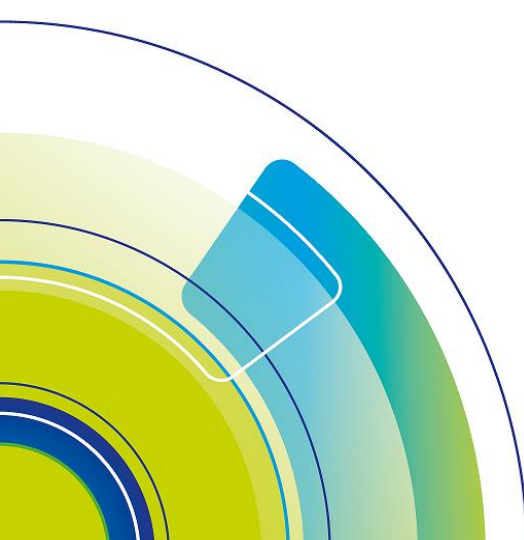




VHC Update - BUY

Tuesday, May 17, 2022



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Company Update

Recommendation

BUY

HOSE: VHC

Aquaculture

Current price (VND) **86,900**

Target price (VND) **112,300**

Expected share price return 24.9%

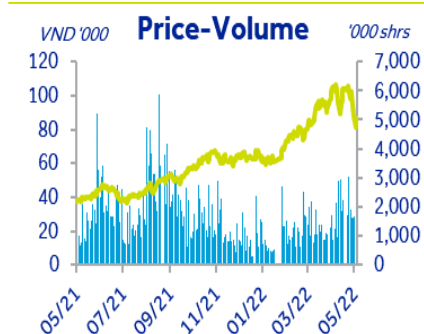
Expected dividend yield 2.2%

Expected total return **27.1%**

Stock performance (%)

| | YTD | 1M | 3M | 12M |
|----------|------|-------|------|-------|
| Absolute | 38.5 | -22.2 | 10.9 | 124.9 |
| Relative | 57.2 | -2.6 | 32.3 | 131.2 |

Source: Bloomberg



Ownership

| | |
|----------------------------------|-------|
| Truong Thi Le Khanh (Chairwoman) | 43.5% |
| Mitsubishi Corp. | 6.6% |
| Lam Quang Thanh | 4.6% |

Stock Statistics 17-May-22

| | |
|-------------------------|-----------------|
| Bloomberg code | VHC VN |
| 52-week range (VND) | 36,000-108,900 |
| Shares O/S (m) | 182 |
| Mkt cap (VND bn) | 15,829 |
| Mkt cap (USD m) | 683 |
| Foreign room left (%) | 75.1 |
| Est. free float (m) | 50.3 |
| 3m avg daily vol (shrs) | 1,382,171 |
| VND/USD | 23,200 |
| Index: VNIndex / HNX | 1,216.20/315.04 |

VINH HOAN CORPORATION JSC (VHC VN)

Taking advantage from increasing global demand and shortage of supply from Russia

VHC posted an outstanding 1Q2022. We reiterate our BUY recommendation with a target price of 112,300 VND/share (27.1% expected total return).

1Q2022 snapshot: VHC posted an impressive 82.7% YoY revenue growth to VND3,267.6bn in 1Q2022 with a high 23.8% gross margin – the highest quarterly gross margin since 2018. The pangasius segment – the largest contributor to VHC's blended revenue, recorded a high 79.5% YoY revenue growth, mainly thanks to the recovery in global demand as F&B operators reopened worldwide. VHC launched the BasaMaster brand at the end of 2021, which is currently distributed in 17/19 supermarkets in the US and is available in Vietnam both via traditional and online channels. The US market recorded the highest growth rate of 127.4% YoY in 1Q2022, followed by China (46.4% YoY) and the EU (32.5% YoY). We believe Vietnamese pangasius currently have a great advantage given ongoing economic sanctions imposed by the US and EU countries on Russia (As of 10M21, Russia exports USD731 of pollock, 38.9% of global pollock export). On the other hand, while Vietnam is the 3rd largest white fish exporter to Russia, Vietnam's pangasius exports to Russia only account for 2% of Vietnam's total export turnover, thus the declining exports since Feb 2022 have had minimal impacts. Finally, VHC posted quadrupled earnings of VND547.8bn in 1Q2022 (+318.0% YoY).

| VND bn | 1Q2022 | YoY growth |
|----------------------|--------------|--------------|
| Total sales | 3,268 | 82.7% |
| Pangasius | 2,145 | 79.5% |
| By-product | 412 | 36.9% |
| Wellness | 219 | 40.4% |
| Value-added products | 38 | 15.2% |
| Shrimp chips | 100 | 159.1% |
| Rice products | 22 | 87.2% |
| Others | 332 | 550.0% |

Outlook: The global economic recovery is expected to boost global demand for pangasius as international tourism and the recovery of the F&B sector will continue in 2022. Pangasius raw material prices surged by 39.6% YoY, while fingerlings prices have surged by 59.1% YoY. On the other hand, juvenile prices have also started to jump since end of March 2022. From declining 1.4% YoY in 1Q2022, juvenile prices jumped by 54.7% YoY last month, suggesting a strong uptrend for pangasius raw

| | 2019 | 2020 | 2021 | 2022E | 2023E |
|---------------------------|--------|-------|-------|--------|--------|
| Net Sales (VNDbn) | 7,867 | 7,037 | 9,054 | 13,241 | 15,623 |
| Growth (%) | -15.1 | -10.5 | 28.7 | 46.2 | 18.0 |
| EBITDA (VNDbn) | 1,292 | 892 | 1,537 | 2,372 | 2,643 |
| Growth (%) | -29.6 | -30.9 | 72.3 | 54.3 | 11.4 |
| Net Profit (VNDbn) | 1,179 | 719 | 1,099 | 1,676 | 1,904 |
| Growth (%) | -18.2 | -39.0 | 52.8 | 52.5 | 13.6 |
| EPS (bonus-adjusted, VND) | 12,776 | 3,953 | 6,040 | 9,212 | 10,464 |
| Growth (%) | -18.2 | -39.0 | 52.8 | 52.5 | 13.6 |
| ROE (%) | 26.5 | 14.3 | 20.1 | 25.7 | 23.7 |
| ROA (%) | 18.3 | 10.4 | 13.8 | 16.7 | 15.2 |
| Net debt/EBITDA (x) | -0.6 | -0.3 | 0.3 | 0.3 | 0.1 |
| EV/EBITDA (x) | 6.8 | 19.9 | 12.1 | 7.9 | 7.0 |
| PER (x) | 7.2 | 23.1 | 15.1 | 9.9 | 8.7 |
| PBR (x) | 3.4 | 3.2 | 2.9 | 2.3 | 1.9 |
| DPS (VND) | - | 2,000 | 2,000 | 2,000 | 2,000 |
| Dividend Yield (%) | - | 2.2 | 2.2 | 2.2 | 2.2 |

material prices in the next few months. With 70% self-sufficiency and a strong position

in the market, raw material price hikes will put VHC at a competitive advantage vs its peers who need to source inputs from suppliers at higher prices.

Forecasts changes: VHC just increased its freezing capacity and upgraded main production lines to meet increasing demand. The company is also planning to increase its farming area to maintain the 70% self-sufficiency rate with a 90ha of breeding farm for higher traceability and sustainability. The 40.4% YoY increase in revenue from the Wellness segment indicated that this could be a strong source of growth for VHC in the next few years, developing other derivative products such as Xavia collagen, chewy candy... VHC Wellness will also optimize the utilisation of by-products from fruits and vegetables from VHC Agriculture next year, enhancing the company's margins.

Thus we raise our 2022 revenue forecasts by 25.0% to VND13,241.2bn, contributed by a 13% increase in sales volume to reflect the rising demand and a 17% increase in ASP as we foresee higher raw material prices in the near future. With the high gross margin recorded in 1Q2022, we expect VHC to earn 20.9% gross margin in 2022 which results in a VND1,676.1bn of net profit (+52.5% YoY and 32.3% higher than our previous forecast).

Valuation: We continue to value VHC based on the avg. of DCF and PE valuation. We set our target PE at 10.3x, in line with Vietnam's avg. peer of fishery exporters. We note that the avg. fishery countries which includes Thailand, Indonesia, the Philippines and India has an avg. FY2022 PE of 13.5x. For POR17, India is the surrogate country (amongst 6 countries Bolivia, Egypt, Honduras, India, Morocco and Nicaragua). We note that India's peer of fishery exporters has an avg. 2022 PE of 21.3x, double that of Vietnam's avg. PE. Our new TP came in at **VND112,3000/sh (+27.1% TSR inclusive of an expected 2.2% dividend yield)**. VHC stock price has corrected by 20% since mid-April, tracking the pull-back of the general market. The stock is currently traded at 9.9x – equivalent to its avg. PER since 2020, which is an attractive opportunity to build a position considering the potential outlook of the company's business model. We reiterate our **BUY** recommendation.

| VHC FINANCIALS MODEL | Price (VND): | 86,900 | Target (VND): | 112,300 | Mkt cap (VND bn): | 15,829 |
|------------------------------------|-------------------------|---------------|--------------------------|----------------|------------------------------|---------------|
| (VND bn except where stated) | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
| Total Net Sales | 7,867 | 7,037 | 9,054 | 13,241 | 15,623 | 17,820 |
| <i>Sales growth (%)</i> | -15.1% | -10.5% | 28.7% | 46.2% | 18.0% | 14.1% |
| CoGS ex-dep'n | 6,212 | 5,797 | 6,960 | 10,029 | 11,989 | 13,770 |
| SG&A | 401 | 319 | 557 | 840 | 991 | 1,131 |
| <i>SG&A as % of sales</i> | 5.1% | 4.5% | 6.1% | 6.3% | 6.3% | 6.3% |
| EBITDA | 1,292 | 892 | 1,537 | 2,372 | 2,643 | 2,920 |
| <i>EBITDA margin (%)</i> | 16.4% | 12.7% | 17.0% | 17.9% | 16.9% | 16.4% |
| Depreciation | 160 | 197 | 338 | 441 | 529 | 616 |
| Operating profit | 1,133 | 695 | 1,199 | 1,931 | 2,113 | 2,304 |
| <i>Operating profit margin (%)</i> | 14.4% | 9.9% | 13.2% | 14.6% | 13.5% | 12.9% |
| Net interest expense | -24 | -59 | -34 | 2 | -82 | -177 |
| <i>as % of avg, net debt</i> | -50.7% | -12.3% | 36.8% | -0.3% | 16.4% | -68.7% |
| Tax | 130 | 84 | 173 | 264 | 300 | 338 |
| <i>Effective tax rate (%)</i> | 9.9% | 10.5% | 13.5% | 13.5% | 13.5% | 13.5% |
| Minorities | - | - | 8 | 12 | 13 | 15 |
| Net profit | 1,179 | 719 | 1,099 | 1,676 | 1,904 | 2,150 |
| <i>Net profit margin (%)</i> | 15.0% | 10.2% | 12.1% | 12.7% | 12.2% | 12.1% |
| Cash earnings | 1,339 | 916 | 1,437 | 2,117 | 2,433 | 2,766 |
| Number of shares (m) | 181.9 | 181.9 | 181.9 | 181.9 | 181.9 | 181.9 |
| EPS (VND) | 12,776 | 3,953 | 6,040 | 9,212 | 10,464 | 11,815 |
| Bonus factor (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Adjusted EPS (VND) | 12,776 | 3,953 | 6,040 | 9,212 | 10,464 | 11,815 |
| <i>EPS growth (%)</i> | -18.1% | -69.1% | 52.8% | 52.5% | 13.6% | 12.9% |

| KEY CASHFLOW AND BS ITEMS | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|------------------------------------|--------|--------|--------|--------|--------|--------|
| Increase in working capital | -546 | 405 | 839 | 1,344 | 836 | 749 |
| Capex | 378 | 554 | 588 | 865 | 880 | 545 |
| Change in investment in affiliates | 431 | -11 | -502 | - | - | - |
| Other cashflow items | 1,151 | -80 | -71 | -259 | -205 | -149 |
| Free cash flow | 1,386 | -149 | -296 | -98 | 641 | 1,315 |
| Share issues (m) | 114 | - | - | - | - | - |
| Dividends paid | 185 | 364 | - | 182 | 364 | 364 |
| Increase in net debt | -1,331 | 473 | 664 | 260 | -376 | -1,132 |
| Net debt, end of year | -712 | -240 | 425 | 684 | 308 | 823 |
| Enterprise value | 15,936 | 16,409 | 17,065 | 17,321 | 16,943 | 15,810 |
| Shareholders' equity | 4,875 | 5,172 | 5,782 | 7,276 | 8,816 | 10,602 |
| BVPS (VND) | 26,795 | 28,425 | 31,776 | 39,988 | 48,452 | 58,267 |
| Net debt / equity (%) | -14.6% | -4.6% | 7.3% | 9.4% | 3.5% | -7.8% |
| Net debt / EBITDA (x) | -0.6 | -0.3 | 0.3 | 0.3 | 0.1 | -0.3 |
| Total assets | 6,612 | 7,202 | 8,738 | 11,381 | 13,658 | 15,963 |

| KEY RETURN AND VALUATION RATIOS | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|---------------------------------|-------|--------|-------|--------|-------|-------|
| ROE (%) | 26.5% | 14.3% | 20.1% | 25.7% | 23.7% | 22.1% |
| ROA (%) | 18.3% | 10.4% | 13.8% | 16.7% | 15.2% | 14.5% |
| ROIC (%) | 18.0% | 9.7% | 13.4% | 16.7% | 14.7% | 13.6% |
| WACC (%) | 10.7% | 7.4% | 9.4% | 10.4% | 10.4% | 10.4% |
| EVA (%) | 7.3% | 2.4% | 4.0% | 6.3% | 4.3% | 3.1% |
| PER (x) | 7.2 | 23.1 | 15.1 | 9.9 | 8.7 | 7.7 |
| EV/EBITDA (x) | 6.8 | 19.9 | 12.1 | 7.9 | 7.0 | 5.9 |
| EV/FCF (x) | 11.5 | -110.1 | -57.6 | -176.4 | 26.4 | 12.0 |
| PBR (x) | 3.4 | 3.2 | 2.9 | 2.3 | 1.9 | 1.6 |
| PSR (x) | 2.1 | 2.4 | 1.8 | 1.3 | 1.1 | 0.9 |
| EV/sales (x) | 2.0 | 2.3 | 1.9 | 1.3 | 1.1 | 0.9 |
| Dividend yield (%) | - | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% |

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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