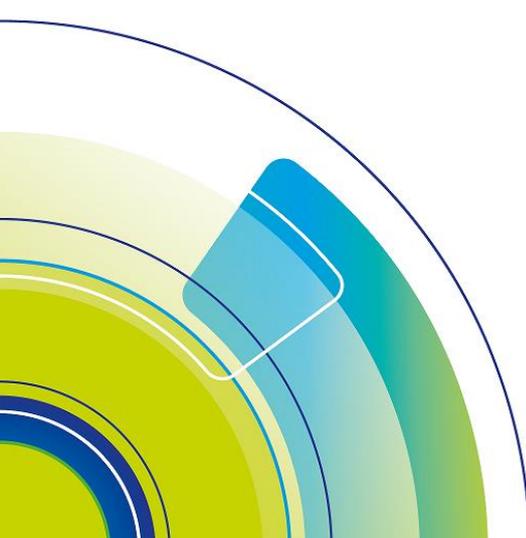




VHC Update - BUY

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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