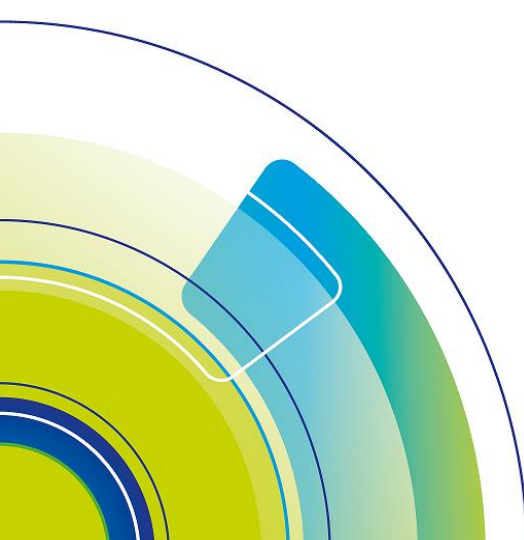




VHC Update - BUY

Wednesday, October 26, 2022



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Company Update

Recommendation

BUY
HOSE: VHC
Aquaculture
Current price (VND) 69,800

Target price (VND) 101,000

Expected share price return 44.7%

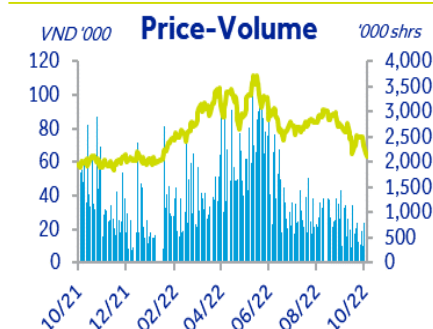
Expected dividend yield 2.9%

Expected total return 47.6%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	3.2	-20.2	-20.5	11.1
Relative	37.7	-2.2	-3.2	39.1

Source: Bloomberg



Ownership

Truong Thi Le Khanh (Chairwoman)	43.2%
Vo Phu Duc (BOD member)	6.0%
Holberg Fondsforvaltning AS	3.4%

Stock Statistics 25-Oct-22

Bloomberg code	VHC VN
52-week range (VND)	57,200-118,000
Shares O/S (m)	183
Mkt cap (VND bn)	11,571
Mkt cap (USD m)	467
Foreign room left (%)	71.4
Est. free float (m)	50.2
3m avg daily vol (shrs)	823,450
VND/USD	24,800
Index: VNIndex / HNX	969.72/205.31

VINH HOAN CORPORATION JSC (VHC VN)

Surpasses FY2022 net profit target by 13% in 9 months

As of 9M2022, VHC surpassed its net profit FY2022 target by 13.4%. Even with a flat 4Q2022 earnings, VHC would double its 2022 earnings to VND2,235bn, surpassing its FY2022 target by 39.7%. TP 101,000 VND/sh, 47.6% TSR. **BUY**.

Moving to 2023, we expect VHC's growth to remain at double digits but smooth out to a more decent level, reaching VND20,536.3bn of net revenue (+34.3% YoY in 2023 vs an expected 69% in 2022). In Oct 2022, raw material prices continued their uptrend, +37.9% YoY for raw pangasius and 12.1% YoY for fingerlings. The business seasonality suggests a price hike until May 2023, helping VHC to maintain a high ASP. In the US market – the main export market of VHC, accounting for 35% of the group's business and nearly 50% of the fish business – frozen pangasius fillet price reached as high as 5.2 USD/kg, +18.8% from a 4.4 USD/kg at the beginning of the year. Thus, we believe VHC will be able to negotiate a high ASP in 2023 based on raw material hikes and strong negotiation power. We also expect VHC to earn a high 19.3% gross margin in 2023 as the new pond area added in 2020 will gradually reach full capacity over the next 2 years, helping VHC to maintain a high self-sufficiency rate of 70%. In terms of sales volume, we expect high inflation in main export markets to boost consumption of pangasius – a cheaper alternative of white fish. China also eased control on frozen food import in early September 2022. Based on those assumptions, we estimate VHC's frozen fillet volume to increase by 23% YoY and VHC to deliver VND2,517.1bn of net profit in 2023 (+12.9% YoY).

Valuation: We believe the core businesses will continue to accelerate VHC's performance, with frozen fish fillets remaining the main pillar of the company's business model. The company continues to have a very low debt level, translating to a single digit net D/E ratio. VHC started 3 new projects of rice, feed and fruit juice in 2021 which are expected be finalized in 2023. Following this period, we estimate VHC will deliver over VND1,0trn of free cash flow annually, translating into a target price of VND93,500/sh based on DCF methodology. We applied a target P/E of 7.9x in line with Vietnam's avg. peer of fishery companies. We note that our target P/E is 24.8% lower than the avg. peer group of 10.5x which includes ASEAN emerging fishery companies (excluding China) and 44.8% lower than the avg. of Indian companies (India continues to be the surrogate country at POR18). We maintain our methodology of simple average of DCF and PE methods and roll our valuation to 2023 with a target price of **101,000/sh**, equivalent to **47.6% TSR inclusive of 2.9% dividend yield**. We maintain our **BUY** recommendation for VHC as the stock is currently traded at attractive valuation of 5.1x 2023 EPS.

	2019	2020	2021	2022E	2023E
Net Sales (VNDbn)	7,037	9,054	15,293	20,536	24,458
Growth (%)	-15.1	-10.5	28.7	68.9	34.3
EBITDA (VNDbn)	1,292	892	1,537	3,018	3,455
Growth (%)	-29.6	-30.9	72.3	96.3	14.5
Net Profit (VNDbn)	1,179	719	1,099	2,230	2,517
Growth (%)	-18.2	-39.0	52.8	102.9	12.9
EPS (bonus-adjusted, VND)	12,776	3,953	6,040	12,239	13,726
Growth (%)	-18.1	-69.1	52.8	102.6	12.2
ROE (%)	26.5	14.3	20.1	32.1	27.4
ROA (%)	18.3	10.4	13.8	21.6	18.9
Net debt/EBITDA (x)	-0.6	-0.3	0.3	0.2	0.2
EV/EBITDA (x)	5.3	15.5	9.5	4.9	4.3
PER (x)	5.5	17.7	11.6	5.7	5.1
PBR (x)	2.6	2.5	2.2	1.6	1.2
DPS (VND)	-	2,000	2,000	2,000	2,000
Dividend Yield (%)	-	2.9	2.9	2.9	2.9

3Q2022 snapshot: VHC reported strong growth in 3Q2022 with VND3,261.4bn of revenue (+46.2% YoY) and VND459.8bn of net profit (+79.5% YoY). On a cumulative basis, the company recorded VND10,755.3bn of net revenue (+69.1% YoY) and 1,815.0bn of net profit (+179.7% YoY), fulfilling 82.7% of the company's FY2022 revenue target and surpassed its net profit FY2022 target by 13.4%.

Most of VHC's product lines reported strong growth in 9M2022 leading by the frozen fillet segment (+67.6% YoY), followed by the by-product segment (+53.9% YoY), Wellness segment (+33.5% YoY) and Sa Giang products (+31.7% YoY). Only the value-added products segment reported single digit growth in 9M2022. The new Feed One factory which came onstream in 4Q2021 contributed to the significant growth of the "Others" category (feed, rice, fish oil, whole frozen fish, packaging...)

The company's gross margin in 9M2022 reached 23.2%, +5.7 ppt higher than 9M2021 amid of 40.7% raw material hike. Export to the US market almost doubled in 9M2022, growing by 94% YoY, followed by EU (+42.6% YoY) and China (+23.5% YoY).

VND bn	9M2021	9M2022	YoY growth
Total sales	6,361	10,755	69.1%
Pangasius	4,219	7,073	67.6%
By-product	1,179	1,814	53.9%
Wellness	478	638	33.5%
Value-added products	107	116	8.4%
Shrimp chips	212	244	29.0%
Rice products	55	80	44.3%
Others	111	790	611.7%

VHC FINANCIALS MODEL	Price (VND):	69,800	Target (VND):	101,000	Mkt cap (VND bn):	11,571
(VND bn except where stated)	2019	2020	2021	2022E	2023E	2024E
Total Net Sales	7,867	7,037	9,054	15,293	20,536	24,458
<i>Sales growth (%)</i>	-15.1%	-10.5%	28.7%	68.9%	34.3%	19.1%
CoGS ex-dep'n	6,212	5,797	6,960	11,499	16,040	19,432
SG&A	401	319	557	775	1,041	1,240
<i>SG&A as % of sales</i>	5.1%	4.5%	6.1%	5.1%	5.1%	5.1%
EBITDA	1,292	892	1,537	3,018	3,455	3,787
<i>EBITDA margin (%)</i>	16.4%	12.7%	17.0%	19.7%	16.8%	15.5%
Depreciation	122	225	338	445	542	634
Operating profit	1,133	695	1,199	2,573	2,914	3,153
<i>Operating profit margin (%)</i>	14.4%	9.9%	13.2%	16.8%	14.2%	12.9%
Net interest expense	-24	-59	-34	-1	5	-9
<i>as % of avg, net debt</i>	-50.7%	-12.3%	36.8%	0.2%	-0.8%	5.5%
Tax	130	84	173	351	396	431
<i>Effective tax rate (%)</i>	9.9%	10.5%	13.5%	13.5%	13.5%	13.5%
Minorities	-	8	15	17	19	18
Net profit	1,179	719	1,099	2,230	2,517	2,735
<i>Net profit margin (%)</i>	15.0%	10.2%	12.1%	14.6%	12.3%	11.2%
Cash earnings	1,339	916	1,437	2,675	3,059	3,369
Number of shares (m)	181.9	181.9	181.9	183.4	183.4	183.4
EPS (VND)	12,776	3,953	6,040	12,239	13,726	14,912
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0	1.0
Adjusted EPS (VND)	12,776	3,953	6,040	12,239	13,726	14,912
<i>EPS growth (%)</i>	-18.1%	-69.1%	52.8%	102.6%	12.2%	8.6%

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022E	2023E	2024E
Increase in working capital	-546	405	839	2,020	1,861	1,367
Capex	378	554	588	897	914	581
Change in investment in affiliates	-431	11	502	-	-	-
Other cashflow items	1,151	80	66	343	388	408
Free cash flow	1,386	-149	-296	-247	287	1,413
Share issues (m)	89.5	-	-	1.4	-	-
Dividends paid	185	364	-	183	367	367
Increase in net debt	-1,331	473	664	223	56	-1,082
Net debt, end of year	-712	-240	425	648	704	-378
Enterprise value	11,988	12,460	13,117	13,432	13,486	12,403
Shareholders' equity	4,875	5,172	5,782	8,112	10,262	12,630
BVPS (VND)	26,795	28,425	31,776	44,237	55,963	68,875
Net debt / equity (%)	-14.6%	-4.6%	7.3%	8.0%	6.9%	-3.0%
Net debt / EBITDA (x)	-0.6	-0.3	0.3	0.2	0.2	-0.1
Total assets	6,612	7,202	8,738	11,901	14,686	16,359

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022E	2023E	2024E
ROE (%)	26.5%	14.3%	20.1%	32.1%	27.4%	23.9%
ROA (%)	18.3%	10.4%	13.8%	21.6%	18.9%	17.6%
ROIC (%)	18.0%	9.7%	13.4%	21.6%	19.0%	17.6%
WACC (%)	15.0%	12.5%	14.0%	14.4%	14.4%	14.4%
EVA (%)	3.0%	-2.7%	-0.6%	7.2%	4.5%	3.1%
PER (x)	5.5	17.7	11.6	5.7	5.1	4.7
EV/EBITDA (x)	5.3	15.5	9.5	4.9	4.3	3.7
EV/FCF (x)	8.7	-83.6	-44.3	-54.4	47.0	8.8
PBR (x)	2.6	2.5	2.2	1.6	1.2	1.0
PSR (x)	1.6	1.8	1.4	0.8	0.6	0.5
EV/sales (x)	1.5	1.8	1.4	0.9	0.7	0.5
Dividend yield (%)	-	2.9%	2.9%	2.9%	2.9%	2.9%

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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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