Yuanta Research

Company Visit

Vietnam: Fisheries

24 June 2020

VHC VN

Not Rated

Close 23 June 2020

Price	VND 37,800
12M Target	N/A

What's new?

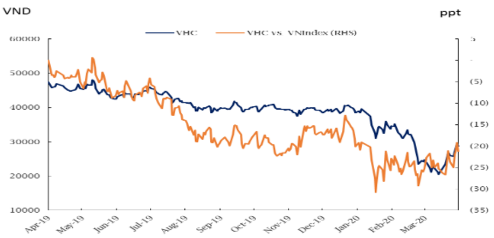
- Sales recovered 11% MoM in May after the Covid-19 slowdown in April.
- Expanding its high-margin collagen and gelatin production by 3.5x this year.
- EVFTA will remove EU import tarrifs, thus boosting long-term growth.
- VHC set out a conservative 2020 PAT target due to uncertain export markets.

Our view

- The collagen business is highly profitable with 55%-60% gross margin.
- Increased collagen capacity should thus boost overall profitability despite the lower margin of pangasius fillet shipments of about 15%-17%.
- VHC has a clear chance to return to its growth trajectory after 2020 given its increased collagen capacity and the EVFTA.

Company profile: VHC operates vertically integrated production of pangasius and collagen products, largely for export. Its 600ha of fishery ponds provide 50-55% of inputs for its production of fillets, ready-to-cook meals, by-products, and collagen & gelatin products.

Share price performance relative to VNI



Market cap	US$296mn
6M avg. daily turnover	US$598k
Outstanding shares	182mn
Free float	42.7%
FINI ownership	33%
Major shareholders	57.5%
Asset/equity	1.4x
TTM P/E	6.8x
1Q20 P/B	1.4x
Trading platform	HSX
FOL Room	16%

Financial outlook (VND bn)

Year to Dec	2016A	2017A	2018A	2019A
Sales	7,304	8,151	9,271	7,867
Op. profit	686	761	1,685	1,132
Net profit	565	605	1,442	1,179
EPS (VND)	3,083	3,297	7,864	6,109
EPS chg (%)	87.3%	6.9%	138.5%	-22.3%
P/E (x)	6.2	5.8	2.5	6.3
ROE (%)	25.3	22.7	41.5	26.5
Div. yield (%)	2.6	2.6	5.3	0
DPS (VND)	1,000	1,000	2,000	0

Source: Fiinpro

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VINH HOAN CORP (VHC VN)

Expanding its high-margin collagen business

Sales recovered in May. May 2020 sales slid 3% YoY but increased 11% MoM to reach VND551bn, a substantial recovery from the -21% MoM decline in April. VHC notes that the EU market led the recovery with 21% MoM sales growth to reach VND143bn.

Conservative 2020 target given uncertain export markets. VHC proposed target PAT of VND 1,063bn (-9.8% YoY) for its base case and VND 800 bn (-32.1% YoY) for its worst case scenario. Covid-19 has resulted in a 45% fall in shipments to the US, which accounted for 54% of 2019 sales. Thus, the short-term demand trends are unpredictable.

Expanding high-margin collagen & gelatin production. VHC plans to invest VND 205bn to expand its collagen production capacity by 3.5x to reach 3,500MT per year, operational in Aug 2020. The collagen business has been operating at full capacity, accounted for 7% of FY2019 revenue, and generates a higher profit margin (55%-60%) than that of its other products. VHC claims that they are the world's only vertically integrated collagen and pangasius producer, and their control over inputs enables them to run at higher sustained utilization than peers.

EU-Vietnam Free Trade Agreement (EVFTA) to enable growth. The current EU import tariff of fisheries products from Vietnam is 5.5%, but this will be reduced to zero in the next three years as a result of the EVFTA. VHC expects this to enable increased fisheries export growth. Exports to the EU accounted for 14% of VHC's 2019 revenue.

Our view. VHC has a high chance of returning to its strong growth trajectory in 2021 given 1) the low base of 2020 due to Covid-19; 2) the increased contribution of high-margin collagen; and 3) the EVFTA, which should boost VHC's exports to the EU. The stock is trading at an attractive valuation of 6.8x TTM PE.

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