Industry : Fishery (Recent report : Link)

Recommendations	BUY	Vinh Hoan Corporation (HSX: VHC)			
Current price:	86,100	Date of writing of the report:	23/08/2022	**Shareholder structure**	
Previous target price:	132,600	Outstanding Shares (Million)	183	Truong Thi Le Khanh	43.1%
New target price:	108,500	Market capitalization (billion VND)	15,935	Mitsubishi Corporation	6.5%
Dividend yield:	0%	Average liquidity of 10 sessions:	971,830	Vietnam Investment Fund	4.9%
Upside	**26%**	Foreign ownership	27.45%	DC Developing Market	1.3%

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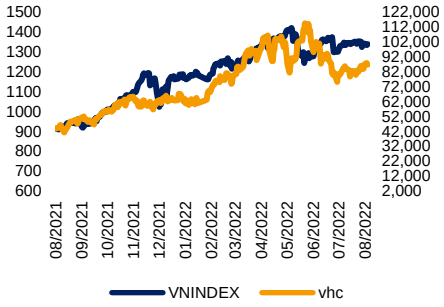
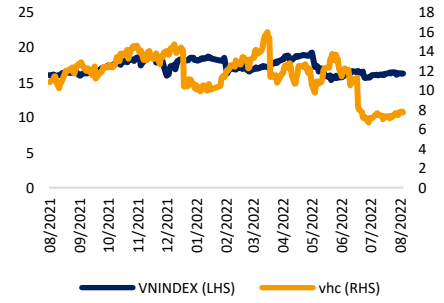
Recommended price: 99,000 VND
Cut-loss price: 84,000 VND

Comparison table of VHC and VN-Index



P/E comparison table of VHC and VN-Index



Valuation

- We maintain our **BUY** recommendation for VHC stock with a target price of VND108,500 (+26% compared to the price on August 23, 2022) for 2022 after adjusting the target P/E from 13 to 9 due to (i) increase in adjusted interest rates (ii) decrease in growth rate compared to profit in the first six months of the year.

Forecasting business results

- In 2022, BSC forecasts VHC's revenue and profit after tax at VND12,524 billion (+39.5% YoY) and VND 2,318 billion (+112% YoY) respectively. EPS 2022 = VND 12,600, P/E FW = 6.9 times.

Business Update

- **Accumulated in the first 6 months of the year, VHC recorded outstanding growth with revenue of 7,494 billion (+81% YoY) and profit after tax of 1,341 billion (+242% YoY).** Q2 recorded revenue and profit after tax of 4.226 billion (+80% YoY) and 788 billion (+202% YoY) respectively.
- **Positive revenue growth came from traditional product groups:** Pangasius reached 4,955 billion (+82% YoY) and By-products reached 1,170 billion (+48% YoY). Revenue from other products (BSC combined other revenue, shrimp, and rice bulging revenue) grew strongly to 853 billion, accounting for 11% of revenue in the first six months of the year.
- **Profit grew faster than revenue** due to a sharp increase in gross profit margin to 25% compared to a margin of 17% in the same period. BSC assumed that the gross profit margin increased due to positive export prices in markets: Vietnam's export price to the US increased by 60% YoY, to the EU increased by 34% YoY, to China increased by 38% YoY.
- **SG&A expense margin reached 3.7%,** down sharply from the margin of 7.0% in the same period due to faster revenue growth (+81% YoY) compared to the increase in costs (+22% YoY).

	2021	2022	Peer	VN-Index
PE (x)	11.4	7.6	8.5	13.6
PB (x)	2.1	2.1	1.2	2.1
PS (x)	1.4	1.2	0.6	1.7
ROE (%)	20.1%	32%	14%	15.0%
ROA (%)	13.8%	21%	7%	2.4%

	2019	2020	2021	2022F
Net Revenue	7,867	7,037	9,054	12,524
Gross profit	1,533	1,001	1,752	3,352
Profit after tax	1,179	704	1,110	2,317
EPS	12,559	3,874	6,052	12,600
EPS growth	-19%	-69%	56%	112%
Debt/Net Equity	36%	69%	48%	45%

I. Update 6 months business results in 2022

Accumulated in the first 6 months, VHC recorded outstanding growth with revenue of 7,494 billion (+81% YoY) and profit after tax of 1,341 billion (+242% YoY). In the second quarter, revenue and profit after tax were 4226 billion (+80% YoY) and 788 billion (+202% YoY) respectively.

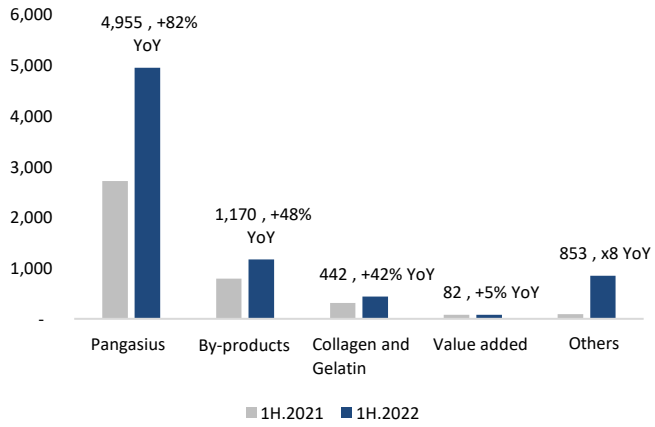
Active growth in revenue came from traditional products: Pangasius reached 4,955 billion (+82% YoY) and by-products reached 1,170 billion (+48% YoY). Revenue from other products (BSC plus other revenue, sales of shrimp and rice puffs) grew strongly to VND853 billion, accounting for 11% of revenue in the first six months of the year.

Regarding the export market, the market structure has not changed much: The US accounted for 50% of the revenue, the EU accounted for 13% of the revenue, China accounted for 9%, and Vietnam accounted for 19%.

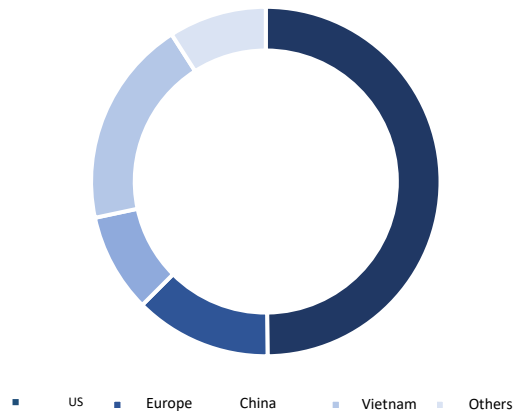
+ US revenue reached 3.735 billion (+132% YoY). In the first 6 months of the year, sales in the US market increased strongly and peaked in April. After that, sales in the US market declined in May (-17% MoM) and June (-59% MoM). Exports to the US have been positive due to increased consumption demand while low inventories as the pangasius industry in 2021 experiencing many challenges. However, the large quantity of imports in a short time makes inventories at US ports large and takes time to consume.

+ China's revenue reached 687 billion (+9% YoY). The growth is modest because China conducts the Zero-Covid policy. To achieve the goal of preventing the epidemic, China often changes its import policy for frozen products, causing difficulties for Vietnamese businesses.

Revenue in 6 months of 2022 by items



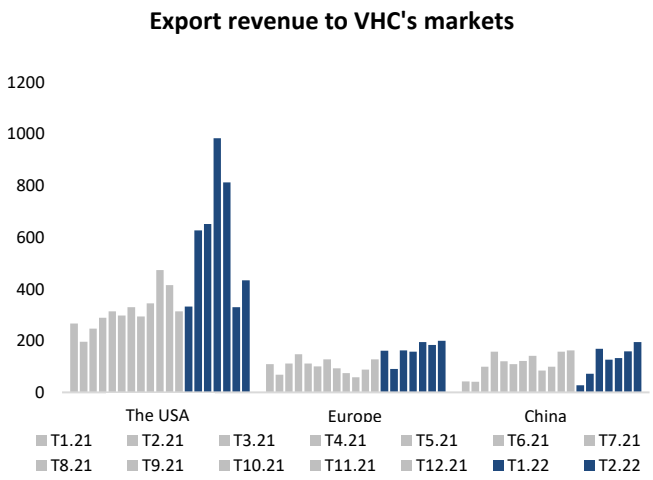
Weight in 6 months 2022 by market

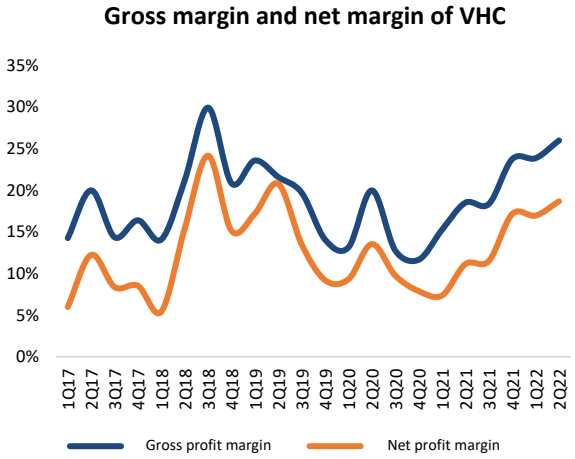


Source: VHC

Gross profit margin in the first 6 months of 2022 increased sharply to 25% compared to the same period last year. BSC believes that gross margin increased because export prices to other markets were positive: Vietnam's export prices to the US increased by 60% YoY, to the EU by 34% YoY, to China by 38% YoY.

SG&A expense margin reached 3.7%, down sharply from the margin of 7.0% in the same period due to faster revenue growth (+81% YoY) compared to the increase in costs (+22% YoY).





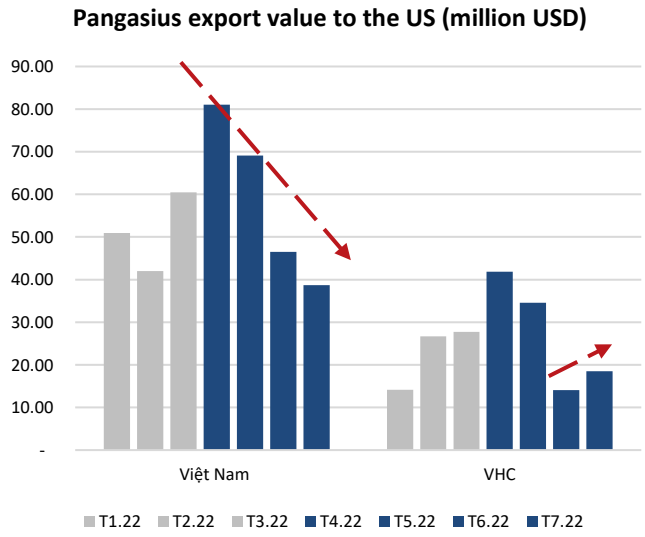
Source: VHC

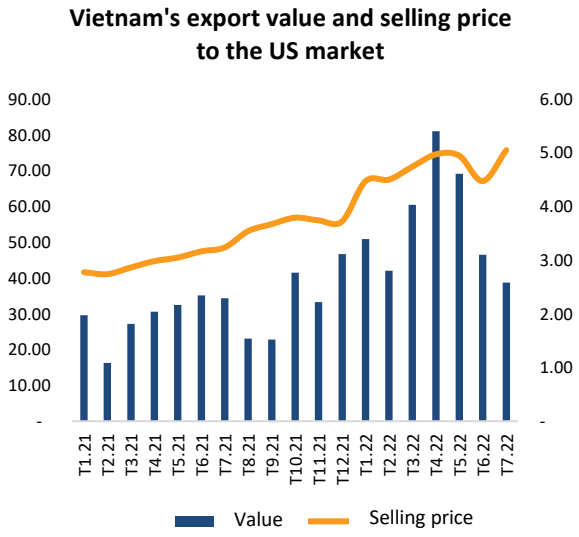
II. Business prospects for the last 6 months of 2022

Maintaining the view in the previous report (Link), BSC holds a **POSITIVE** view on the prospect of VHC in the second half of 2022. In the last 6 months of 2022, profit is unlikely to exceed the high base level compared to the first 6 months of the year. However, the growth rate is still high (2H is expected to grow 36% YoY), thanks to (i) the low base level of last year due to the impact of the Covid epidemic in the South (ii) export markets are expected to recover in the fourth quarter and (iii) supply has not expanded as expected.

For export market:

+ US market: BSC believes that high inventories at the port (due to sudden bulk imports in Q2) and economic downturn may affect exports to the US. Exporting to this market will be positive in the fourth quarter thanks to the release of inventories and the increased imports by customers for the year-end consumption. Although the value of Vietnam's pangasius exports to the US continued to decline in July, the value of VHC increased compared to June.



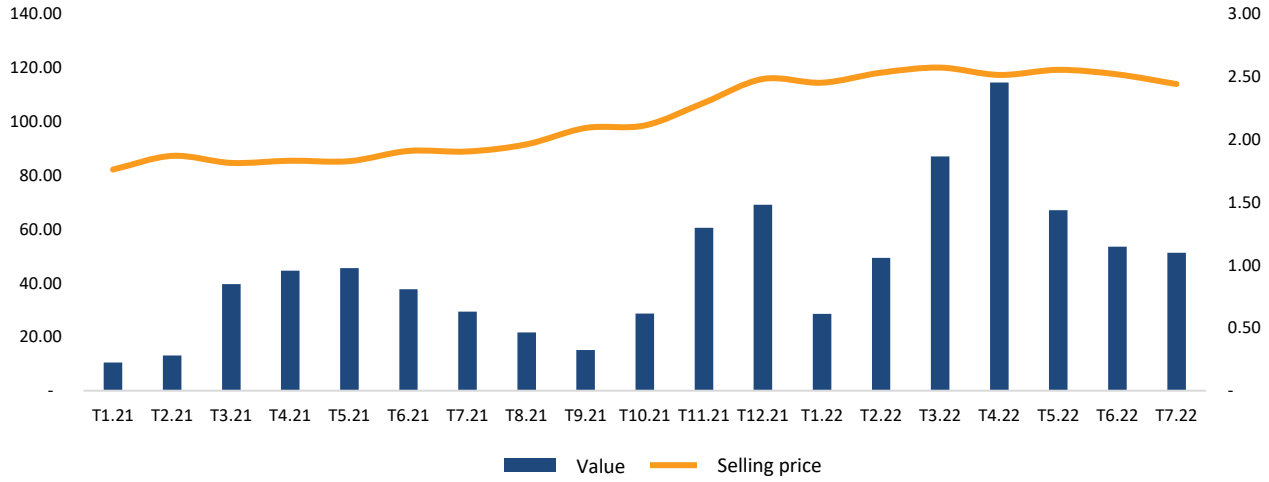


Source: VHC, BSC Research

+ Chinese market: China's zero Covid strategy has hindered the recovery of pangasius exports. However, the Chinese government has taken measures to ease procedures for imported frozen food. In the short term, that is a positive factor for Vietnamese businesses. In the long term, BSC expects China to reopen. At that time, the

industry will grow strongly because the consumption of pangasius in the Chinese market is as large as the US and pent-up demand during two years of the epidemic.

Vietnam's export value and selling price to the Chinese market

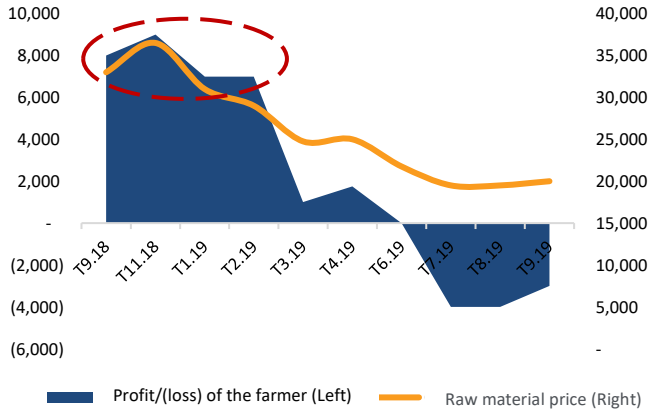


Source: Agromonitor

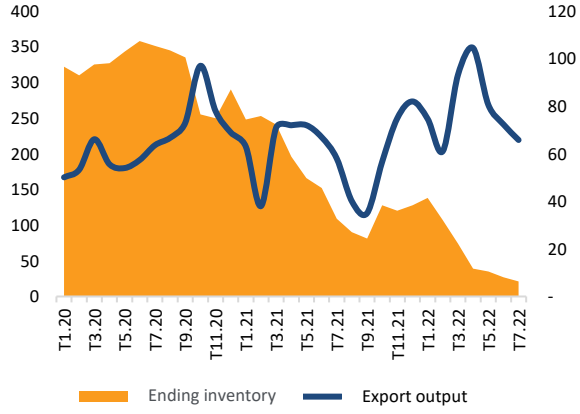
For the supply of pangasius in Vietnam:

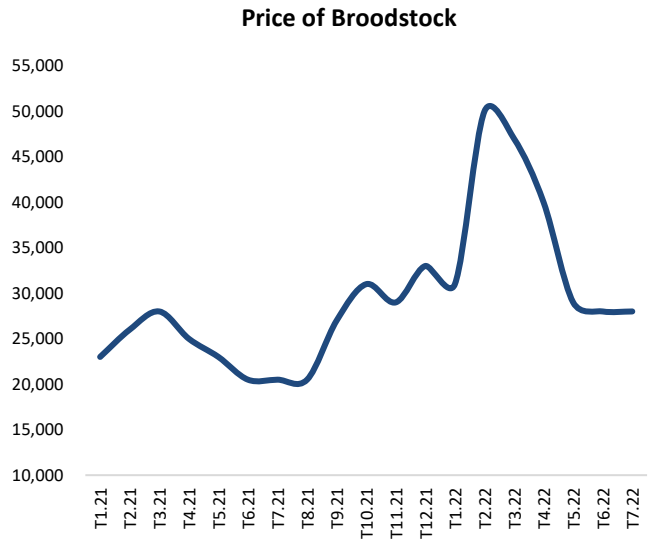
BSC assume that pangasius supply has not developed as expected. Although the price of raw fish in August is close to the peak price in the previous cycle (30,000 VND/kg versus 35,000 - 36,000 VND/kg), farmers are not active in stocking due to high input costs. That makes the current price of raw fish only cover the cost (the pre-profit cycle is about 7,000 - 8,000 VND/kg). In the short term, selling price will increase due to untimely supply adjustment, low inventory and positive demand expected to return in the second half of the year. Therefore, pangasius businesses are benefiting from (i) anchor export prices are high (ii) farming costs are lower than farmers' costs (VHC: 28,000 VND/kg, ANV: 22,000 VND/kg).

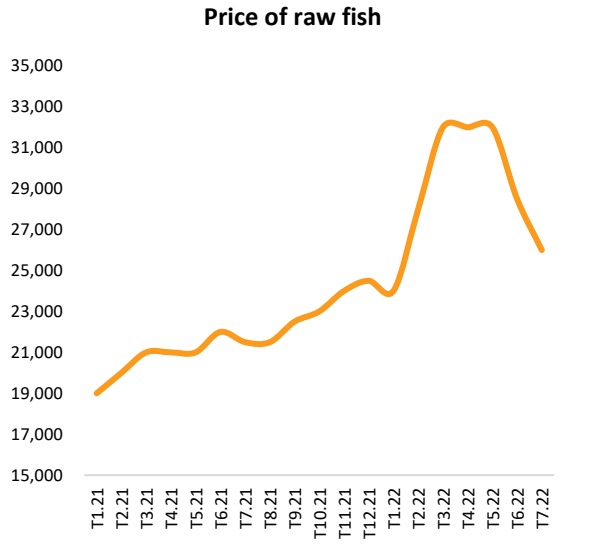
Price of raw fish and people's profit/loss in the 2018 - 2019 cycle



Inventory and export output of pangasius industry

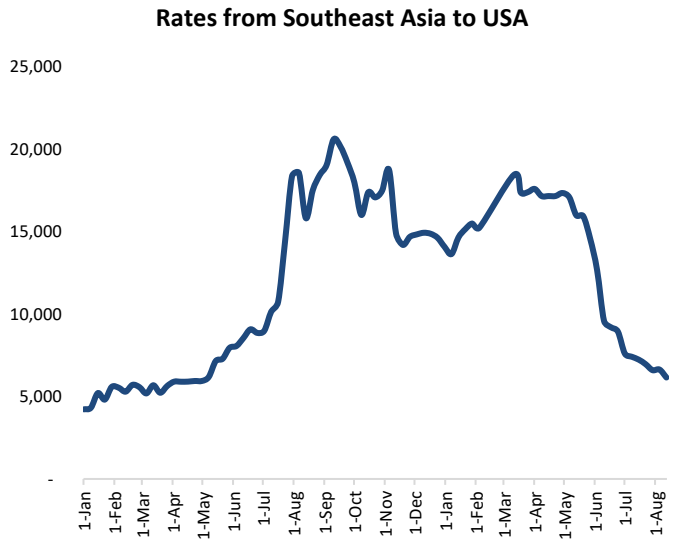


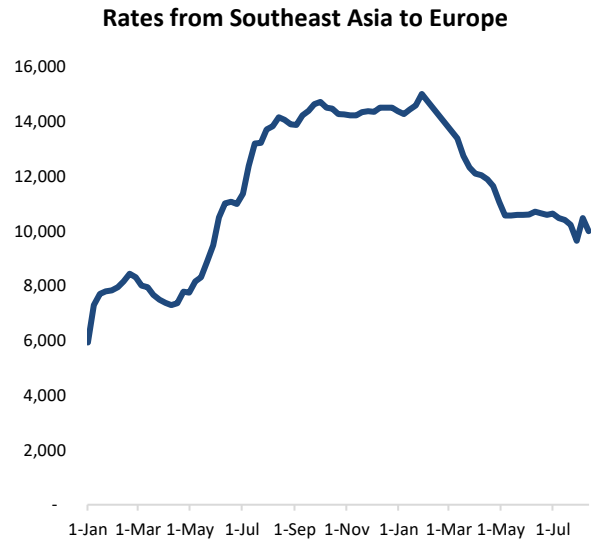




Source: BSC Research

The sharp drop in freight rates creates the expectation of reducing costs for seafood businesses. The freight rate from Southeast Asia to the US in July is about 6,957 USD (-59% from the peak, - 41% YoY). The freight rate from Southeast Asia to Europe is about 10,219 USD (-32% from peak, -18% YoY). In the first 6 months, VHC's transportation and storage expenses accounted for 53% of selling and administrative expenses.





Source: FBX

III. Forecast and valuation

Compared to the forecast in the previous report (Link), BSC adjusted up 1% and 5% of net revenue and profit after tax to 12,524 billion (+40% YoY) and 2,318 billion (+112% YoY).

+ Pangasius fillet continues to account for the main proportion (~76%) with sales of semi-finished products reaching 9,745 billion (+49% YoY).

+ VHC's SG&A expense margin in 2022 accounts for 6.1% of revenue; down from a forecast of 7.6% in 2021.

VHC's Business Results Forecast Table

Unit: billion dong	2019	2020	2021	2022F
Net Revenue	**7,867**	**7,037**	**9,054**	**12,524**
Growth	*-15.1%*	*-10.5%*	*28.7%*	*39.5%*
Pangasius				9,745
Cost of goods sold	(6,334)	(6,036)	(7,302)	(9,172)
Gross profit	**1,533**	**1,001**	**1,752**	**3,352**
Gross profit margin	*19.4%*	*14.2%*	*19.4%*	*26.8%*
Selling expenses	(252)	(171)	(344)	(438)
Cost of Sales margin	*3.2%*	*2.4%*	*3.8%*	*3.5%*
Enterprise Cost Management	(149)	(147)	(212)	(262)
Marginal Business Administration Expense	*1.9%*	*2.1%*	*2.3%*	*2.1%*
Profit before tax	**1,309**	**791**	**1,288**	**2,727**
Profit after tax	1,180	705	1,110	2,317
EPS	**12,573**	**3,953**	**6,052**	**12,600**

Source: BSC Research

+ PE Method:

BSC evaluates VHC as a cyclical stock because the business results of the enterprise depend largely on fluctuations (1) pangasius export prices, (2) input prices (animal feed, raw fish) (3) inventories in export markets and (4) export policies in countries. BSC develops 3 scenarios for 2022-2023 based on assumptions (mainly export prices):

	2022F			2023F		
	Negative	**Basic**	**Positive**	**Negative**	**Basic**	**Positive**
Total Revenue	**12,025**	**12,524**	**12,974**	**12,364**	**13,313**	**14,573**
%YoY	*34%*	*39%*	*45%*	*3%*	*6%*	*12%*
Gross profit	2,853	3,352	3,802	2,314	3,262	4,523
Gross profit margin	*24%*	*27%*	*29%*	*19%*	*25%*	*31%*
Profit before tax	2,255	2,726	3,152	1,596	2,524	3,758
Profit after tax	**1,917**	**2,317**	**2,679**	**1,329**	**2,121**	**3,172**
%YoY	*75%*	*112%*	*145%*	*-31%*	*-8%*	*18%*
EPS	**10,400**	**12,600**	**14,600**	**7,200**	**11,600**	**17,200**
	9	9	9	8	8	9
The target price	**93,600**	**113,400**	131,400	**57,600**	**92,800**	**154,800**
	86,100					
Upside	**9%**	**32%**	**53%**	**-33%**	**8%**	**80%**

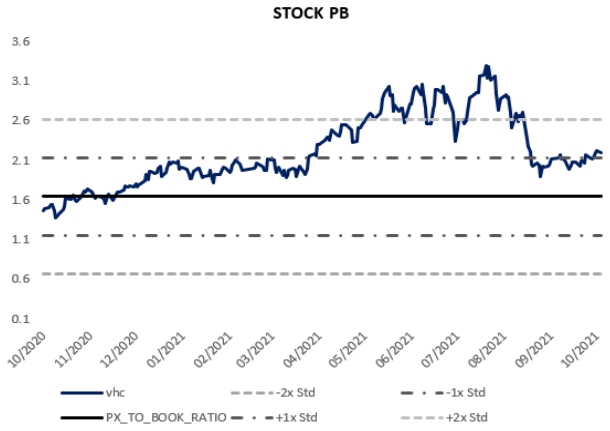
+ Discounted cash flow method:

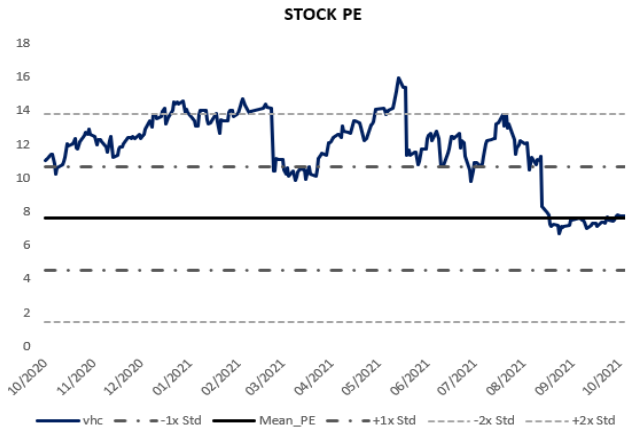
The average cost of capital	
Rf	6%
Beta	0.9
Ke	13.8%
Kd	8%
E/A	60%
Tax	20%
WACC	10.4%
g	4%

	2022F	2023F	Terminal
The company's free cash flow	672	961	18,710
Total enterprise value	21,628		
Debt	1,174		
Equity	18,941		
Number of shares	183,376,956		
Value per share (VND)	**103,300**		

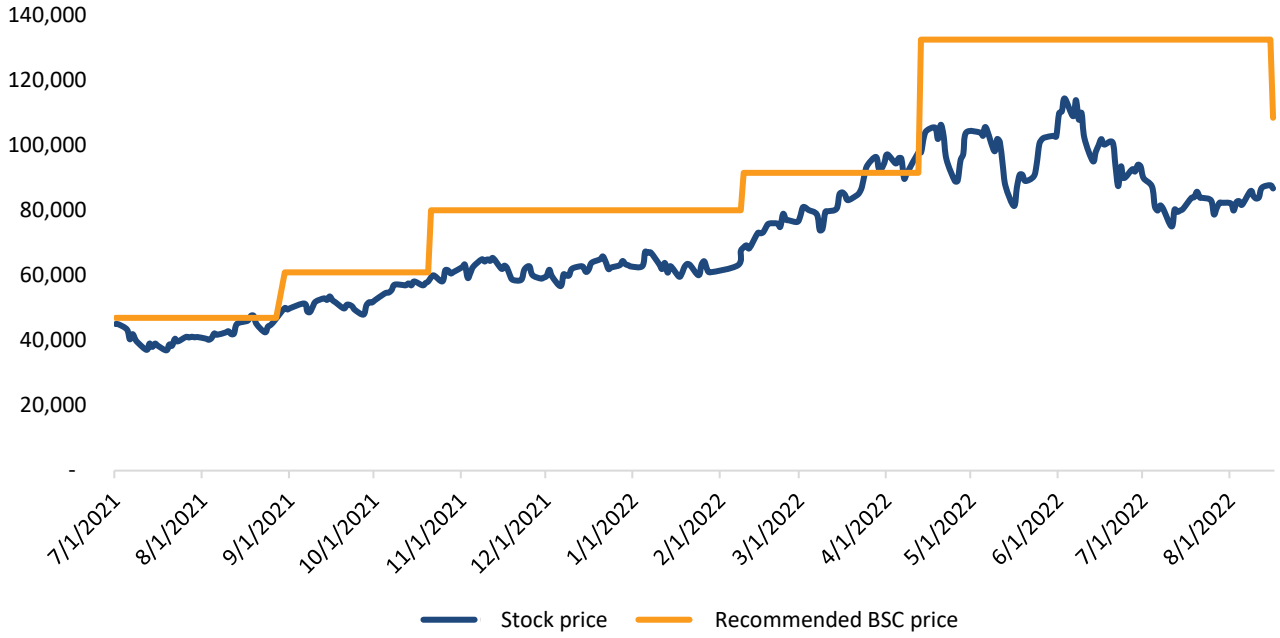
	Price	Weighting	Average price
FCFF	103,300	50%	51,650
P/E (Neutral)	113,400	50%	56,700
		Target price	**108,500**
		Current price	86,100
		Upside	26%

We recommend **BUY** for **the new target price of 108,500 VND/share** for 2022 according to two methods P/E and FCFF with a proportion of 50%/50%, an increase of 26% compared to the close price on 23/08/2022.





VHC STOCK PRICE FLUCTUATIONS COMPARED TO BSC'S RECOMMENDATIONS



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