August 07th , 2023

Shinhan Securities



Vinh Hoan Corporation

[Vietnam / Fisheries]

Bloomberg Code (VHC VN) | Reuters Code (VHC.HM)

BUY

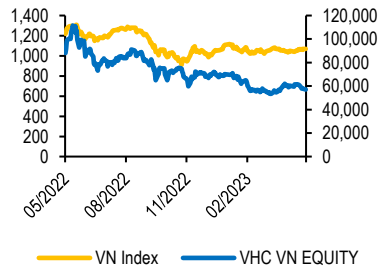
Update Report

Target price (12 months)	**102,800 VND**
Current price (07/08/2023)	78,100 VND
Return (%)	32%

VNINDEX	1,241
Market P/E (x)	16.8
Market Cap (bn VND)	14,322
Outstanding shares (1mn)	183
Free float (1mn)	91
52-week high/low (VND)	94,200/53,300
90-day avg. trading volume (1mn)	0.69
90-day avg.turnover (bn VND)	50
Foreign ownership (%)	30.51

Major shareholders (%)	Truong Thi Le Khanh	43.16
	Dragon Capital Group	6.93

Performance	3M	6M	12M
Abs (%)	27.0	16.6	-4.5
Rel to VN-Index (%)	7.7	0.1	-3.6



Source: Bloomberg

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Expected to recover from the end of Q3/2023

Update recommendation BUY, target price at VND 102,800

Vinh Hoan Corporation is the leading pangasius enterprise in Vietnam with an export proportion of more than 15%. Year 2023 is forecasted to be a difficult year for the pangasius industry in general and Vinh Hoan in particular. However, we estimate that the company's pangasius export segment will recover from late Q3/2023 or early Q4/2023 thanks to the improvement on demand from the US market. Based on the FCFF and EV/EBITDA methods, we update the target price of VHC at VND 102,800 thanks to a downward correction in WACC and positive outlook for 2024.

Update Vinh Hoan's business result in Q2/2023

In Q2/2023, Vinh Hoan Corporation recorded revenue and NPAT at VND 2,724 billion (-36% YoY) and VND 429 billion (+82% YoY). In conclusion, 6-month revenue reached VND 4,945 billion (-34% YoY) and NPAT reached VND 656 billion (-52% YoY). The number of orders still showed no signs of improvement, the interest expense increased sharply along with the high base level of the previous year, causing both revenue and NPAT to drop sharply. The situation of the company's business segments in Q2/2023 is as follows:

Pangasius segment: Pangasius segment revenue reached VND2,886 billion (-42% YoY) mainly affected by low selling price and volume. The main revenue coming from the US market is still dropping sharply by double digits at -56% YoY with the estimated export price at 3.5 USD/kg (-20% YoY). However, revenue from China and domestic market recorded high growth in June, at +30% MoM and 19% MoM respectively. With the price of raw pangasius still on the bottom line, causing people not to have the motivation to return to farming and the order situation has not improved, we expect the company's revenue to grow again from quarter 4/2023.

Collagen & Gelatine and Sa Giang: Sales of collagen & gelatin, by-products and revenue from Sa Giang recorded VND 347 billion (-23% YoY), VND 782 billion (-32% YoY) and VND 199 billion (-17% YoY) respectively. due to a decrease in export revenue.

Processing dried fruit: The company's management expects the gross margin of this segment to be at 15% and bring in revenue this year of VND 350 billion.

In the first 6 months, Vinh Hoan achieved 43% of its revenue target and 63% of its NPAT target. We revise our revenue forecast for VHC in 2023 at VND10,676 billion (-19% YoY) and NPAT at VND1,238 billion (-39% YoY) and forecast 2024 revenue at VND15,426 billion (+45 % YoY) and NPAT at VND 2,214 billion (+79% YoY), thanks to export recovery from late Q3/2023.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**13,231**	**10,676**	**15,426**	**17,144**	**11,995**
OP (bn VND)	2,254	1,410	2,511	2,723	1,532
NP (bn VND)	**2,013**	**1,238**	**2,214**	**2,355**	**1,336**
EPS (VND)	10,035	6,172	9,710	10,331	5,862
BPS (VND)	39,093	43,518	48,182	56,710	60,684
OPM	17.0	13.2	16.3	15.9	12.8
NPM	15.2	11.6	14.4	13.7	11.1
ROE	29.6	29.6	15.2	23.0	20.2
PER (x)	7.0	12.4	7.9	7.4	7.0
PBR (x)	1.8	1.8	1.6	1.3	1.8
EV/EBITDA (x)	5.0	9.2	5.7	5.3	4.8

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

We use Discounted Cash Flow (DCF) and EV/EBITDA valuation methods to value VHC with 40%-60% weighted. We maintain our BUY recommendation with a target price of VND 102,800, equivalent to a return of 32%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**10.63**
Risk-free rate (%)	3.0
Equity risk premium (%)	9.57
Beta	0.95
Cost of debt (%)	6.5
Cost of equity (%)	12.12
Debt-to-equity ratio	0.23
Total debt (bn VND)	2,811

Source: Company data, Shinhan Securities Vietnam

DCF valuation					
Unit: billion VND	**2H2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	583	2,214	2,355	1,336	2,045
After-tax interest expense	73	154	199	129	160
Depreciation & Amortization	254	539	556	574	593
Change in working capital	464	(417)	(20)	144	(740)
CapEx	(836)	(786)	(304)	(278)	(353)
Free Cash Flow to Firm (FCFF)	**538**	**1,703**	**2,786**	**1,906**	**1,704**
PV of FCF	511	1,468	2,170	1,324	1,070
Growth rate (%)	2%				
Present value of long-term value	12,260				
Enterprise value	18,804				
Debt	(2,811)				
Cash and cash equivalents	1,964				
Minority interest	(24)				
Owner's equity value	17,933				
Number of shares oustanding (million)	183.377				
Target price (VND)	**97,795**				

Source: Company Data, Shinhan Securities Vietnam

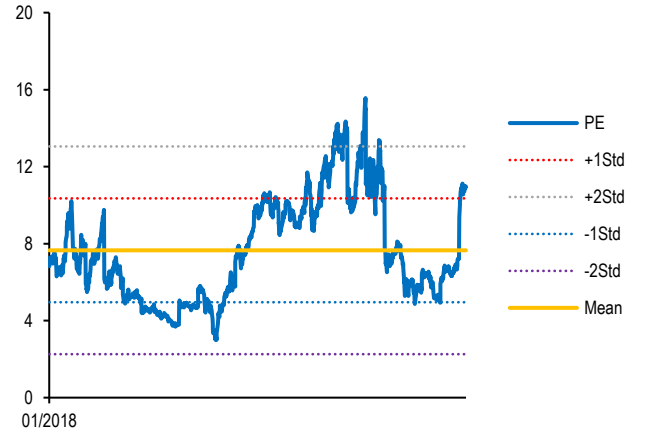
Based on the EV/EBITDA method, we collected data from companies in the same industry similar to VHC, plus VHC's 5 year average EV/EBITDA with a weight of 50%. We estimate VHC's target EV/EBITDA at 7.60x. With the 2023 forward EBITDA at VND 2,676 billion, VHC's target price is VND 96,423.

Peer valuation

Tickers	Company name	EV/EBITDA	Mkt Cap (bn VND)
MPC VN Equity	Minh Phu Seafood Corporation	6.74	7,319
ANV VN Equity	Nam Viet Corporation	10.94	4,846
ASM VN Equity	Sao Mai Group	7.80	3,094
FMC VN Equity	Sao Ta Foods	7.11	3,041
IDI VN Equity	International Development & Investment	10.88	3,210
Mean	7.51		
5 yrs average of VHC	7.69		
Target EV/EBITDA	7.60		
EBITDA forward	2,676		
Enterprise value	20,331		
Debt	(2,811)		
Cash and cash equivalents	1,964		
Minority interest	(24)		
Owner's equity value	19,460		
Number of shares oustanding (million)	183.377		
Target price (VND)	**106,121**		

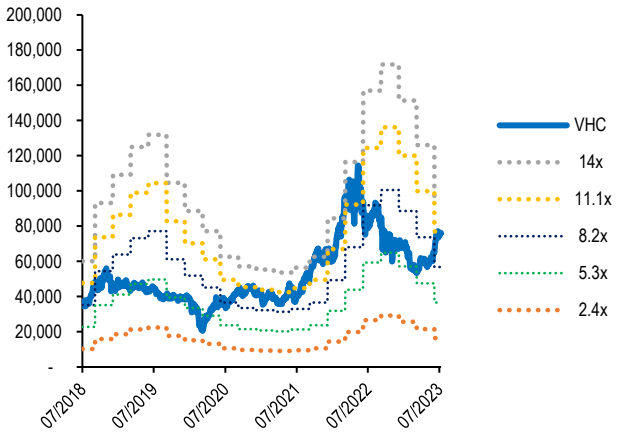
Source: Company Data, Shinhan Securities Vietnam

PER of VHC



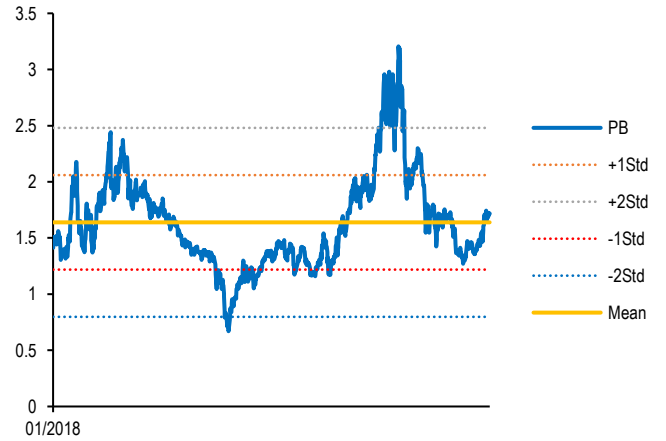
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PER band chart of VHC



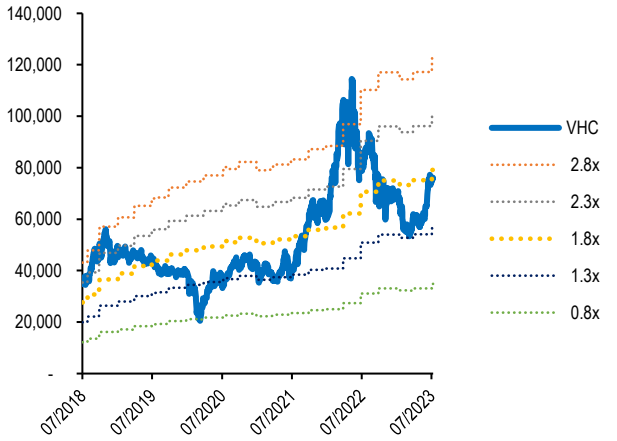
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PBR of VHC



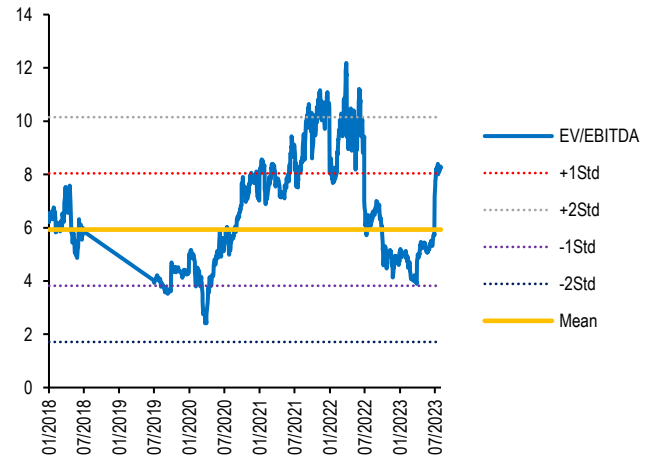
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PBR band chart of VHC



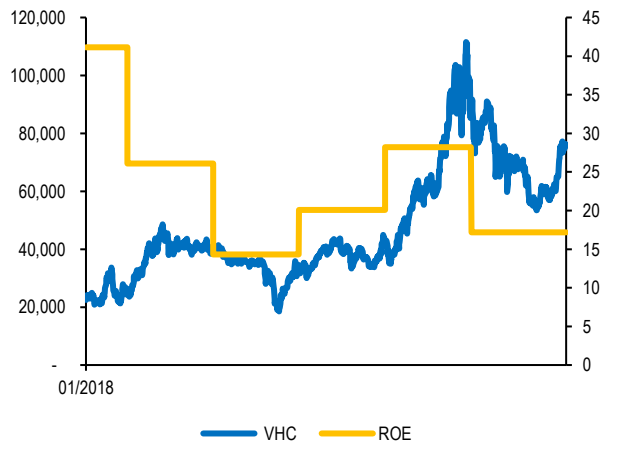
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

EV/EBITDA of VHC



Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Correlation between VHC's price and ROE



Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Key events chart of VHC



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Company background

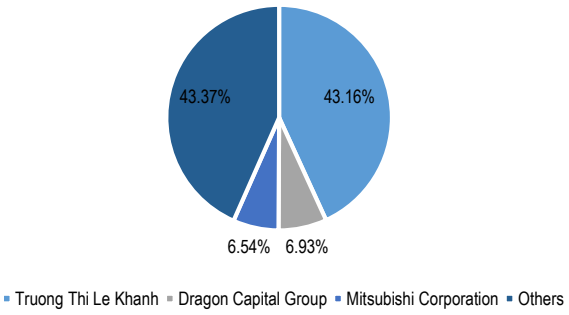
History of development

Vinh Hoan was established in 1997 in Dong Thap province, located in the Mekong Delta, specializing in farming and processing frozen pangasius products. In 2010, Vinh Hoan rose to the top of Vietnam's pangasius industry in export turnover, according to the Vietnam Association of Seafood Exporters and Producers ("VASEP"). Currently, Vinh Hoan is the enterprise with the largest export market share in the industry, accounting for 17% (in 2021), nearly three times higher than the remaining competitors. The company's chairman is Mrs. Truong Thi Le Khanh, with more than 20 years of work in the pangasius industry. Beside her are effective assistants taking on many segments from farming and processing to sales strategy, such as: Ms. Nguyen Ngo Vi Tam has been in charge of anti-dumping lawsuits in the US; at the end of last year, Mrs. Khanh's daughter, Le Ngoc Tien, became the company's strategic director with the direction of digital transformation within the next 3 years, as well as managing the company's investment activities. Therefore, in the past year, Vinh Technology has invested in two companies specializing in alternative protein aquafeeds, Entobel and Shiok Meats.

Vinh Hoan has main business activities in farming and processing pangasius products. Vinh Hoan's revenue by product can be listed as: fillet, collagen & gelatine, and by-products. The fillet segment brought Vinh Hoan's largest revenue source, accounting for 66%, along with by-products and collagen & gelatine contributed 19% and 7% of total revenue in 2021, respectively. In 2022, Vinh Hoan has returned with an aqua feed factory project and many new segments that promise to help improve the gross profit when the frozen pangasius export segment faces fluctuations.

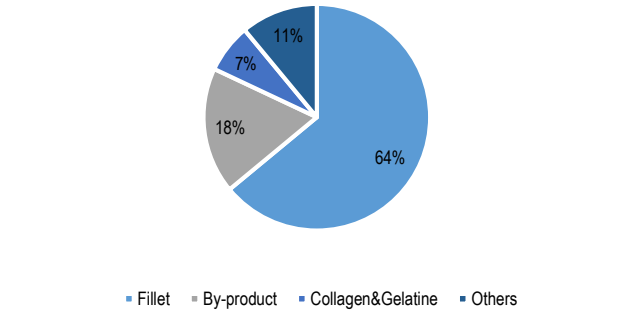
Vinh Hoan Corp. has been officially listed on the Ho Chi Minh Stock Exchange since 2007, under the ticker 'VHC'.

Shareholder's structure



Source: Company Data, Shinhan Securities Vietnam

Revenue by products in 2022



Source: Company Data, Shinhan Securities Vietnam

Appendix : Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	**8,738**	**11,583**	**12,311**	**15,848**	**18,258**
Current assets	5,543	7,640	7,684	10,928	13,570
Cash & equivalents	195	553	353	824	1,509
Short-term financial asset	1,272	1,768	1,212	2,986	5,033
Accounts receivable	2,132	2,330	2,290	3,031	2,844
Inventories	1,793	2,818	3,661	3,854	3,934
Non-current assets	3,195	3,943	4,627	4,920	4,688
Net fixed assets	2,067	2,824	3,853	4,533	4,281
Investment assets	337	446	627	632	332
Other long-term assets	160	212	501	487	441
Total liabilities	**2,854**	**3,889**	**3,746**	**5,069**	**5,571**
Current liabilities	2,680	3,698	3,564	4,824	5,292
Accounts payable	340	448	416	658	497
Short-term borrowings	1,735	2,214	2,349	2,987	3,546
Others	605	1,037	799	1,179	1,249
Non-current liabilities	174	191	182	245	279
Long-term borrowings	156	175	163	220	253
Other financial liabilities	17	16	19	25	26
Total shareholders' equity	**5,884**	**7,694**	**8,565**	**10,779**	**12,687**
Capital stock	1,834	1,834	2,237	2,237	2,237
Capital surplus	224	264	264	264	264
Other capital	(114)	0	-	-	-
Retained earnings	3,838	5,426	5,871	8,043	9,907
Non-controlling interest equity	102	171	194	236	280
*Total debt	1,891	2,388	2,511	3,207	3,799
*Net debt (cash)	424	67	947	(603)	(2,743)

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**9,054**	**13,231**	**10,676**	**15,426**	**17,144**
Growth (%)	28.7	46.1	(19.3)	44.5	11.1
COGS	**(7,298)**	**(10,255)**	**(8,754)**	**(12,187)**	**(13,544)**
Gross profit	**1,756**	**2,976**	**1,922**	**3,240**	**3,600**
GPM (%)	19.4	22.5	18.0	21.0	21.0
SG&A	**(557)**	**(721)**	(511)	(729)	(877)
Operating profit	**1,199**	**2,254**	**1,410**	**2,511**	**2,723**
Growth (%)	72.4	88.0	(37.4)	78.0	8.5
OPM (%)	13.2	17.0	13.2	16.3	15.9
Non-operating profit	**80**	**68**	**34**	**71**	**28**
Financial income	195	434	317	449	485
Financial expense	(107)	(370)	(274)	(362)	(447)
In which: interest expenses	(35)	(97)	(164)	(178)	(229)
Net other non-operating profit	(8)	4	(8)	(15)	(10)
Pre-tax profit	**1,280**	**2,323**	**1,444**	**2,582**	**2,751**
Income tax	(173)	(310)	(206)	(369)	(395)
Net profit	**1,107**	**2,013**	**1,238**	**2,214**	**2,355**
Growth (%)	53.8	81.9	(38.5)	78.8	6.4
NPM (%)	12.2	15.2	11.6	14.4	13.7
Controlling interest	1,099	1,975	1,215	2,172	2,311
Non-controlling interest	8	38	23	41	44
EBIT	**1,314**	**2,420**	**1,608**	**2,760**	**2,980**
Growth (%)	59.3	81.5	(37.8)	78.8	6.5
EBIT Margin (%)	14.5	18.3	15.1	17.9	17.4
EBITDA	**1,599**	**2,747**	**2,053**	**3,299**	**3,536**
Growth (%)	53.1	71.8	(25.3)	60.7	7.2
EBITDA margin (%)	17.7	20.8	19.2	21.4	20.6

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**458**	**1,648**	**662**	**2,336**	**2,891**
Net profit	1,107	2,013	1,238	2,214	2,355
Depreciation expense	285	327	445	539	556
(Gain) from investing activities		-	-	-	-
Change in working capital	(933)	(692)	(1,021)	(417)	(20)
Others	-	-	-	-	-
Cash flow from investments	**(1,020)**	**(1,573)**	**(619)**	**(2,560)**	**(2,351)**
Change in fixed assets	(941)	(1,072)	(1,475)	(1,218)	(304)
Change in investment assets	98	(496)	556	(1,774)	(2,047)
Others	(177)	(5)	300	432	-
Cash flow from financing	717	284	(244)	695	144
Change in equity	-	154	-	-	-
Net borrowing	717	497	123	695	592
Dividends	-	(367)	(367)	-	(447)
Change in total cash	155	360	(200)	471	685
Beginning cash	41	195	553	353	824
Change in FX rates	(0)	-	-	-	-
Ending cash	195	555	353	824	1,509

Source: Company data, Shinhan Securities Vietnam

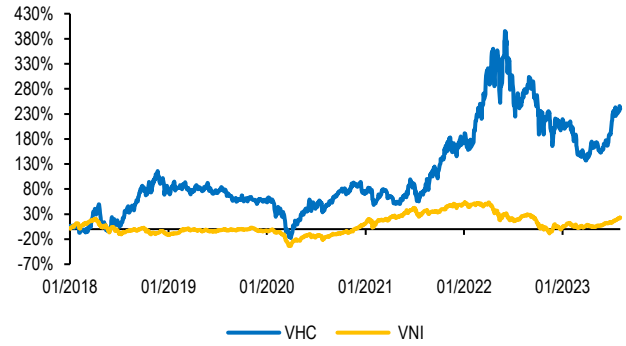
Key ratios

Năm	2021	2022	2023F	2024F	2025F
EPS (VND)	5,993	10,035	6,172	9,710	10,331
BPS (VND)	32,087	39,093	43,518	48,182	56,710
DPS (VND)	0	2,000	1,639	0	2,000
PER (x)	10.5	7.0	12.4	7.9	7.4
PBR (x)	2.0	1.8	1.8	1.6	1.3
EV/EBITDA (x)	8.3	4.8	9.2	5.7	5.3
Dividend payout ratio (%)	0.0	18.2	29.6	0.0	19.0
Dividend yield (%)	0.0	28.7	21.5	0.0	26.2
Profitability					
EBITDA margin (%)	17.7	20.8	19.2	21.4	20.6
OPM (%)	13.2	17.0	13.2	16.3	15.9
NPM (%)	12.2	15.2	11.6	14.4	13.7
ROA (%)	13.9	19.8	10.4	15.7	13.8
ROE (%)	20.0	29.6	15.2	22.9	20.1
Stability					
Debt to equity ratio (%)	32.1	31.0	29.3	29.8	29.9
Net debt ratio (%)	26.5	2.5	46.1	(18.3)	(77.6)
Cash ratio (%)	54.7	62.8	43.9	79.0	123.6
Interest coverage ratio (x)	37.9	24.9	9.8	15.5	13.0
Activity (%)					
Working capital turnover (days)	120.9	82.3	174.0	131.8	161.1
Inventory turnover (days)	82.6	82.1	135.1	112.5	104.9
Receivable turnover (days)	77.0	61.5	79.0	62.9	62.5

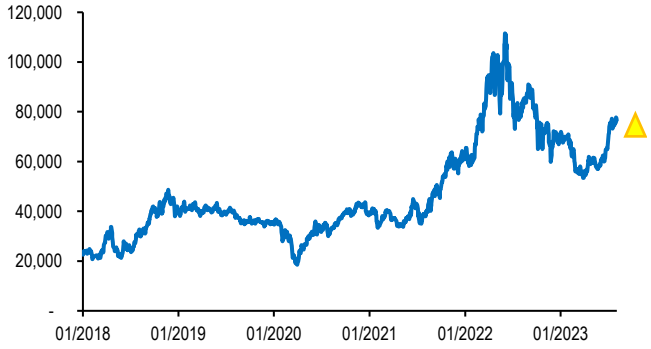
Source: Company data, Shinhan Securities Vietnam

VHC Corp. (VHC VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%) Average	Max/Min
04/08/2022 (Initation)	BUY	101,432	39.8	-11.4/159.8
24/02/2023 (Update)	BUY	72,700	-10.7	-36.5/21.6
24/05/2023 (Update)	BUY	81,300	9.4	-31.1/52.5
07/08/2023 (Update)	BUY	102,800	49.9	11.7/92.9

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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