

Sector : Agriculture (Latest report: [Link](#))

Vinh Hoan Corporation (HSX: VHC)

The worst time has passed

Recommendation Neutral

Current price:	36,700	Date:	07/08/2020	Major shareholders (%)	
Previous target price	33,800	Outstanding share (mil)	182	Truong Thi Le Khanh	43.1%
Current target price	39,000	Market cap (VND bil)	6,677	Mitsubishi Corporation	6.5%
Dividend yield	0%	Average Volume 10 days (share)	519,232	Vietnam Investment Fund	4.9%
Upside	6%	Foreign Ownership	32.39%	Norges Bank	1.9%

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Target price: N/A
Cut loss price: N/A

Table Comparison VNINDEX and Stock chart

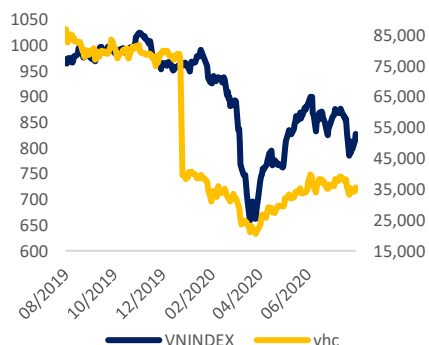
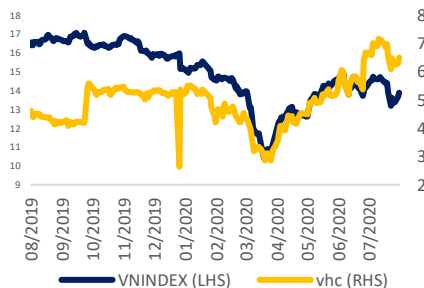


Table Comparison VNINDEX and Stock's



Valuation

- We maintain our NEUTRAL recommendation for VHC stock with latest target price of 39,000 VND per share (+ 6% upside) as we upgrade P/E multiple from 5.5 to 6.5 based on these following assumptions (i) expectation for recovery in the second half of 2020 (+ 28% YoY) (ii) high growth in 2021 from low level of 2020 (EPS 2021 fw – 7,067, PE fw 2021 =4.7)

Business forecast

- In 2020, BSC expect VHC to post a respective VND 8,544bn (+8.6% YoY) and VND 951bn (-19.4% YoY) which is equivalent to a growth rate of +28% YoY in the second half of this year. EPS 2020 reaches VND 5.169 per share, P/E fw 2020 reaches 7.1.

Investment themes

- Expectation for impressive recovery in the second half of this year
- Growth from new Collagen and Gelatin production line, supporting a more sustainable business model

Risks

- Potential upsticks in corona virus cases in major exporting markets
- Delay of new Collagen and Geltain production line

Company Business Result Update

- The first half of FY 2020 suffered a significant drop in earning due to (i) high base result in FY 2019 (ii) exporting value slumped during corona virus lockdown. Net sales totaled VND 3,266bn (-14.3% YoY) and NPAT posted VND 368bn (-49.5% YoY)

Exporting value to major markets maintain our previous forecast: USA market revenue swung to a strong decline of 462% QoQ while Chinese market strongly bounce back by a growth rate of 285% QoQ.

	2019	2020F	Peer	VN-Index		2018	2019	2020F	2021F
PE (x)	5.2	5.7	7.4	14.1	Revenue	9,323	7,867	8,544	10,827
PB (x)	2.2	1.2	0.7	1.9	Gross profit	2,042	1,533	1,505	1,919
PS (x)	0.9	0.8	0.4	29	Profit after tax	1,452	1,179	951	1,296
ROE (%)	26.5%	18.3%	4.6%	13.6%	EPS	15,585	12,559	5,169	7,067
ROA (%)	18.3%	13.6%	1.2%	2.4%	EPS Growth	138%	-19%	N/A	37%
					Liability/Equity	57%	36%	43%	42%

I. First six month business result update

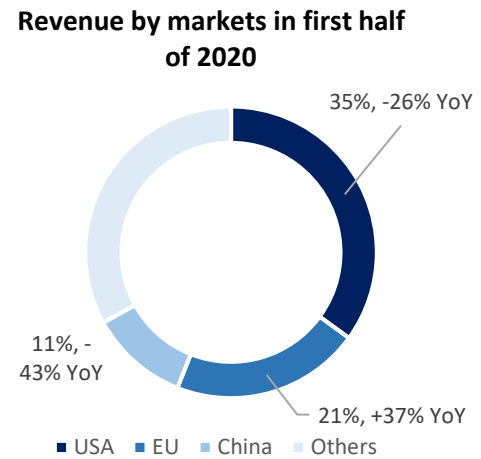
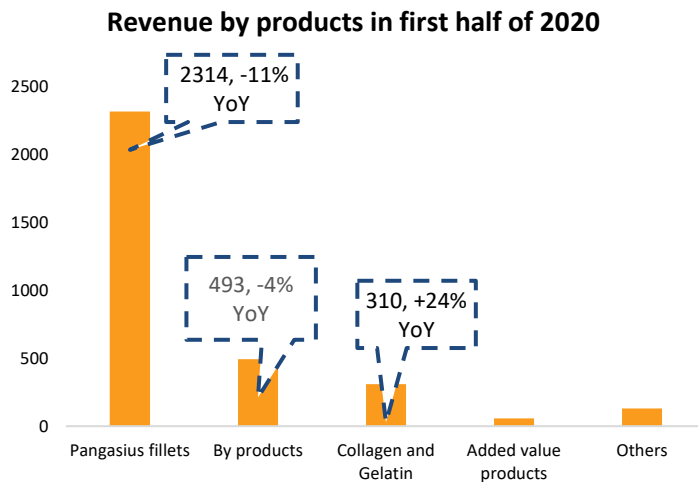
First half of this year business year suffered a significant drop in earning due to (i) high level in FY 2019 (ii) export value was hit hard by Covid 19 pandemic. VHC totaled VND 3,266bn (-14.3% YoY) in net sales and VND 368bn (-49.5% YoY) in net profit (or -42.8% YoY if adjusted the one off profit from selling subsidiary in FY 2019), accomplishing 38% of revenue plan and 35% of profit plan.

Export value to major markets came up to our expectation:

+ USA: In Q2.2020, revenue reached VND 402bn (-47% QoQ) due to national lockdown in April disrupting commodity trade

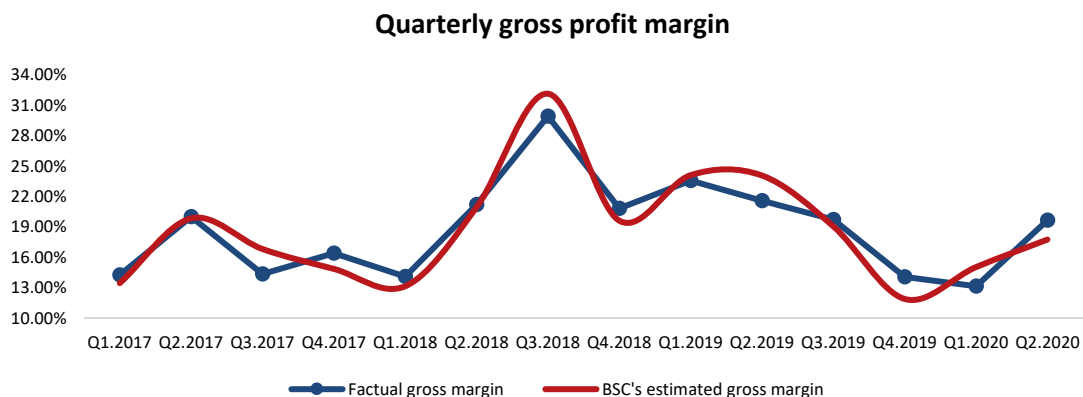
+ China: In Q2.2020, revenue recored VND 281bn (+285% QoQ). Key driver continued to come from recover demand when lockdown ended

+ However, EU showed a more positive result than our expectation with revenue of VND 419bn (+54% YoY). Thanks to (i) higher proportion of supermarket channel in EU and (ii) tendency to user lower fishery products, EU market recorded encouraging growth amid corona virus.



Source: VHC

Gross profit margin in Q2.2020 saw a rally to 19.6% compared to 13.1% of previous quarter. BSC thinks that the rally came from the provision for devaluation of inventory recorded in Q1.2020 with the total value of VND 66bn (~ 30% of total gross profit in Q1.2020). BSC had reevaluated gross profit margin (by contributing equally expense for devaluation of inventory) and estimated that gross profit margin in Q2.2020 to be 17.3% while that of Q1.2020 was 15.01%. Moreover, Collagen and Gelatin revenue whose gross profit is higher took account of an increasing share in Q2.2020 also supported the increase in total margin.



Source: VHC, BSC Research

Also in Q2.2020, VHC – for the first time – had allocated money to trading securities (mainly MWG, FPT, HPG). We do not have high opinion for this shift from saving accounts to trading securities. By the end of quarter, the company had provisioned VND 6bn for the loss of investments. Representatives of VHC confirmed that allocation to trading securities was mainly short term when expansion projects were delayed due to Covid – 19.

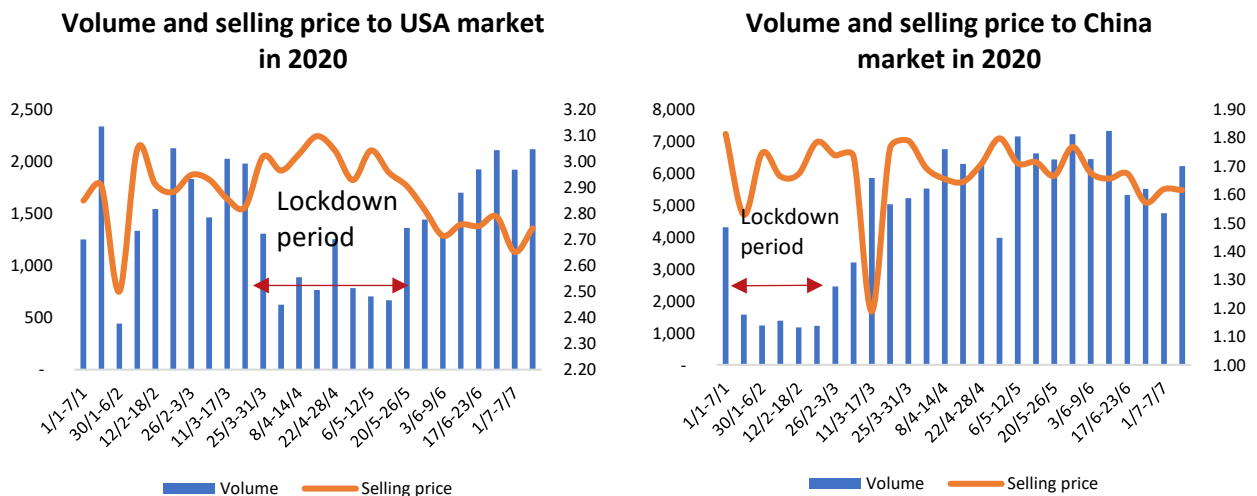
II. Investment themes

BSC expects VHC’s business result will observe an encouraging recovery in the second half of this year

(i) Recovering demand when lockdown ended and HORECA channel bounces back to normal. Due to the low inventory of pangasius in exporting markets as commerce was disrupted in the first half of this year, demand is expected to surge as soon as lockdown ends when importers tend to increase these low level of inventory.

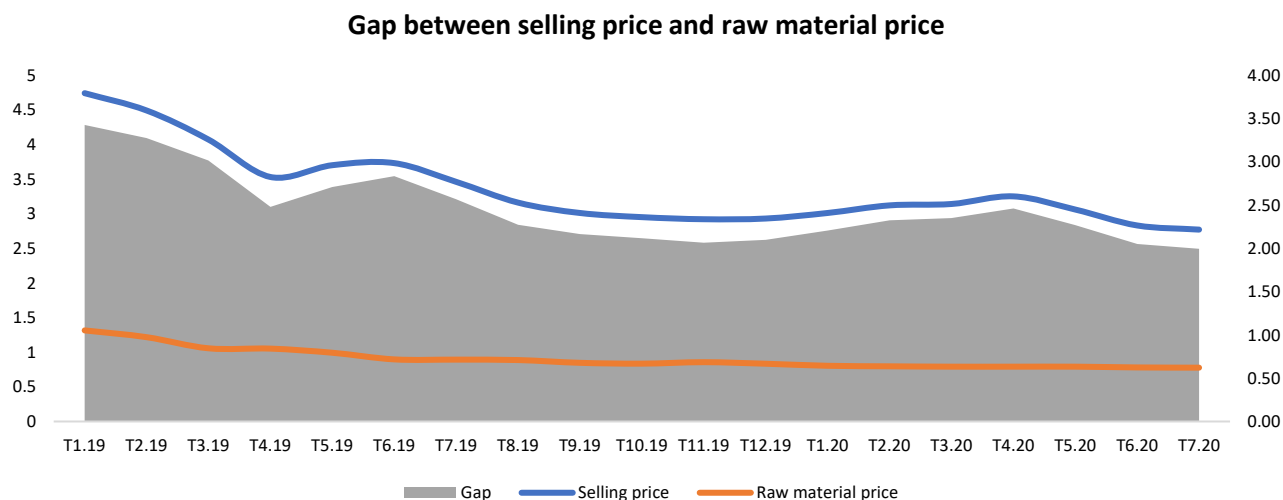
+ Even the average selling price in China is still at low level, exported volume to Chinese market show a strong recovery: in consecutive 4 months (03/11 – 04/07), pangasius volume to China reached 5.9 thousand tons per week; nearly tripling weekly exported volume in the lockdown period and 13% higher than the same period of last year.

+ When the national lockdown ended in May, exported volume to USA market observed a recovery and reached 1.7 thousand tons per week, doubling weekly volume in the lockdown period and slightly over volume before the pandemic. BSC evaluates that exported value to USA will be the same path of recovery of China market.



Source: Thitruongthuysan

BSC believes that the increase in export volume is a positive signal, however, the selling price is still at the bottom and there is no sign of recovery yet, showing that the expectation of pangasius can reverse is not really certain.



Source: Thitruongthuysan

(ii) Growth of Collagen and Gelatin segment comes from new manufacturing line coming to production from the fourth quarter of 2020 and 2021

BSC expects that the Collagen and Gelatin expansion line (up 75% capacity to 3,500 tons of finished products / year) after being completed by the end of August 2020, can contribute revenue and profit from the end of 2020 onwards.

We believe that (i) VHC has had 5 years of experience in running Collagen and Gelatin plants and (ii) that current collagen demand exceeds capacity will help the new line quickly to create revenue and profit.

BSC assesses that Collagen and Gelatin products will change VHC's business model to be more sustainable, and to reduce strong fluctuations of traditional pangasius products.

	2016	2017	2018 P	2018	2019 P	2019	2020 P
Revenue (bn VND)	28	157	260	283	473	550	875
NPAT (bn VND)	-12	-13	40	83	180	200	
Sales share	0.4%	1.9%		3.0%		7.0%	10.2%
NPAT share				5.7%		16.9%	

Sources: VHC

III. FORECAST AND VALUATION

In 2020, BSC forecasts that VHC's net revenue and profit after tax will be respectively VND 8,544bn (+8.6% YoY) and VND 947 bn (-19.6% YoY) based on the following assumptions:

+ Revenue breakdown: Pangasius fillet revenue is about VND 5,978bn (+4.8% YoY), accounting for 70% of total revenue. Merchandise sales is about VND 1,441bn (+23.9% YoY) and by-products revenue is about VND 960bn (-0.7% YoY).

+ Exporting market breakdown: US market reaches VND 3,718bn (~40% of total revenue), China market reach VND 1,025bn (~12% of total revenue), EU market records VND 1,965 bn (~23% of total revenue). By the first 6 month, VHC's revenue breakdown came up to our expectation: USA market – 35% total revenue, Chinese market – 11% total revenue while EU market – 21% total revenue.

+ Gross profit margin in FY 2020 is forecast to reach 17.6%, down from 19.4% last year. In the first half of this year, gross profit margin reached 15.3%. BSC expects that in the second half of FY 2020 (i) a slight increase in selling price from the last quarter (ii) raw materials fluctuate around low level supports a widening gross profit margin.

+ SG&A expense margin in FY 2020 is 4.9%, mild decrease by 0.2% compared to FY 2019.

Table Business Forecast of VHC

Unit: VND bn	2018	2019	2020F	2021F
Net revenue	9,271	7,867	8,544	10,827
<i>Growth</i>	13.7%	-15.1%	8.6%	
Finished product revenue	7,366	5,699	5,978	
By – product revenue	1,102	967	960	
Merchandise revenue	864	1,163	1,441	
Raw material revenue	21	9	47	
Service product	53	55	55	
Cost of goods sold	(7,232)	(6,334)	(7,039)	(8,908)
Gross profit margin	2,039	1,533	1,505	1,918
<i>Gross margin</i>	21.9%	19.4%	17.6%	17.7%
Selling expense	(210)	(252)	(231)	(292)
<i>Selling expense margin</i>	2.2%	3.2%	2.7%	2.7%
Administration expense	(144)	(149)	(191)	(196)
<i>Administration expense margin</i>	1.5%	1.9%	2.2%	1.8%
Profit before tax	1,688	1,309	1,118	1,529
Profit after tax	1,442	1,180	951	1,300
EPS	15,489	12,573	5,169	7,067
<i>Growth</i>	137.9%	-18.8%		37.1%

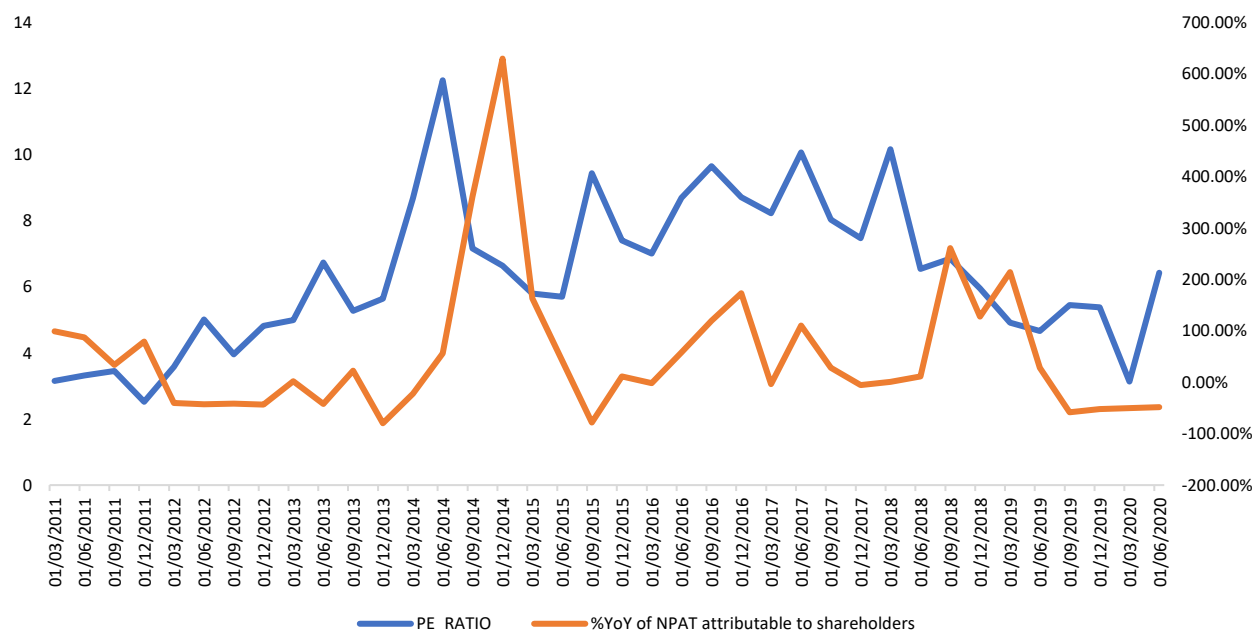
Source: BSC Research

PE multiple approach: Currently, VHC stock is traded around P/E trailing of 5.3, discount of 14% compared to 10 year median PE multiple. Based on the expectation of (i) impressive recovery in the second half of this year and (ii) high growth in FY 2021 from the low level of FY 2020, BSC thinks that a down cycle for VHC has ended and the company is in the initial stage for recovery cycle. Therefore, we decided to upgrade target PE multiple from 5.5 to 6.5.

Table PE multiple for VHC classified by cycles

	P/E
Up cycle 2017 – 2018	7.16
Up cycle 2014 – 2015	6.64
Down cycle 2019 – 2020	5.37
Down cycle 2012 – 2013	4.81
10 year median PE	6.19

Quarterly PE multiple and Growth of NPAT attributable to shareholders



Source: Bloomberg

PE approach	2020	2021	2022
EPS	5,169	7,067	8,127
PE	6.5	6.5	6.5
Target price	33,590	45,935	52,826

Source: BSC Research

FCFF approach

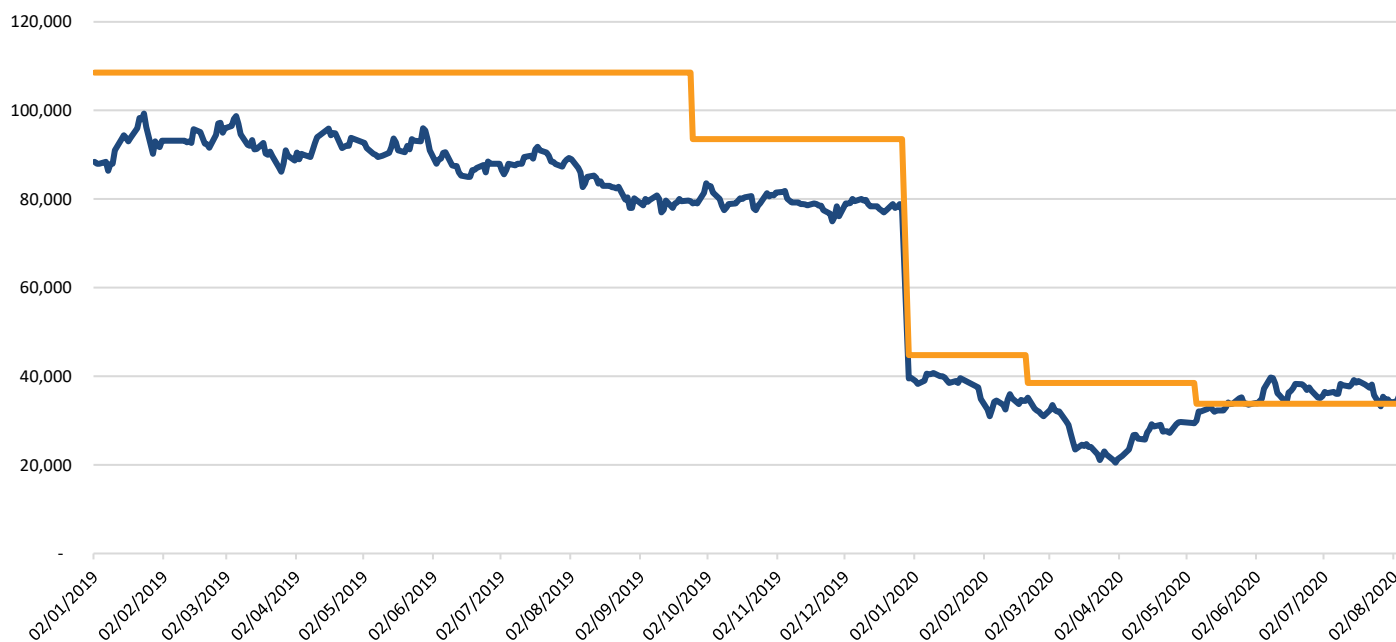
	2020	2021	2022
Free cash flow to firm	623	350	760
Present value	7,439		
Total firm value	9,017		
Debt	866		
Equity value	8,151		
Number of shares	183,376,956		
Value of a share (VND)	44,500		

WACC	
Rf	6%
Beta	0.9
Ke	13.83%
Kd	8%
E/A	60%
Tax rate	20%
WACC	10.86%
g	1%

	Price	Proportion	Average price
FCFF	44,500	50%	22,250
P/E	33,500	50%	16,750
		Target price	39,000
		Current price	36,800
		Upside	5.98%

We maintain our **NEUTRAL** recommendation with the latest target price of VND 39,000 per share based on 2 different approaches, increasing 15.3% compared to the previous target price of VND 33,000 per share.

VHC STOCK CHART AND BSC'S RECOMMENDATION



TECHNICAL ANALYSIS

VHC – Vinh Hoan corporation

Technical highlights:

- Current trend: Consolidating.
- Trend indicator MACD: The MACD line is above the signal line.
- RSI indicator: Above the value 50.
- MA: EMA12 is above EMA26.

Outlook: VHC is in a medium-term consolidating status as this stock in recent weeks have mainly fluctuated below the 39-40 resistance zone after having had a period of price increase since the beginning of April. Currently in favor of the uptrend but has turned to the side where a reversal might occur. Stock liquidity also decreased and is lower than the 20-week average volume. Momentum indicator RSI remains above 50, so VHC might continue to move sideways for another 1, 2 weeks. In general, the market movement is still quite uncertain, so it will be difficult for VHC to make a breakthrough under such conditions. According to our current assessment, it is likely that this stock will see a correction to lower support levels before having a strong push in the future so that VHC can reestablish its long-term uptrend.

Recommendation: Investors should observe more upcoming movements of VHC before deciding to disburse, consider reducing the proportion if holding.



Source: BSC, PTKT iTrade

APPENDIX 1: Collagen and Gelatin

I. Overview of Collagen and Gelatin

Collagen is one kind of protein which takes account of 25% of total body mass. It binds cell and tissue, boosts the metabolism. Gelatin is one of the products made from Collagen, used in Foods, Medical Industry.

According to QY Research, global Collagen market size reached USD 3.1bn in 2018 and CAGR growth is expected to be 5.09% in the period 2017 – 2025.

a. Sources of Collagen

Collagen may be produced from different parts of body (ex: skin, bones, ...) of different animals (ex: pork, fish, ...). QY Research estimated that source of Collagen from bovine are the most widely used sources (~42.6% of total sales share). However, Collagen from marine is expected to observe the highest growth due to increasing popularity.

Table Overview of the market for each source of collagen

	Volume (MT) 2017	Volume (MT) 2025	Sales share 2017	Sales share 2025F	Rvenue 2018 (mn USD)	Revenue share 2018
Bovine	34,053	48,819	42.57%	41.03%	1,186.91	37.85%
Porcine	17,230	23,951	21.54%	20.13%	568.81	18.14%
Marine	24,502	40,038	30.63%	33.65%	1,200.24	38.28%
Others	4,208	6,175	5.26%	5.19%	179.62	5.73%
Total	79,993	118,983	100%	100%	3,135.58	100%

Table Comparision of strength and weakness of each source of collagen

	Bovine	Porcine	Marine
Strength	<ul style="list-style-type: none"> + High processing yields (8 - 20%) + Lower expense compared to marine Collagen + Able to be Halal/ Kosher certified* 	<ul style="list-style-type: none"> The most inexpensive 	<ul style="list-style-type: none"> + Highly bioavailable + Considered to be safe for most of applications
Weakness	<ul style="list-style-type: none"> + Sensitive to those who identify as Hindu, Sikh + Allergic to bovine Collagen 	<ul style="list-style-type: none"> + Forbidden by those who identify as Islamic 	<ul style="list-style-type: none"> + Low processing yields (1.2%)**

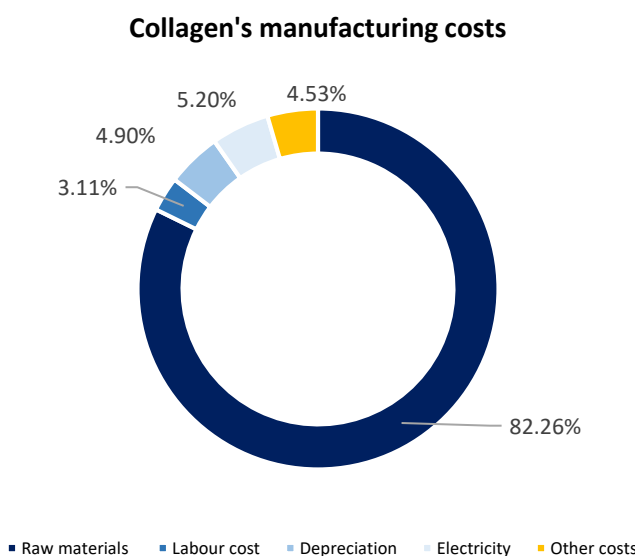
*Halal/ Kosher certification: certificates confirming that products is free of prohibited substances as required by Shari'ah Islamiah and meets food requirements.

**1 kg of raw materials produces 12g of Collagen

Source: QY Research

b. Collagen manufacturing expense

Dependent on source of collagen, manufacturing cost will be different: collagen from marine source usually has the highest cost due to low processing yields (1.2% compared to 8% - 20% from bovine). Moreover, commodity price (pork price, ...) may have impact on Collagen expense



Source: BSC Research

c. Applications for Collagen

Collagen and Gelatin have many applications in daily life, including:

- + Food and beverages: Jelly products, sausage casings,...
- + Nutraceuticals: Supplements,...
- + Cosmetics: Skincare products,...
- + Medicals

Market size for Nutraceuticals application was the biggest market share, accounting for 40% and remained to be the largest part in 2025.

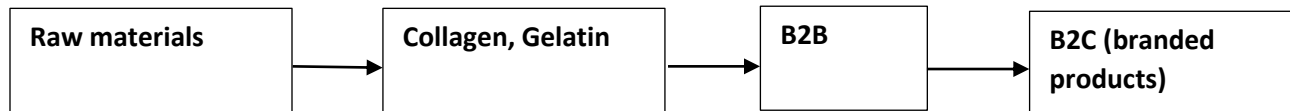
Table Application of Collagen

	2013 (MT)	2017 (MT)	2025 (MT)	Sales share 2017	Revenue (mn USD)	\$/MT
Food	17,614	21,694	32,399	27.23%	692.38	31,916
Nutraceuticals	25,989	32,125	47,665	40.06%	1,262.13	39,288
Cosmetics	6,605	8,239	12,374	10.40%	306.81	37,238
Medical	9,117	11,183	16,812	14.13%	447.26	39,995
Other	5,243	6,751	9,733	8.18%	241.79	35,815
Total	64,568	79,993	118,983	100%	2,950.38	36,883

Source: QY Research

II. So sánh một số doanh nghiệp sản xuất Collagen và Gelatin trên thế giới

Mô hình hoạt động của một số doanh nghiệp trong lĩnh vực Collagen



VHC's business model

Peers' business model

Most of companies specializing in Collage and Gelatin imports raw materials (ex: skins, ...) and produces branded products. This business model is different from VHC's business model which has its roots as a pangasius manufacturer. This difference may lead to difference in gross profit margin: VHC (~35% in FY 2019), Nitta (21% in FY 2016), Collagen Solution (73% in FY 2019)

Table Overview of some Collagen and Gelatin companies

Company	Market	Application	Source of collagen	Products
Collagen Matrix	USA	Medical	Bovine, Porcine	Medical Collagen
Gold Collagen	UK	Cosmetics	Marine	Collagen for cosmetics
Nitta Gelatin	Asia, North America	Food and Beverages, Nutraceuticals, Healthcare	Bovine, Porcine, Marine	Gelatin, Collagen
Nippi Inc	Japan	Nutraceuticals, Food, Medical, Cosmetics	Bovine, Porcine, Marine	Gelatin, Collagen, PVC Foam
Rousselot B.V.	EU, Asia, North America	Food, Beverages, Medical	Bovine, Porcine,	Gelatin and Collagen

Source: BSC Research

APPENDIX 2

Profit and Loss (bil VND)	2018	2019	2020F	2021F
Net revenue	9,323	7,867	8,544	10,827
Cost of goods sold	-7,281	-6,334	-7,039	-8,908
Gross profit	2,042	1,533	1,505	1,919
Selling expense	-209	-252	-230	-292
Administration expense	-142	-149	-191	-196
Income from business operation	1,747	1,308	1,118	1,568
Financial income	148	251	126	239
Financial expense	-178	-90	-96	-122
Interest expense	-56	-59	-96	-122
Income from associates/JVs	86	14	10	10
Net other income	-39	1	0	0
Profit before tax	1,708	1,309	1,118	1,568
Corporate Income Tax	-256	-130	-168	-235
Profit after tax	1,452	1,179	951	1,333
Net income attributable to NCI	0	0	0	0
Net income attributable to shareholders	1,452	1,179	945	1,333
EPS	15,585	12,559	5,169	7,247

CĐKT (Tỷ đồng)	2018	2019	2020F	2021F
Cash and cash equivalents	43	86	304	78
Short-term investments	608	1,492	1,492	1,492
Accounts receivable	1,999	1,516	1,790	2,269
Inventories	1,377	1,414	1,414	1,252
Other current assets	103	103	103	103
Total current assets	4,130	4,611	4,927	5,549
Fixed assets	1,407	1,504	1,701	2,094
Long-term assets in progress	259	335	285	235
Long-term investments	396	1	1	1
Other long-term assets	105	154	154	154
Total non-current assets	2,169	2,001	2,142	2,527
Total asset	6,299	6,612	7,070	8,076
Current payable	272	282	263	334
Short term borrowing	1,269	866	966	1,016
Other payables	253	218	338	352
Current Liabilities	2,242	1,716	1,667	1,897
Long-term borrowing	0	0	0	0
Other long-term payable	0	0	0	0
Non-current Liabilities	33	19	19	19
Total Liabilities	2,275	1,735	1,776	2,143
Contributed capital	924	1,834	1,834	1,834
Share premium	224	224	224	224
Retained earnings	2,876	2,931	3,183	3,754
Other funds	0	0	0	0
Non-controlling interest	0	0	0	0
Shareholders' Equity	4,024	4,991	5,294	5,933
Total liabilities and shareholders' equity	6,299	6,612	7,070	8,076
Outstanding number of share	92.4	183.3	183.3	183.3

LCTT (Tỷ đồng)	2018	2019	2020F	2021F
(Lỗ)/LNST	1,708	1,309	1,140	1,601
Khấu hao và phân bổ	150	165	193	256
Thay đổi vốn lưu động	-863	591	-145	-718
Điều chỉnh khác	-	-	-	-
LCTT từ HĐ KD	909	1,489	998	877
Tiền chi mua TSCĐ	-741	-378	-350	-600
Đầu tư khác	-136	-365	-300	-200
LCTT từ HĐ Đầu tư	-877	-743	-650	-800
Tiền chi trả cổ tức	-369	-185	-275	-275
Tiền từ vay ròng	325	-403	240	140
Tiền thu khác	-	-	-	-
LCTT từ HĐ Tài chính	-34	-703	-35	-135
Dòng tiền đầu kỳ	45	43	86	304
Dòng tiền cuối kỳ	43	86	304	78

Ratio(%)	2018	2019	2020F	2021F
Liquidity				
Current ratio	1.84	2.69	2.95	2.92
Cash ratio	1.18	1.80	2.15	2.02
Solvency				
Liabilities/Asset	36%	26%	26%	27%
Liabilities/Equity	57%	36%	35%	36%
Efficiency				
Inventory period (day)	64.8	80.4	69.1	58.1
Receivable collection period (day)	61.4	77.6	66.9	65.3
Payable payment period (day)	12.7	16.0	14.2	12.3
CCC	113.3	142.0	121.8	111.2
Profitability				
Gross profit margin	21.9%	19.5%	17.6%	17.7%
Net margin	15.6%	15.0%	11.3%	11.8%
ROE	41.7%	26.5%	18.8%	22.9%
ROA	25.6%	18.3%	14.1%	17.0%
Market ratio				
PE	8.1	6.1	6.5	6.5
PB	1.7	2.2		
Growth				
Revenue growth	14.4%	-15.6%	8.6%	26.7%
PBT growth	136.3%	-23.3%	-13.3%	37.1%
EPS growth	137.9%	-19.4%		37.1%

Source: BSC Research.

DISCLOSURE

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