

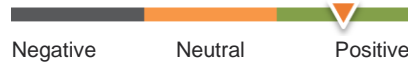
VINH HOAN CORPORATION (VHC) – INITIATION

Market Price VND78,900	Target Price VND93,900	Dividend Yield 5.1%	Rating ADD	Sector FISHERY
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Outlook – Short term



Outlook – Long term



Valuation



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Hinh Dinh Quang

hinh.dinh@vndirect.com.vn

Medium-term prospects are set to brighten up

Vietnam's pangasius exports expected to shine in medium term thanks to the following catalysts: (1) solid growing demands worldwide for farmed-fish, including pangasius products; (2) an envisaged decline in supply of other white-fish substitutes such as Alaska pollock and Pacific cod in the coming years, (3) U.S. high import tariffs imposed on China's white-fish exports; (4) lower tariffs on Vietnam's pangasius exported to major markets such as China and the European Union (EU).

VHC is well-equipped to capture the recovery of pangasius export business. VHC is the only Vietnamese pangasius exporter to enjoy the advantage of 0% anti-dumping duty given by the U.S. Department of Commerce (DOC). The integrated value chain allows the company to adapt all the strict requirements of export markets. In addition, the expansion plan in 2019-20 will lift the self-supply ratio up to 60% by late-2020 from current 40%, which might cut down the raw fish costs by 15%.

We expect VHC's results will strongly recover in FY20F thanks to supporting factors which would be materialised such as (1) rising U.S.-China trade tensions, (2) China's pork supply falling short due to African Swine Fever (ASF), and (3) lower tariff on Vietnam's pangasius exported to China and the EU.

We initiate coverage on VHC with an ADD rating and target price of VND93,900, based on an equal weighting of: (1) a target P/E of 4.1x (equivalent to peer average P/E) and a five-year DCF valuation. VHC currently trades at 5.4x FY19F EPS, which is 29% discount to its three-year average P/E. We consider now a right time to take a spot on VHC as negative impact from the slowdown of the U.S. market has largely been priced in, and we believe FY2020 could be a better year for VHC as revenue and net profit could post double-digit growth.

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	113,500
52w low (VND)	75,000
3m Avg daily volume (shares)	147,481
3m Avg daily value (VNDm)	12,776
Market cap (VNDbn)	7,290
Outstanding shares (m)	92.4
Free float (%)	45
TTM P/E (x)	4.2
Current P/B (x)	1.6

Ownership

Truong Thi Le Khanh	42.83%
Mitsubishi Corp	6.49%
Vo Phu Duc	5.91%
Others	55.23%

Source: VNDIRECT RESEARCH

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	8,151	9,271	9,103	10,151
Revenue growth	11.6%	13.7%	(1.8%)	11.5%
Gross margin	14.4%	22.0%	20.0%	21.6%
EBITDA margin	9.7%	20.5%	20.0%	20.9%
Net profit (bn)	605	1,442	1,367	1,562
Net profit growth	6.7%	138.5%	(5.2%)	14.3%
Recurring profit growth	3.5%	157.1%	(7.8%)	14.3%
Basic EPS	6,544	15,607	14,790	16,905
Adjusted EPS	6,111	15,489	14,568	16,651
BVPS	31,845	43,452	54,422	67,508
ROAE	22.7%	41.5%	30.2%	27.7%

Source: VNDIRECT RESEARCH

VHC HOLDS THE LEADING STANCE IN PANGASIOUS EXPOXT BUSINESS

Pronounced earnings growth driven by US market

Established in 1997, Vinh Hoan Corporation (VHC, HOSE) has gradually risen to become the largest pangasius exporter in the country since 2010. The company enjoyed an earnings CAGR of 52.3% in FY13-18, mostly driven by the export of pangasius fillets to the U.S. market (FY13-18 CAGR of 18.5%), per our estimation.

Export revenue contributed more than 92% of VHC’s total revenue. The firm ships most of its pangasius fillet, collagen and gelatin, a portion of its fish meal and fish oil. In 2018, VHC exported US\$345.1m of pangasius products, making up 15.3% of the total export value by Vietnam’s pangasius industry, according to data compiled by the Vietnam Association of Seafood Exporters and Producers (VASEP).

VHC focuses on the U.S. consumers who are willing to pay the highest price for Vietnamese pangasius. In 2018, VHC’s export value to the United States alone reached US\$257m, or 68% of its total export value, per our estimate. VHC seized about 47% of Vietnam’s pangasius export value to the U.S. market in as at end-2018, per our estimate

Figure 1: Top 5 pangasius exporters in Vietnam (2018)

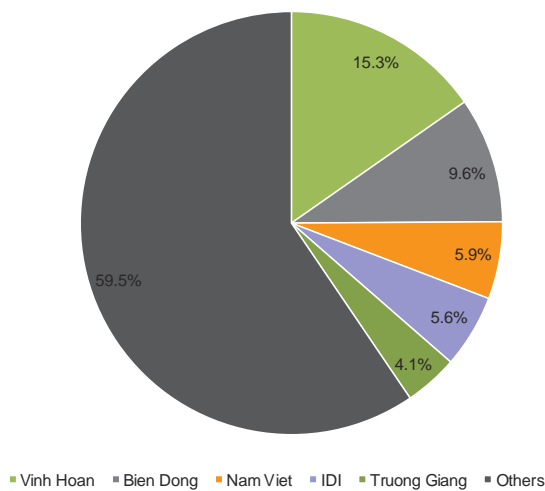
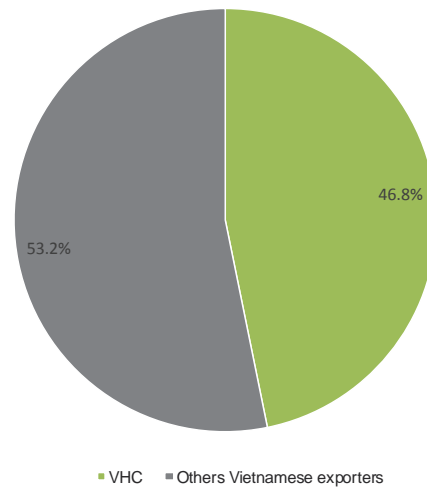


Figure 2: Market share by pangasius export value from Vietnam to the U.S. market (2018)



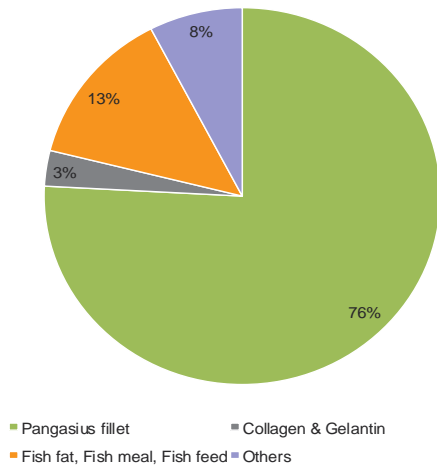
Source: VASEP

Source: VHC, VNDIRECT RESEARCH

VHC enjoys great advantage of 0% anti-dumping duty given by the U.S. Department of Commerce (DOC), while other Vietnamese pangasius exporters face anti-dumping duty from US\$1.17 to US\$3.87 per kg, according to a final result of the 14th anti-dumping tax review (POR14). VHC has secured the advantage because, unlike other competitors, it focuses on product quality instead of prices, thus minimising the risk of exposure to anti-dumping taxes.

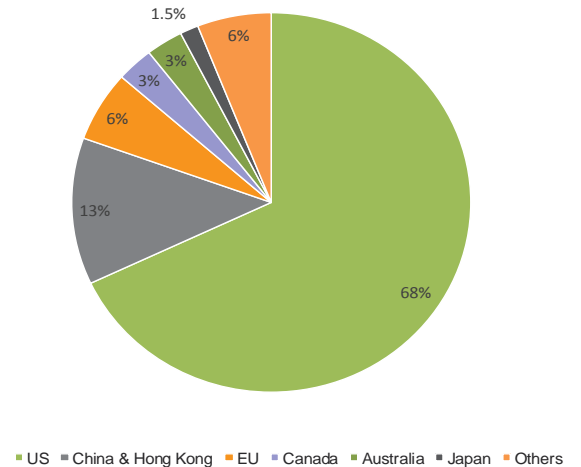
Specifically, VHC has the largest certified farming area in Vietnam, with more than 300ha awarded with international sustainable farming certification such as Global Gap, Aquaculture Stewardship Council (ASC) or 4-star Best Aquaculture Practices (4-star BAP). VHCs products always meet the requirements by the U.S. authorities for traceability, food safety, and aquaculture environment. Therefore, its 0% anti-dumping duty in the U.S. market is an exception.

Figure 3: VHC's revenue by product (2018)



Source: VHC, VNDIRECT RESEARCH

Figure 4: VHC's export revenue by market (2018)

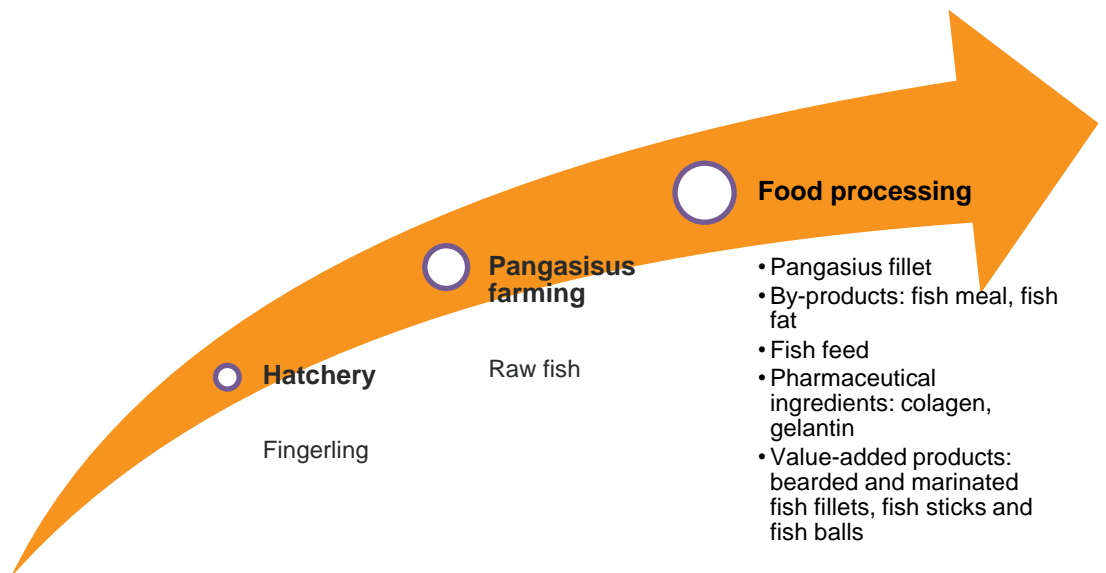


Source: VHC, VNDIRECT RESEARCH

An integrated value chain to adapt all the strict requirements of export markets

VHC operates a vertically integrated value chain, including hatchery, pangasius farming and food processing. The main product is frozen fillet, which generates 75.8% of total revenue. Other products are fish meal, fish fat, fish feed, collagen and gelatin extracted from pangasius, and trading activities (exporting seabass and tilapia).

Figure 5: VHC's vertically integrated value chain



Source: VHC

VHC has the largest pangasius farming area (about 500ha) in Vietnam as well as the largest certified farming area with more than 300ha having international certification for sustainable farming. With international certification of sustainable farming, VHC has a great advantage when exporting to the U.S. and E.U. markets, which have high requirements on food safety and environmental protection.

Figure 6: VHC's farming areas

	Area (ha)	Ownership	Note
Vinh Hoan	205	100%	
Tan Hung Long An	220	100%	Start operating in 1Q19
Vinh Phuoc	70	100%	Acquired in 2018
Vinh Hoan Fish Hatchery	NA	45%	Established in 2018. VHC holds 45% of chartered capital, equivalent to VND22.5bn
Total	495		

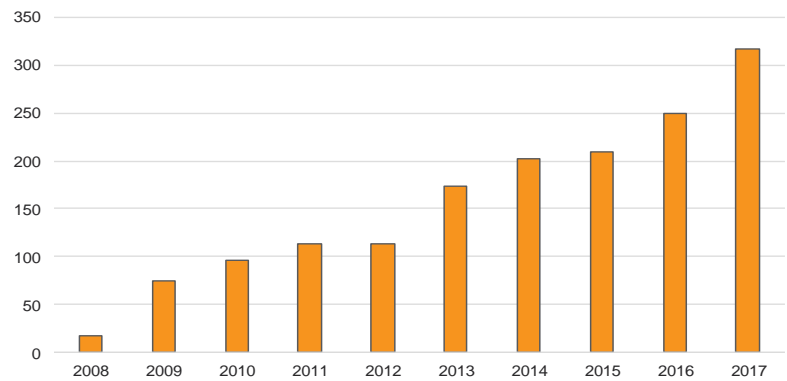
Source: VHC, VNDIRECT RESEARCH

Figure 7: VHC's current processing capacity

Factories	Capacity (tonnes per day)	Ownership	Note
Vinh Hoan factories	450	100%	
Thanh Binh Dong Thap	150	100%	VHC plans to raise the capacity of Thanh Binh Dong Thap plant to 200 tonnes per day in 2019
Vinh Phuoc	150	100%	Established in 2018

Source: VHC, VNDIRECT RESEARCH

Figure 8: VHC's certified farming areas (ha)



Source: VHC

Diversified product category with better-than-peer quality to help VHC unlock the U.S market

Figure 9: VHC's product category

Frozen fillet (Main product)



Gelatin (from fish skin)



Value-added product



Fish oil (by-product)



Collagen (from fish skin)



Fish meal (by-product)



Source: VHC, websites

VHC is also the only company in Vietnam to produce pharmaceutical ingredients from pangasius skin. The main products include collagen and gelatin, which are extracted from pangasius skin through hydrolyzing process. Collagen is widely used in wellness, nutrition and cosmetic industries while gelatin gains its popularity in pharmaceutical and food industries.

VHC focuses on quality rather than competing on prices. VHC has usually received the lowest anti-dumping tariffs in the industry when exporting pangasius products to the U.S. market. Since 2014, VHC has been subject to 0% anti-dumping tariff while other exporters faced much higher anti-dumping tariffs. This proves that VHC's product quality has met the strictest requirements of the most fast-growing market.

VHC's main product distribution channel is Business to Business (B2B), making up over 90% of FY18 revenue. Its main clients included grocery retailers, food chain operators and downstream seafood companies such as Walmart, Sysco and Target, Woolworths, Alibaba Group. Although having some self-owned brands, most of VHC's products have been marketed under clients' brands due to a lack of investment in retail distribution.

Figure 10: VHC's own brands



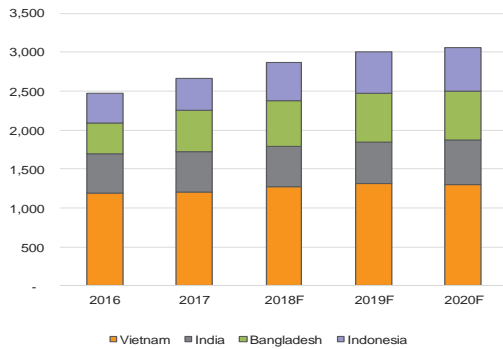
Source: VHC

VIETNAMESE PANGASIOUS EXPORT LIKELY TO REBOUND SINCE 2020

Vietnam accounts for nearly 45% of world pangasius supply thanks to better quality

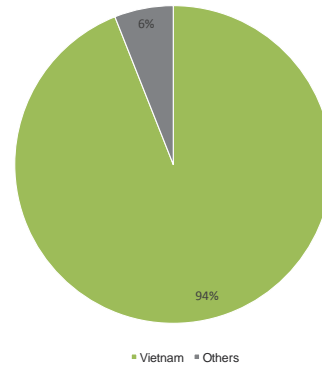
Global supply of the fish is expected to post a CAGR of 3.3% during FY18-20F, with increases mostly coming from newcomers such as India, Indonesia and Bangladesh, according to the Global Aquaculture Alliance (GAA). Vietnam's pangasius supply is forecast to rise 1.4% per year during FY18-20 (compared to the average growth of 3.3% in FY16-18), below the production growth of other competitors, including India, Bangladesh and Indonesia. The combined pangasius supply of these countries is expected to increase at a CAGR of 4.9% in FY18-20F (lower than the corresponding average rate of 11.8% during FY16-18). Although incremental supply will be added to a sizable extent by newcomers, their scale is still small in comparison to Vietnam's, and can only satisfy domestic demand. They would therefore not pose a significant risk to Vietnamese producers who are more export-focused and account for about 94% of global pangasius and other catfish exports, International Trade Centre (ITC) data show.

Figure 11: Pangasius supply by major country producers (m tonnes)



Source: VHC, Undercurrent News

Figure 12: Pangasius and other catfish export value by country



Source: VNDIRECT RESEARCH

The Mekong River flowing to the sea is the ideal environment for pangasius farming as it provides abundant fresh water and warm temperature all year round. Combining favourable natural conditions with long-term farming experience, the productivity and quality of Vietnamese pangasius are superior to those of other competitors. In terms of quality, Vietnamese pangasius meat is white and contains less tannin, while pangasius meat in other countries has yellow colour and more tannin. Higher productivity allows Vietnamese pangasius exporters to offer more competitive prices than those from India, Bangladesh and Indonesia. Therefore, we believe that the emerging suppliers from these countries will pose no strong threat to Vietnamese exporters in the near term.

Figure 13: Vietnamese pangasius sample



Source: VHC

Figure 14: Indonesian pangasius sample

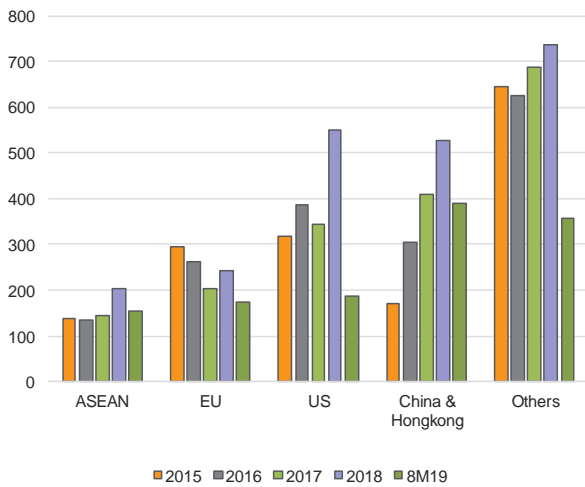


Source: Expravet Nasuba

Pangasius export dropped slightly since the beginning of 2019 amid U.S fillet price plunge

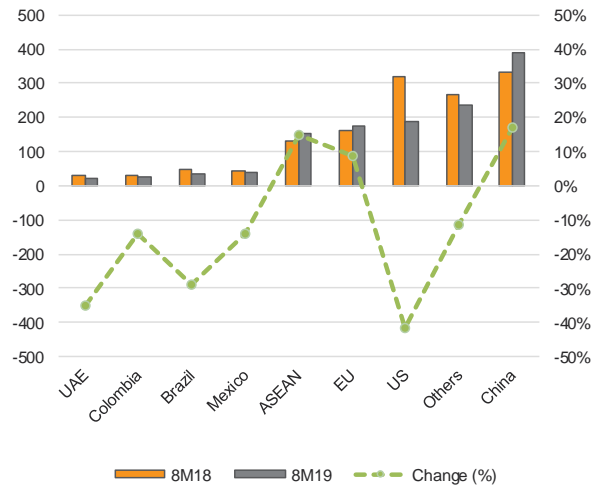
According to VASEP, Vietnam’s pangasius export value in 8M2019 declined 7.7% yoy to US\$1.3bn, while the country’s main export markets witnessed strong divergence. The U.S market saw a significant drop 41.5% yoy in export value while China and EU have been emerged as potential markets for Vietnam ‘s pangasius with 17.2% yoy and 8.8% yoy respectively.

Figure 15: Vietnam's pangasius export by markets (m US\$) (2015-8M2019)



Source: VASEP, VHC, ANV

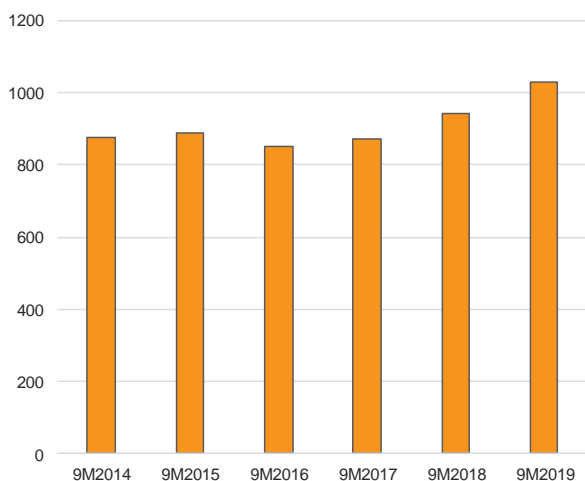
Figure 16: Vietnam's pangasius export value in 8M19 by markets (m US\$)



Source: VASEP

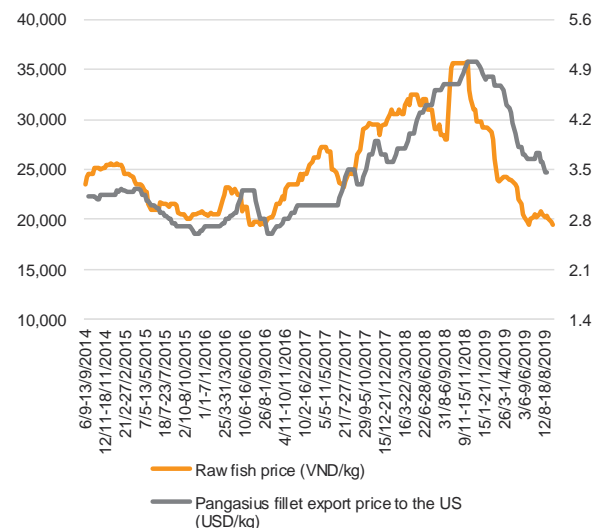
Price of raw pangasius surged 20.5% yoy during 2017 - 2018 which urged farmers to ramp up capacity expansion in Mekong Delta. Total area of pangasius farms in Vietnam increase 5% yoy which brought an increase of 10.4% yoy in 2018 output. Further, in the first 9M19, output volume grew 7.4% yoy while pangasius export business started fading off since the beginning of this year due the anti-dumping duty from the U.S. Export challenge has pushed raw fish price down to from its historic peak. Per our estimate, at the end of Aug 2019, raw fish price plunged 31.8% ytd, meanwhile US fillet price plummeted 30.1% ytd.

Figure 17: Raw pangasius output volumes (m tonnes)



Source: GSO

Figure 18: Raw fish price and pangasius fillet export price to the US (USD/kg)



Source: Agromonitor, NOAA, VNDIRECT RESEARCH

U.S. market: Anti-dumping duty overshadows the benefits from trade war

Vietnamese pangasius is expected to grab a market share from Chinese suppliers who have recently been subject to trade war-induced tariffs.

Chinese tilapia occupied 45% of the U.S. total white-fish imports in FY17 while Vietnamese pangasius accounted for 25%. In the context of the U.S.-China trade tensions, the U.S. government has decided to impose a 10% import tax on Chinese tilapia from Oct 2018. This duty was raised to 25% from May 2019. Due to higher tariff, Chinese tilapia exported to the U.S. market has declined significantly. According to the National Oceanic and Atmospheric Administration (NOAA), the total volume and value of tilapia imported by the United States in 6M19 dropped 6.8% and 8.4%, respectively, in which the export volume and value of Chinese tilapia declined 12.4% and 15.7%, respectively, in 1H19. Meanwhile, the volume and value of tilapia exports from other countries grew slightly by 6.5% and 2.0%, respectively in 1H19. We believe Chinese tilapia will continue to lose market share in the United States to other white-fish products.

Furthermore, the U.S.-China trade war further escalated when the United States declared a 15% tariff on US\$300bn imported goods from China starting Sep 1, 2019, including major white-fish species such as Atlantic cod, Alaska pollock and haddock. According to ITC, the United States imported US\$475m worth of Atlantic cod, Alaska pollock and Haddock from China in 2018. The import tariff on Chinese seafood is ongoing to be raised, thus further reducing the Chinese white-fish shipments to the United States of not only tilapia but also other species such as Atlantic cod, Alaska pollock and haddock, which are harvested mainly in Norway and Russia, and shipped to China for processing before exporting to the U.S. market.

However, the benefits from the trade war were overshadowed when the United States raised anti-dumping tax on most of Vietnamese pangasius exporters, except VHC.

The negative impact of the anti-dumping tariff's increase in the 14th administrative review period (POR14) has significantly affected the export of Vietnamese pangasius to the U.S. market. In Apr 2019, the U.S. DOC announced the conclusion of the 14th administrative review (POR14) for pangasius imported from Vietnam in the period from Aug 8, 2016 to Jul 31, 2017. This final tax rate is higher than the preliminary result published in Sep 2018. VHC is the only company enjoying 0% anti-dumping tariff while Bien Dong faces a tariff of US\$0.19/kg. Other Vietnamese pangasius exporters are subjected to very high anti-dumping tariff, according to POR 14 results.

Specifically, the anti-dumping rates applied to the unlisted NTSF Seafoods JSC (one of the two mandatory respondents) remained unchanged at US\$1.37/kg, while the rate applied to Hung Vuong Group (HVG VN, Not Rated) (the other mandatory respondent) was raised to US\$3.87/kg, way above the previous 0% tax rate. The rate applied to voluntary respondents was US\$1.37/kg, up from the previous level of US\$0.41/kg. The rate applied to the remaining Vietnamese pangasius exporters was stabilised at US\$2.39/kg.

Therefore, from the beginning of 2Q19, Vietnam's pangasius export value to the U.S. market fell significantly due to the hike in anti-dumping tariffs. By the end of Aug 2019, the total value of pangasius export to the U.S. market plunged 41.5% yoy to US\$187.9m.

Figure 19: Summary of imposed tariffs on Vietnamese pangasius in the US market

	Mandatory respondents	Voluntary respondents	Country-wide	Period of review
POR10 (US\$/kg)	0.97	0.97	2.39	August 1,2012 - July 31,2013
POR11 (US\$/kg)	0.41-0.97	0.69	2.39	August 1, 2013 - July 31,2014
POR12 (US\$/kg)	0.69-2.39	2.39	2.39	August 1, 2014 - July 31,2015
POR13 (US\$/kg)	3.87	3.87-7.74	3.87	August 1,2015 - July 31, 2016
POR14* (US\$/kg)	0-1.37	0.41	2.39	August 1,2016 - July 31,2017
POR14 (US\$/kg)	1.37-3.87	1.37	2.39	August 1,2016 - July 31,2017

*preliminary tariff

Source: VASEP, VNDIRECT RESEARCH

Vinh Hoan is the only exception from anti-dumping, but it can't completely skirt the headwinds.

We forecast VHC's exports to the United States may decline about 10% yoy in FY19F as we assume the average selling price to drop 9.8% yoy following the decline of raw fish price, while the export volume stays flat. However, we expected VHC's contribution to Vietnam's pangasius export value to the U.S. market to rise to more than 60% in FY19F, from 47% in FY2018 as shipments by other Vietnamese exporters to the market plummets due to high anti-dumping tariffs.

If the anti-dumping duty on Vietnamese pangasius continues to be in place, VHC may be the only firm to benefit from the U.S.-China trade war. We expect VHC's pangasius exports to the U.S. market to bounce back at a double-digit rate as (1) the effects from the U.S.-China trade tensions materialises, and (2) VHC's new farming areas in Tan Hung Long An are expected operational at the beginning of 2020.

Firstly, the United States has announced a hike of import tariffs on Chinese tilapia to 25% from May 2019 and imposed a 15% tariff on other white-fish species imported from China such as Atlantic cod, Alaska pollock and haddock, starting 1 Sep, 2019. According to VHC, it takes from several months to a year for U.S. importers to switch from Chinese white-fish products to Vietnamese pangasius due to contractual terms.

Secondly, in FY2019, we have not seen an increase in VHC's export volume to the U.S. market due to difficulties in farming areas. According to VHC, the hatchery area in Tan Hung Long An project has been completed, however this project's farming area is delayed to 2020 due to water treatment issues. In addition, the U.S. market has extremely strict requirements for traceability, food safety, and aquaculture environment on foreign exporters. Therefore, VHC will be very limited in buying raw fish from external suppliers to increase exports to the U.S. market because most of the supplies may not meet the U.S. requirements for input materials. We expect that VHC's exports volume to the United States to jump at a double-digit rate in FY20F when the new farming areas in Tan Hung Long An and Vinh Phuoc begin production, which will allow VHC to boost its export volume and grab more market share in the U.S market.

China & Hong Kong: Vietnamese pangasius exports to China shed light on recovery since the beginning of 3Q19

In 8M19, Vietnam's pangasius export value to the Chinese market reached US\$389.8m (+17.2% yoy), maintaining the high growth rate seen in previous years. The export has picked up since the beginning of 3Q19, with value in Jul and Aug surging 71% yoy and 63% yoy,

respectively, thanks to (1) a pork shortage in China caused by ASF, and (2) import tax cut on Vietnamese pangasius exported to China.

Potential short-term opportunities from pork shortage in China. China's demand for seafood products (including Vietnamese pangasius) is expected to increase due to the huge shortage of pork caused by ASF. Rabobank forecast Chinese pork production could slump 30% in 2019. In response to the shortage, the Chinese government has increased pork imports from other countries, including Vietnam, and urged people to actively seek alternative sources of protein such as poultry and seafood (including white-fish products).

Vietnamese pangasius could grab more white-fish market share in the Chinese market thanks to lower tariffs. In late May 2019, China has officially announced the list of 33 kinds of Vietnamese seafood products exempted from taxes when exported to China under the ASEAN-China Free Trade Agreement. Previously, Vietnamese pangasius fillet was subjected to a 7% tariff. ITC data showed that catfish category, including Vietnamese pangasius, made up 5.7% of China's total imports of white-fish products in FY2018 while Pacific cod accounted for 41.5%. Thus, there is plenty of room for Vietnamese pangasius to maneuver in China's white-fish market.

China's tightening of border trade could have positive impact on Vietnamese pangasius companies (including VHC) in the long run. Since the beginning of FY2019, China has tightened the import of goods through border trade, leading to a sharp decrease in the pangasius volume entering China through this channel, which is mostly used by small pangasius farms. On the other hand, the tightening could boost Vietnam's pangasius export through the official channel which ensures a higher price as well as higher food inspection standard (this channel is mostly used by large Vietnamese pangasius exporters, including VHC and Nam Viet Corporation (ANV)). The move will also encourage Vietnamese pangasius exporters to improve product quality to meet the strict requirements of the Chinese market, and thereby enhance the image, reputation and value of Vietnamese pangasius there.

China and Hong Kong altogether became VHC's second-largest export market, accounting for 13.5% of the firm's total export value in FY2018. VHC is expanding its China market share through the cooperation with Alibaba and Win-Chain, which bring VHC's pangasius into China's retail channel. **We expect the slowdown in the U.S. market may encourage VHC to push more into the Chinese market, which may lift its export revenue to this market to a CAGR of 40% in the next two years.**

The EU: Vietnam's pangasius exports could extend the recovery period

In 8M19, Vietnam's pangasius export value to the EU market rose 8.8% yoy to US\$174.3m, suggesting signs of continued improvement.

We believed that Vietnamese pangasius could expand market share in the EU market thanks to (1) lower Total Allowable Catches (TACs) set by the EU in 2019 so the shortage of white-fish supply from inside the EU will be offset by external similar products, including Vietnamese pangasius, and (2) more advantages for Vietnamese pangasius products thanks to lower tariffs in the coming years after the Vietnam-EU Free Trade Agreement (EVFTA) was signed on Jun 30 in Hanoi and which will be effective after being approved by the respective legislatures. Specifically, the tariffs on Vietnam's frozen fillet will be reduced to 0% over three years after EVFTA in effect, from 5.5% currently.

The EU is the third-largest export market of VHC, accounting for 6% of VHC’s total export value in FY2018. As the EU market showed signs of a solid recovery, VHC would increase exports there to diversify markets and avoid relying too much on the U.S. market. **We forecast VHC’s export to the EU could increase 15% yoy in FY19F.**

Figure 20: Total Allowable Catches (TACs) of white pelagic fishes for 2019-2020 (tonnes)

Type	TAC 2018	TAC 2019	Change
Herring	537,544	379,850	-29.3%
Cod	103,943	84,593	-18.6%
Haddock	56,763	51,867	-8.6%
Whiting	46,728	35,349	-24.4%
Hake	121,043	150,418	24.3%
Blue whiting	457,336	366,291	-19.9%
Plaice	135,196	127,009	-6.1%
Pollock	14,555	14,555	0.0%
Turbot and brill	7,102	8,122	14.4%
Greenland halibut	8,790	8,640	-1.7%
Common sole	25,801	22,422	-13.1%
Sole	1,072	1,072	0.0%
Total	1,515,873	1,250,188	-17.5%

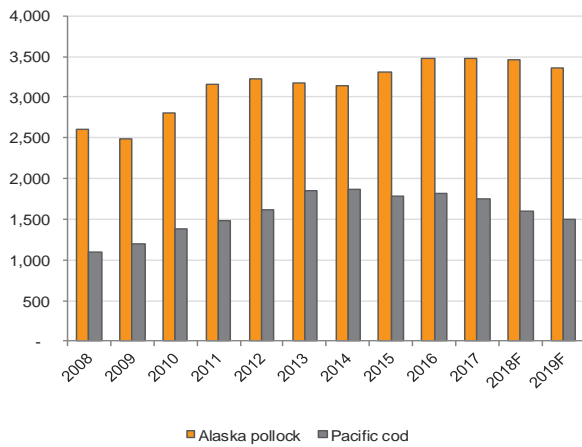
Source: European Commission

Vietnam’s pangasius exports have some medium-term catalysts

Farmed-fish consumption is expected to grow 3% p.a. in 2006-30 period. According to the World Bank report entitled “Fish to 2030: Prospects for Fisheries and Aquaculture”, annual per capita fish consumption is projected to increase to 18.0 kg in 2020 and 18.2 kg in 2030 from 17.2 kg in 2010. The global seafood consumption is projected to increase 27% during the 2010-30 period, rising to 151,771 tonnes in 2030 from 119,480 tonnes in 2010, equivalent to a CAGR of 1.2%. Specifically, global farmed-fish consumption CAGR is projected at 2.9%, while global caught-fish consumption is expected to decline at a CAGR of 0.4% over 2006-30. We believe that the demand for Vietnamese pangasius will grow in line with the demand for farm-fish products in the next decade.

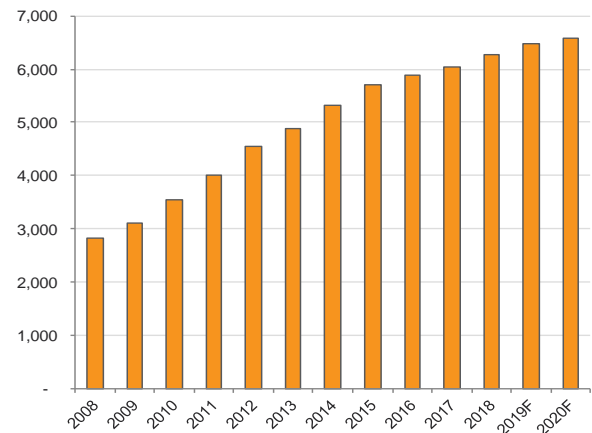
Supplies of other white-fish substitutes such as Alaska pollock and Pacific cod are expected to decline in the coming years. Currently, the main substitutes of pangasius included Alaska pollock, Pacific cod (wild-caught fish) and Chinese tilapia (farmed-fish). The Pacific cod and Alaska pollock supply has been continuously decreasing since 2016 (see Figure 3) and is expected to continue the downward trend in the coming years due to: (1) a declining supply prompted by over-fishing and (2) stricter regulations on fishing in developed countries, especially in the United States and EU (for example, setting lower TACs).

Figure 21: Global Alaska pollock and Pacific cod supply in 2008-19F (m tonnes)



Source: Groundfish Forum

Figure 22: Global tilapia supply in 2008-20F (m tonnes)



Source: Groundfish Forum

Figure 23: Total Allowable Catches (TACs) of Cod & Pollock fishes in Bering Sea (BS), Aleutian Islands (AI) and Gulf of Alaska (GoA) for FY2018-20F (tonnes)

Type	2018				2019				2019			
	GoA	BS	AI	Total	GoA	BS	AI	Total	GoA	BS	AI	Total
Cod	13,096	188,136	15,695	216,927	12,368	181,000	14,214	207,582	15,708	124,625	14,214	154,547
Pollock	166,228	1,364,341	19,000	1,549,569	141,227	1,397,000	19,000	1,557,227	114,943	1,420,000	19,000	1,553,943
Total	179,324	1,552,477	34,695	1,766,496	153,595	1,578,000	33,214	1,764,809	130,651	1,544,625	33,214	1,708,490

Source: websites

Opportunities in new export markets in Southeast Asia and the Middle East. In addition to the rising consumption in key U.S., China and EU markets, the demand for Vietnamese pangasius is also growing in a more diverse range of markets such as ASEAN and the Middle East. Pangasius exports to ASEAN in 2018 reached US\$202.6m, up 41.5% yoy, of which double-digit growth in export value was observed to certain countries such as Thailand (+48.1% yoy), Singapore (+25.1% yoy) and the Philippines (+39.3% yoy). ASEAN has become Vietnam’s fourth-largest pangasius export market after the United States, China and the EU. Meanwhile Pangasius exports to UAE in FY18 soared 108.5% yoy to US\$48.1m. We believe these markets promise a great potential for future export growth, with increasing income per capita, urbanisation and stagnating wild-caught volumes (which in turn would foster the development of farmed-fish such as pangasius).

In conclusion, we stand optimistic about the prospects of pangasius exporters in the medium-term thanks to (1) their ability to take market share from white-fish substitutes such as Alaska pollock and Pacific cod, the supply of which is expected to decline, and white-fish exported from China which is subject to trade war-induced tariffs; (2) lower tariffs in major markets such as China and the EU; and (3) the opportunities to expand market share in ASEAN and the Middle East.

WE STILL SEE VHC'S BRIGHT PROPECT FOR MEDIUM TERM

1H19 results: mix performance of topline and bottomline

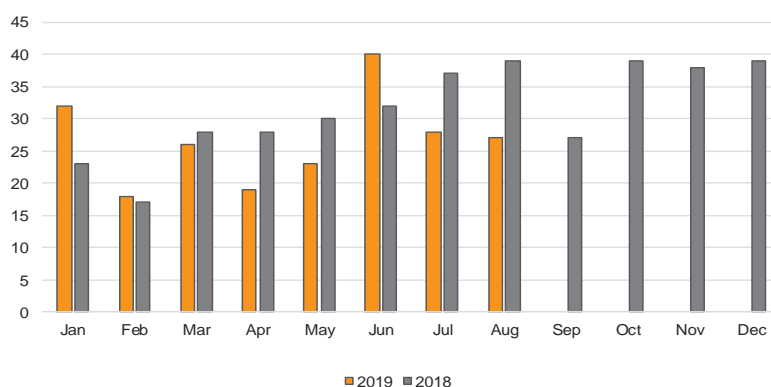
VHC's 1H19 revenue fell 5.7% yoy after the pangasius export volume dropped 12% yoy and the average selling price (ASP) fell 4% yoy, per our estimation. However, 1H19 GPM rose 18.9% yoy thanks to a 4.6-ppt GPM expansion as raw fish prices fell 20% yoy. In combination, 1H19 net profit surged 63.8% yoy thanks to (1) a higher GPM, (2) lower financial expenses and (3) a higher financial income. In 1H19, VHC recorded an abnormal profit of VND105bn from its divestment from associate company Van Duc Tien Giang (VDTG) while it had losses of VND69bn from divestment from subsidiaries in 1H18.

Figure 24: Net profit surged on higher gross profit margin, lower financial expenses and one-off profit

FYE Jun (VND bn)	2Q19	2Q18	% yoy	1H19	1H18	% yoy	Comments
Net revenue	2,024.5	2,239.6	-9.6%	3,813.8	4,043.8	-5.7%	1H19 net revenue delined 5.7% yoy as VHC's pangasius export volume dropped 12% yoy and VHC pangasius' average export price in 1H19 fell 4% yoy, per our estimation.
Gross profit	428.3	460.9	-7.1%	849.6	714.6	18.9%	1H19 GPM expanded 4.6-ppt versus 1H18 GPM as raw fish priced slumped about 20% yoy while VHC's average export price in 1H19 decreased about 4% yoy, per our estimation
<i>Gross profit margin</i>	21.2%	20.6%	+0.6% pts	22.3%	17.7%	+4.6% pts	
Selling expenses	62.2	54.0	15.4%	111.0	108.4	2.4%	
G&A expenses	34.9	30.9	12.9%	80.3	68.2	17.8%	
Profits/losses from associates	-11.3	25.4	-144.5%	1.8	33.8	-94.7%	After entirely divesting from Van Duc Tien Gian (VDTG) in 2Q19, VHC will no longer recognize shared profits from VDTG
Operating profit	319.8	401.5	-20.3%	660.0	571.8	15.4%	
Financial income	148.1	31.8	365.7%	178.7	54.7	226.9%	VHC recorded abnormal profit of VND105bn from its divestment from associate company VDTG in Jun 2019
Financial expenses	24.3	94.1	-74.2%	48.7	109.2	-55.4%	1H19 financial expenses decreased significantly by 55.4% yoy as VHC recorded a loss of VND69.3bn from its divestment from subsidiaries in 2Q18
<i>Interest expenses</i>	15.4	13.0	18.1%	33.0	25.9	27.5%	
Net other income	5.6	-2.8	-297.7%	5.4	-6.0	-189.9%	
Pre-tax profit	391.8	328.9	19.1%	795.4	511.2	55.6%	
Net profit	391.8	328.9	19.1%	699.1	426.9	63.8%	

Source: VNDIRECT RESEARCH

Figure 25: VHC's export value (m US\$) (from Jan 2019 to Aug 2019)



Source: VHC, VNDIRECT RESEARCH

We expect a FY19F slowdown performance before a recovery in FY20F

Figure 26: Our expectation for VHC's 2019 business results

FYE Dec (VND bn)	2018	2019F	% yoy	Comments
Net revenue	9,271	9,103	-1.8%	
<i>Pangasius fillet</i>	7,032	6,690	-4.9%	We estimated that 2019F VHC's pangasius fillet export volume increases 8% yoy, following the expansion of VHC's farming area in Long An province. We forecast 2019F VHC's pangasius fillet ASP to drop by 13.6% yoy as we considered that VHC need to lower selling price to boost export volume in 2H19 in the context of export volume's slump in 1H19. Besides, we assumed VND depreciate by 2.0% against the USD in 2019
<i>Collagen + gelatin</i>	283	510	80.3%	According to VHC, collagen & gelatin revenue surged 240% yoy in 1H19 thanks to new customers and new export markets. We believed that collagen & gelatin exports will continue be positive in 2H19
<i>By-products (fish meal, fish fat)</i>	1,250	1,178	-5.8%	We estimate the 2019F by-products volume increase 8.0% yoy, in line with pangasius fillet export volume and we assume the 2019F by-products ASP delined about 14% yoy
<i>Other products</i>	706	725	2.6%	
Gross profit	2,039	1,825	-10.5%	
Gross profit margin	22.0%	20.0%	-2.0pts	2019F GPM is projected at 20.0% which is 2.0-ppt lower than 2018 GPM due to lower pangasius fillet ASP
Selling expenses	210	211	0.2%	
G&A expenses	144	147	2.5%	
SG&A/net revenue	3.8%	3.9%	+0.1pts	
Profits/loss from joint ventures	79	2	-97.7%	VHC has completely divested from VDTG. VHC will be no longer record shared profits from VDTG since 3Q19
Financial income	137	240	74.9%	VHC recorded one-off profit of VND105bn from its divestment from associate company VDTG in June 2019
Financial expenses	167	100	-40.4%	VHC recorded VND69bn in goodwill write-off in 1H18 as a result of ownership reduction in VDTG
<i>Interest expenses</i>	56	60	8.0%	
Net other income	(46)	(9)	-80.5%	VHC recorded a loss of VND39bn from selling a rice mill in 2018
Pre-tax profit	1,688	1,599	-5.2%	
Net profit	1,442	1,367	-5.2%	
Net profit margin	15.6%	15.0%	-0.6pts	

Source: VNDIRECT RESEARCH

After an impressive growth in FY18, with revenue and net profit surging by 14% and 139%, respectively, the earnings are forecast to slow in FY19F before they could return to post double-digit growth in FY20F. The slower pace this year is expected as pangasius exports to some main markets are going to slow or even decline, while the raw fish supply is ample, thus cutting raw fish prices, which in turn trim pangasius fillet export prices.

Figure 27: Our expectation for VHC's 2020 business results

FYE Dec (VND bn)	2019F	2020F	% yoy	Comments
Net revenue	9,103	10,151	11.5%	
<i>Pangasius fillet</i>	6,690	7,322	9.4%	We forecast that 2020F pangasius fillet export volume will increase 10.2% yoy thanks to the expansion of VHC's farming area in Long An province. We forecast 2020F VHC's pangasius ASP to decline by 2.9% yoy as VHC need to lower export selling price to boost volume sale in the context of a continuous decline of raw fish price. Besides, we assumed VND depreciate by 2.0% against the USD in 2019
<i>Collagen + gelatin</i>	510	817	60.2%	VHC plans to raise collagen and gelatin capacity from 2000 tonnes (currently) to 3,500 tonnes by the end of 2Q20. They also plan to raise ASP of collagen and gelatin to boost margin.
<i>By-products (fish meal, fish fat)</i>	1,178	1,277	8.4%	We estimate the 2019F by-products volume increase 10.2% yoy, in line with pangasius export volume growth. Meanwhile, we expect by-products ASP to decrease by about 3% in 2020, following a decline of pangasius fillet ASP.
<i>Other products</i>	725	735	1.4%	
Gross profit	1,825	2,192	20.1%	
<i>Gross profit margin</i>	20.0%	21.6%	+1.6pts	2020F GPM is projected at 21.6% which is 1.6-ppt higher than 201F GPM as we expect (1) higher GPM from collagen & gelatin segment and (2) the pangasius fillet ASP decreased more slowly than the raw fish price in 2019-2020 period
Selling expenses	211	240	13.8%	
G&A expenses	147	164	11.5%	
SG&A/net revenue	3.9%	4.0%	+0.1pts	
Profits/loss from joint ventures	2	-		
Financial income	240	168	-29.9%	We expect 2020F financial income mostly come from interest income while 2019F financial income included VN105bn one-off profit from the divestment from associate company VDTG in June 2019
Financial expenses	100	118	18.1%	
<i>Interest expenses</i>	60	74	22.9%	
Net other income	(9)	(10)	11.5%	
Pre-tax profit	1,599	1,828	14.3%	
Net profit	1,367	1,562	14.3%	
Net profit margin	15.0%	15.4%	+0.4pts	

Source: VNDIRECT RESEARCH

We expect that VHCs business results will strongly recover in FY20F thanks to various supporting factors, including (1) U.S.-China rising trade tensions, (2) China's pork shortage caused by ASF, and (3) lowering tariffs on Vietnam pangasius exported to China and the EU.

Raising farming and processing capacity could help VHC bolster growth in the next two-three years

VHC has plans to invest VND220bn in a new 220-ha farming area in Tan Hung of Long An province, of which the first 50ha of pangasius hatchery area has already been completed in 2018. We expect the entire project will be completed in 2019-20 period. Besides, VHC also acquired two other pangasius farms, with a combined area of 70ha in 2018. Thanks to these investments in expanding farming area, we expect VHC's self-supply ratio could rise to 60% in late of FY20, from 40% now, which could help lower its overall raw fish costs by 15%.

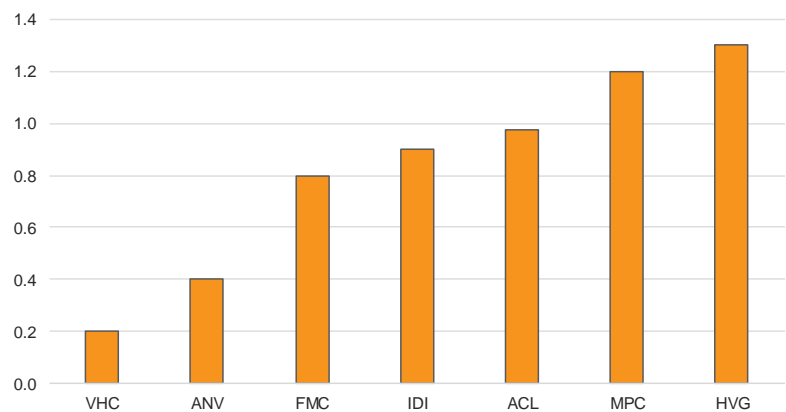
VHC has completed raising the daily capacity of Thanh Binh Dong Thap factory to 150 tonnes in 2018, from 100 tonnes previously. Besides, VHC has bought the 150-tonne-per-day Vinh Phuoc factory in 4Q18. Currently, VHC's total processing capacity stands at 750 tonnes/day (except the capacity of VDTG, from which VHV had divested in 1H19), up 36% from the start of FY18.

STRONG FINANCIAL BACKGROUND TO FACE SHORT-TERM HEADWINDS

Low leverage and high efficiency help reduce risk from business cycle.

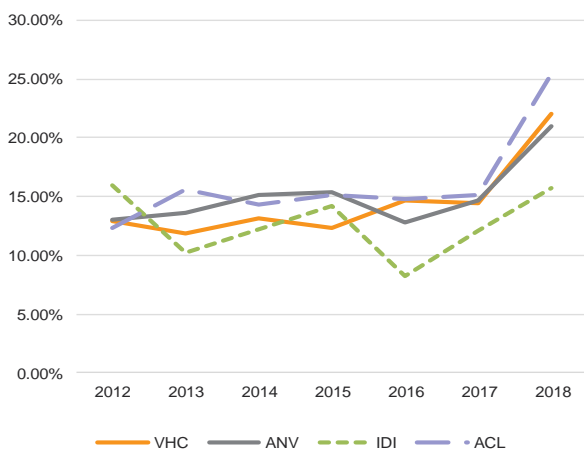
VHC's net debt to equity stood at 0.2x at the end of FY2018, which is one of the lowest among Vietnam's listed seafood companies. For a highly volatile industry such as the fishery sector, it is very important for businesses to maintain low debt ratios as it helps reduce significantly business cycle risks. In the past, many seafood businesses went bankrupt due to high financial expenses and losses from non-core investments.

Figure 28: VHC operated at lowest Net-debt-to-equity among peers (end-FY18)



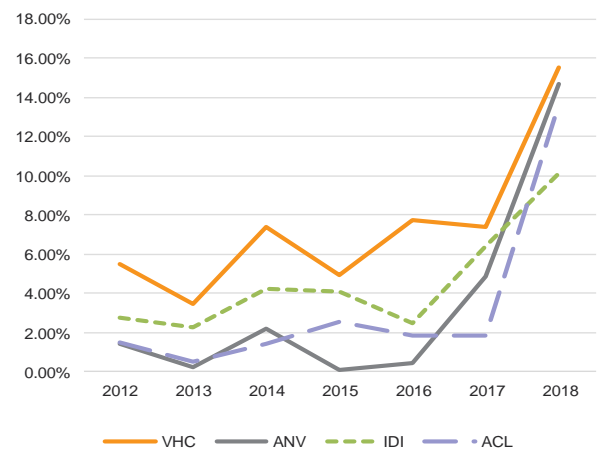
Source: VNDIRECT RESEARCH

Figure 29: Gross profit margin of some Vietnamese pangasius exporters (FY2015-18)



Source: VNDIRECT RESEARCH

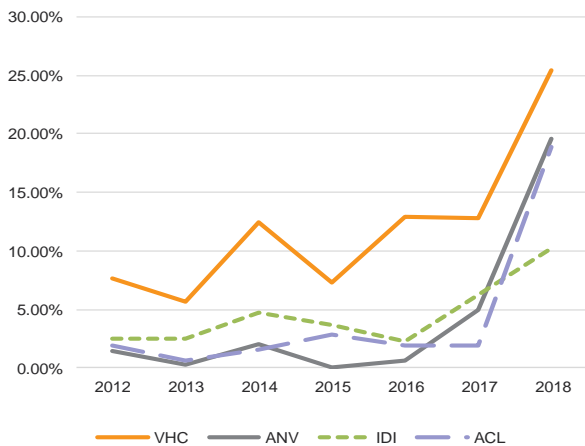
Figure 30: Net profit margin of some Vietnamese pangasius exporters (FY2015-18)



Source: VNDIRECT RESEARCH

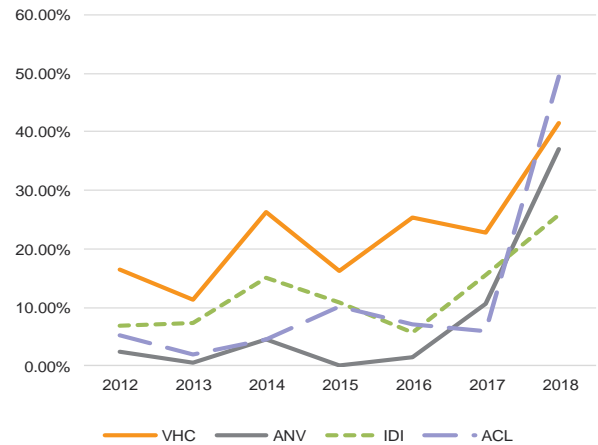
VHC is at the forefront of effective use of assets and equity. This is even more special when VHC has the lowest net debt/equity ratio as shown in Figure 26 above.

Figure 31: VHC delivered ROA...



Source: VNDIRECT RESEARCH

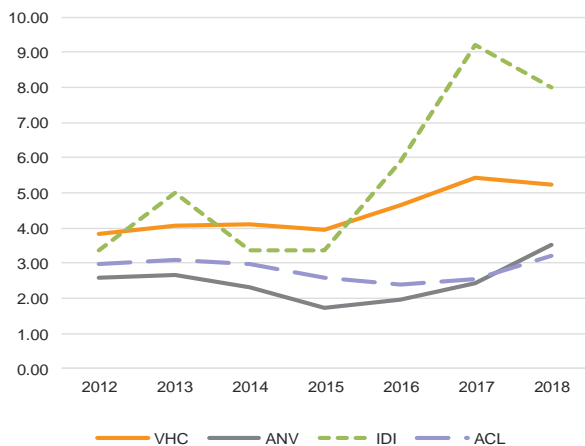
Figure 32: ...and ROE well ahead other local peers.



Source: VNDIRECT RESEARCH

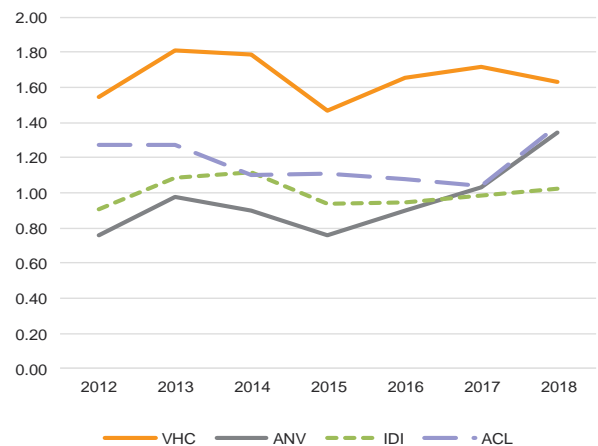
VHC's total asset turnover is superior to comparable businesses while inventory turnover is the second-highest, lowering only to International Development & Investment Corporation (IDI).

Figure 33: Inventory turnover of some Vietnamese pangasius exporters



Source: VNDIRECT RESEARCH

Figure 34: Total assets turnover of some Vietnamese pangasius exporters



Source: VNDIRECT RESEARCH

VALUATION

We initiate coverage on VHC with an ADD rating and target price of VND93,900 based on an equal weighting of a target P/E of 4.1x (equivalent to peer average P/E), and a five-year DCF valuation. Our target P/E for VHC is 46% discount from VHC's three-year average P/E of 7.6x to factor the expected slowdown of the firm's business results in FY19F which could hurt market sentiment on VHC's stock price.

Figure 35: DCF model - key assumption and inputs

General assumptions (in VND bn, otherwise noted)	2019F	2020F	2021F	2022F	2023F	Terminal
EBIT	1,660	1,902	1,867	2,219	2,104	
-Taxes	241	277	272	323	306	
EBIAT	1,418	1,626	1,596	1,896	1,798	
-Changes in working capital	97	(349)	(353)	(330)	(371)	
-Net Capex	(518)	(487)	(456)	(425)	(394)	
+Depreciation & Amortisation	140	220	274	324	370	
FCFF	1,137	1,010	1,060	1,465	1,403	13,460
PV of FCFF	1,137	871	788	939	775	6,413
PV of DCF (5 years)	4,510					Risk free rate (10-year VGB yield) 5.0%
PV of Terminal value	6,413					Equity risk premium 11.0%
Enterprise Value	10,924					Beta (Source: BB, adj. beta) 1.2
Less: Total debt	(1,157)					WACC 16.0%
Less: Minority interest	-					Terminal growth rate 3.0%
Plus: Cash and Cash equiv.	1,225					
Implied EV	10,992					
No. of o/s shares (m)	92,403,943					
Implied value per share (VND)	118,953					

Source: VNDIRECT RESEARCH

Figure 36: Blended target price

Valuation method	Implied value per share (VND)	Weight (%)	Weighted value per share (VND)
DCF	118,953	50%	59,477
P/E (target P/E 4.1)	68,935	50%	34,468
Fair value			93,944
Target price (rounded down)			93,900

Source: VNDIRECT RESEARCH

After slumping 15% YTD, the VHC's share price now trades at 5.4 FY19F EPS, which is 29% discount to its three-year average P/E. We consider that this could be a right time to take a spot on VHC as negative impact from the slowdown in the U.S. market has been largely priced in, and we believe FY20F could be a better year for VHC, with revenue and net profit to post double-digit growth.

Figure 37: Peer comparison (as of October 11)

Company	Ticker	Recom.	Target price (VND)	Market Cap (US\$m)	EPS growth (%)			P/E (x)		P/B (x)		ROE (%)		ROA (%)		D/E (x)	
					FY19F	FY20F	TTM	FY19F	TTM	FY19F	TTM	FY19F	TTM	FY19F	TTM		
Bentre Aquaproduct Import & Export Jsc	ABT.VN	NA	NA	17.1	NA	NA	7.2	NA	1.0	NA	12.4%	NA	9.4%	NA	0.3		
Cuu Long Fish Jsc	ACL.VN	NA	NA	31.4	NA	NA	2.5	NA	1.1	NA	53.3%	NA	22.0%	NA	1.2		
I.D.I International Development and Investment Jsc	IDI.VN	NA	NA	61.2	NA	NA	2.6	NA	0.5	NA	20.9%	NA	8.4%	NA	1.4		
Nam Viet Corp	ANV.VN	NA	NA	140.5	NA	NA	4.2	NA	1.6	NA	44.0%	NA	21.5%	NA	0.9		
Average				62.5			4.1		1.0		32.7%		15.3%		1.0		
Median				46.3			3.4		1.0		32.5%		15.5%		1.1		
Vinh Hoan Corp	VHC.VN	Buy	93,900	314.1	-5.2%	14.3%	4.2	5.4	1.6	1.4	45.2%	30.2%	30.4%	20.3%	0.4		

SOURCE: BLOOMBERG, VNDIRECT RESEARCH

RISK

High volatile business

The seafood industry in general, and pangasius export in particular are relatively cyclical, largely depending on market supply and demand. Specifically, VHC's cost of goods sold is significantly affected by raw fish price movement as VHC is only self-sufficient in nearly 40% of raw fish, while the remaining is bought from farmers. The fluctuation of raw fish price will directly affect VHC's cost of goods sold and also indirectly affect its pangasius fillet export prices. Besides, the demand and price of pangasius products is also under intense competition from other white-fish products such as Atlantic cod, Alaska pollock, haddock and tilapia.

Unfavourable changes in import policies and tariffs in importing countries

Vietnam's pangasius exports are negatively affected by anti-dumping duties in the U.S. market as we mentioned in previous sections. Although VHC is subject to 0% tariff there, its export is still affected as other Vietnamese pangasius exporters are subject to high tariffs. Their stagnant shipments to the United States lead to an oversupply of raw fish in the domestic market. This is the main reason behind a sharp decline of raw fish prices, which led to lower pangasius fillet export prices. In addition, as VHC mainly sold B2B, the constantly changing tariffs will make it tough for importers to forecast the market and follow predetermined business plans, so they could shift to other white-fish products, such as Alaska cod, Pacific pollock or haddock, thereby reducing the demand for VHC's pangasius.

China has changed its import policy for Vietnam's agricultural and fishery exports by tightening border trade. In the short term, this has significantly reduced Vietnam's pangasius sales to China via border trade, thereby reducing the demand and price of pangasius products. However, in the long term, Vietnamese companies exporting pangasius through the official channel will benefit from China's new import policy, thanks to the higher export price through the official channel. In addition, the quality of Vietnamese pangasius products to Chinese consumers is also guaranteed, thereby boosting the image of Vietnamese pangasius in China.

The unexpected movements of importing countries' currencies

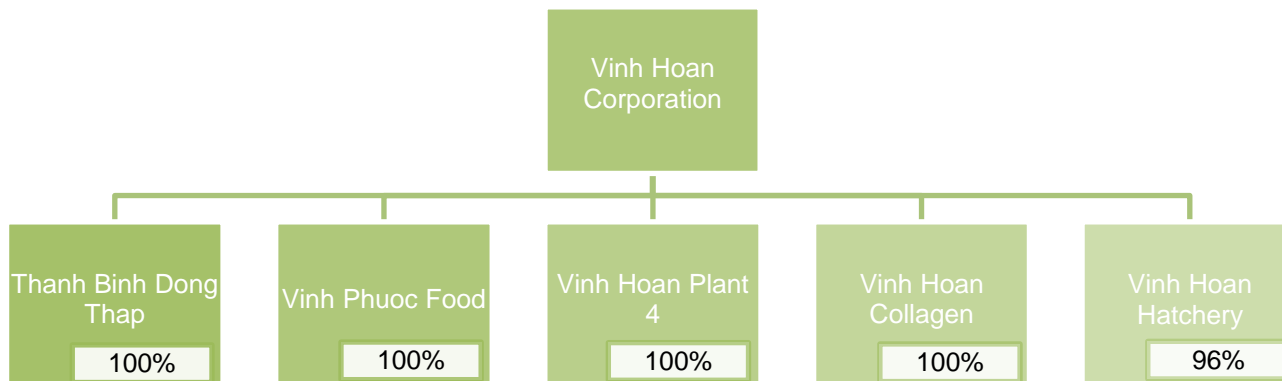
As over 90% of VHC's revenue comes from exporting activities, VHC's business results are significantly dependent on exchange rate movements of USD, CNY and EUR. In the context of escalating trade war between the United States and China, the fluctuations of these currencies are becoming more unpredictable and, therefore, become potential risk to VHC's business results.

Weather and climate changes

VHC's farming area is mainly located in the Mekong Delta which can be seriously affected by climate change. Rising sea level and saline intrusion can reduce the area of pangasius farming in the delta in general, and of VHC in particular. In addition, weather and climate change also increase the risk of diseases, which could reduce productivity of pangasius farming and increase the cost of medicine.

APENDIX
Corporate Structure

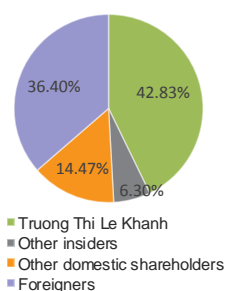
Figure 38: VHC's corporate structure



Source: VHC

Ownership structure

Figure 39: Ownership's structure



Source: VHC

Mrs. Truong Thi Le Khanh, VHC's founder and chairwoman, is the largest shareholder, holding 42.8% of total shares. Other insiders hold a combined 6.3% of VHC's shares. The firm also attracted huge attention from foreigners, including Dragon Capital and Mitsubishi. Currently, foreign investors own a combined 36.4% of VHC.

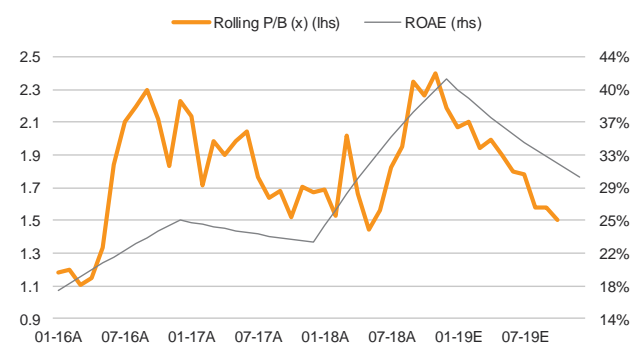
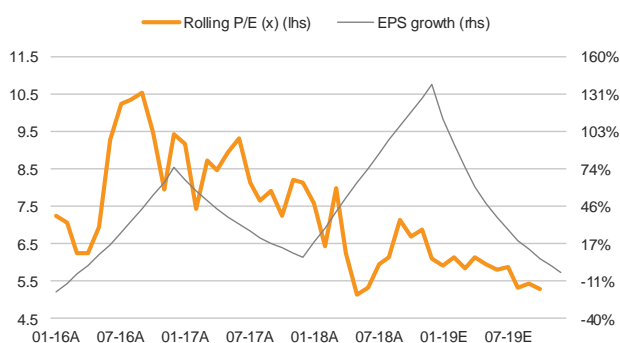
Several members of VHC's Board of Directors have family relationship with the chairwoman, including director of sales. However, CEO, CFO and other members of the management team are outside professionals. Khanh was the company's CEO since 2007 before resigning from this position in 2016, reflecting the effort to professionalise its management system.

Figure 40: VHC's management board

Name	Year of Birth	Ownership (%)	Title	Background
Ms Truong Thi Le Khanh	1961	42.83%	Founder/Chairwoman	She founded Vinh Hoan in 1997 and led VHC to become a largest pangasius exporter in Vietnam. She has been the Chairwoman of the Board since VHC's establishment
Ms Nguyen Ngo Vi Tam	1979	0.12%	CEO	She joined VHC in 2003 as a Sales Officer. She was promoted to Sales Manager in 2006, Deputy General Director in charge of sales in 2009 and in 2016, she was appointed as CEO when Khanh resigned from the position of CEO.
Ms. Truong Tuyet Hoa	1976	0.02%	Head of Sales/Daughter of Mdm. Khanh	She was promoted to Sales Manager since 2009 and joined the company's board since 2015
Ms. Nguyen Thi Kim Dao	1979	0.09%	CFO	Has been with VHC for 16 years. She was a chief accountant for 10 years before promoted to CFO in 2014. She joined VHC's board since 2016
Mr Vo Phu Duc	1976	1.49%	Head of Vinh Hoan Collagen	He joined VHC since 2003. He is Director of Vinh Hoan Collagen and incharge of technology development

Source: VHC

Valuation



Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	9,271	9,103	10,151
Cost of sales	(7,232)	(7,278)	(7,959)
Gen & admin expenses	(144)	(147)	(164)
Selling expenses	(210)	(211)	(240)
Operating profit	1,685	1,466	1,788
Operating EBITDA	1,842	1,630	2,008
Depreciation and amortisation	(156)	(163)	(220)
Operating EBIT	1,685	1,466	1,788
Interest income	137	240	168
Financial expense	(167)	(100)	(118)
Net other income	(46)	(9)	(10)
Income from associates & JVs	79	2	0
Pre-tax profit	1,688	1,599	1,828
Tax expense	(245)	(233)	(266)
Minority interest	0	0	0
Net profit	1,442	1,367	1,562
Adj. net profit to ordinary	1,442	1,367	1,562
Ordinary dividends	(363)	(370)	(372)
Retained earnings	1,079	997	1,190

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	43	86	94
Short term investments	608	1,139	1,392
Accounts receivables	2,002	1,833	2,065
Inventories	1,386	1,455	1,633
Other current assets	102	98	110
Total current assets	4,140	4,611	5,294
Fixed assets	1,397	1,822	2,154
Total investments	389	389	389
Other long-term assets	372	369	411
Total assets	6,299	7,191	8,249
Short-term debt	1,269	1,157	929
Accounts payable	274	281	317
Other current liabilities	707	693	731
Total current liabilities	2,251	2,132	1,977
Total long-term debt	0	0	0
Other liabilities	33	31	34
Share capital	924	924	924
Retained earnings reserve	2,867	3,867	5,053
Shareholders' equity	4,015	5,029	6,238
Minority interest	0	0	0
Total liabilities & equity	6,299	7,191	8,249

Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	1,688	1,599	1,828
Depreciation & amortisation	156	163	220
Tax paid	(98)	(233)	(266)
Other adjustments	104	(27)	(15)
Change in working capital	(1,169)	35	(373)
Cash flow from operations	680	1,538	1,394
Capex	(715)	(588)	(553)
Proceeds from assets sales	169	70	66
Others	(157)	(495)	(299)
Other non-current assets changes	(0)	0	0
Cash flow from investing activities	(702)	(1,013)	(786)
New share issuance	10	0	0
Shares buyback	0	0	0
Net borrowings	373	(112)	(228)
Other financing cash flow	0	0	0
Dividends paid	(363)	(370)	(372)
Cash flow from financing activities	20	(482)	(601)
Cash and equivalents at beginning of period	45	43	86
Total cash generated	(2)	43	7
Cash and equivalents at the end of period	43	86	94

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	15.6%	15.0%	15.4%
Asset turnover	1.63	1.35	1.31
ROAA	25.4%	20.3%	20.2%
Avg assets/avg equity	1.63	1.49	1.37
ROAE	41.5%	30.2%	27.7%
Efficiency			
Days account receivable	75.7	69.9	70.9
Days inventory	69.9	73.0	75.1
Days creditor	13.8	14.1	14.6
Fixed asset turnover	6.26	5.66	5.11
ROIC	27.3%	22.1%	21.8%
Liquidity			
Current ratio	1.8	2.2	2.7
Quick ratio	1.2	1.5	1.9
Cash ratio	0.3	0.6	0.8
Cash cycle	131.8	128.7	131.4
Growth rate (yoy)			
Revenue growth	13.7%	(1.8%)	11.5%
Operating profit growth	121.4%	(13.0%)	21.9%
Net profit growth	138.5%	(5.2%)	14.3%
EPS growth	138.5%	(5.2%)	14.3%

Source: VNDIRECT RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
 - Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
 - Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.
- The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanH@vndirect.com.vn

Hinh Dinh Quang – Analyst

Email: hinh.dinh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>