

## VINH HOAN CORP (VHC)

Long-term sustainable growth

BUY – Price target: VND 48,000

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We initiate coverage on Vinh Hoan Corp (VHC:HOSE), one of Vietnam's largest tra/basa producers and exporters, with a BUY rating. Our recommendation is based on the following factors:

VHC is a leading Vietnamese tra/basa producer and exporter, with strong brand-name and foothold in big markets like US and EU. The company's business model is recognized as the most modern and professional in the sector, meeting stringent standards of developed markets, hence building a solid client base. A production system becoming integrated enables VHC to control product quality and production cost optimally. All these factors provide VHC with a solid foundation for sustainable growth in the long run.

During 2007-2009 when the tra/basa sector experienced tremendous uncertainties, VHC proved its strengths and advantages when maintaining positive growth year over year. In 2009, VHC saw its net sales grow by 13.5% to reach VND 2,771bn; net profit was VND 193bn, up by 141% yoy, accomplishing 191% of plan; ROA 14% and ROE 35%. Our model forecasts VHC's 2010 sales and profit of VND 2,946bn and 224bn respectively, putting the stock on a PE of 7.0x, PB of 1.8x and PS of 0.5x. We argue that VHC deserves earnings and sales multiples at least equal to the industry average. Accordingly, the price target is set at VND48,000 over the period of next six months, which is 19.7% higher than the current price of VND40,100.

A catalyst supporting a VHC share price rise in the mid-term is stock dividend payment (at ratio 10:3) in Q4 this year. After taking the dilution effect into account and finding that EPS can still reach nearly VND6,000, we believe VHC shares can go higher from the current price. In the long-term, the company and its stock has a very good upbeat outlook as the overall fisheries sector and stock market recover, and VHC is moving up the value chain with more value-added products. i.e: seabass farming and collagen project.

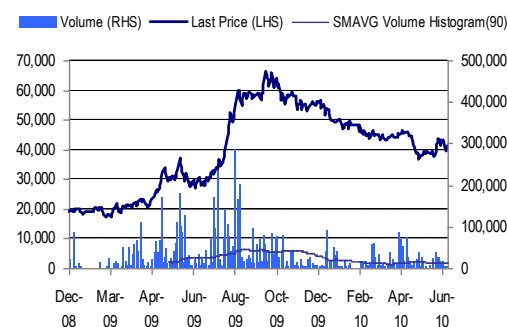
	2007	2008	2009	2010F	2011F
Net sales (VND bn)	1,425	2,442	2,771	2,946	3,615
EBITDA (VND bn)	118	185	322	340	443
Net profit (VND bn)	96	80	193	224	305
Net profit margin (%)	6.7	3.3	7.0	7.6	8.4
ROE (%)	30.0	19.8	35.1	26.1	27.3
ROIC (%)	31.4	30.0	34.9	27.0	29.9
EPS_adjusted (VND)	3,481	1,878	4,711	5,697	6,631
EPS growth (%)		-46	151	21	16
PE (x)	11.5	21.4	8.5	7.0	6.0
EV/EBITDA (x)	11.2	10.0	5.3	5.7	4.2
PS (x)	0.8	0.5	0.5	0.5	0.5
PB (x)	4.0	4.1	2.6	1.8	1.5
Dividend (VND)	0	2,700	1,500	0	2,500
Dividend yield (%)	0	6.3	3.5	0	5.8

\* Cash dividend for 2011 is our estimate (based on historical rate and forecasted retained earnings amount). For 2010, VHC plans to pay dividend by stock at the ratio 10:3. Total cash dividend paid in 2008 includes VND1,500 paid for 2007 and VND1,200 paid for 2008.

### Coverage initiation

Recommendation	BUY
	<b>HOSE:VHC</b>
	<b>Fisheries industry</b>
Price (VND)	40,100
Price Target (VND)	48,000
Expected share price return (%)	19.7%
Expected dividend yield (%)	0
Expected total return (%)	19.7%

Source: Bloomberg, Mekong Securities



### Ownership structure

State	0.00%
Board of directors	50.98%
Foreigners	23.32%
Others	25.70%

Stock statistics	3 August 2010
Bloomberg code	VHC VN
Last price (VND)	40,100
52-week range (VND)	27,800-66,500
Shares O/S (m)	35.33
Mkt Cap (VND bn)	1,417
Mkt Cap (USD m)	74
Est. free float (m)	9.1
3m avg daily volume (shares)	12,500
VND/USD	19,100
Index: VNIndex/HNX	492 / 150

Source: Bloomberg

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## Investment argument

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### ***A leading tra/basa producer and exporter in Vietnam***

Vinh Hoan (VHC:HOSE) is one of the three largest seafood exporters, and the second largest tra/basa exporter of Vietnam. With processing capacity of 500 tons of material per day, VHC is second only to Nam Viet (ANV: 1,200 tons) and Hung Vuong (HVG: nearly 1,000 tons). VHC is a well-known brandname among tra/basa importers, and it is recognized by other seafood companies as the most professional tra/basa producer in Vietnam. VHC has a stable client base concentrated in developed markets which are less risky in terms of regulation and payment.

### ***A sustainable integrated production system meets international standards***

VHC takes the lead in building a sustainable and integrated production system. The company possesses the largest farming area certified by Global GAP -- a good-farming-practice certification increasingly required by European importers and possibly US in the coming years. A production system getting fully integrated enables VHC to control product quality and production cost optimally. When we raised concerns about the current US Farm Bill - a regulation in it would place Vietnamese tra/basa under tighter control and stricter standards - the company's management confidently told us that VHC was operating in accordance with the highest standards of US and EU markets, so the impact would be minimized and less worrying than in the case of other companies.

### ***Sales grow steadily and profitability is among the highest***

With sustainable development strategy and run by a management having rich experience, vision and commitment, VHC has overcome challenges during 2008-2009 with very good results: rising to the 2nd position among top 10 largest tra/basa exporters with turnover of USD 115m; net sales grew by 13.5% yoy to VND 2.771bn; net profit recorded VND 193bn, up by 141% yoy; ROA: 14%; ROE: 35%; EPS: over VND6,000 (2008: VND 2,668).

### ***Profit is forecasted to grow by 16% in 2010, EPS: VND5,697***

For 2010, our model forecasts VHC's net sales can reach VND 2,946bn, up 6.3% yoy; and 2011 sales will grow strongly by 23% to VND 3,615bn driven by clearer recovery of global seafood market. Regarding bottom-line figures, 2010 net profit is forecasted at VND 244bn, up 16% yoy; and 2011 figure will grow strongly by 36% to VND 305bn. Based on these earnings projections and the company's stock dividend plan (at ratio 10:3 during Q4 2010), we estimate 2010 EPS and BVPS can reach VND 5,697 and 22,361 respectively, which will increase to VND 6,631 and VND 26,138 in 2011.

### ***Price target is set at VND48,000 per share over the next six months, equalling forward PE of 8.3 x***

At current price of VND 40,100, VHC share is being traded at 2010 forward PE and PB of 7.0x and 1.8x, rather undemanding for a company with excellent fundamentals like VHC. We believe VHC deserves PE and PB multiples at least equal to the industry averages and above. Using PE of 8.3x and PB of 2.0x, we compute price target for VHC at VND48,000 over the next 6 months, which is 19.7% higher than the current price.

### ***Stock dividend payment at rate 10:3 planned during Q4 2010 is a catalyst supporting VHC price***

A catalyst supporting VHC share price rise in the mid-term is stock dividend payment (at ratio 10:3) in Q4 this year. Looking forward into 2011, clearer recovery of overall fisheries sector and stock market will provide a strong support for VHC to advance higher. In the long term, VHC will move up the value chain with more value-added products (the most expected one is a collagen project), which provides an upbeat outlook for both the company and its stock.

With above analysis, we initiate coverage on VHC with a **BUY** rating and price target is placed at VND 48,000 over the next 6 months.

*Low liquidity is the main risk when investing in VHC for the time being*

A considerable risk when investing in VHC shares at present is its liquidity, which is rather low. The number of free floating shares is estimated at nearly 10 million, and average daily trading volume in recent 3 months stays under 13,000 shares. Poor liquidity makes the stock less attractive and limits actions of big/institutional investors. Meanwhile, retail investors only pay attention to the stock when there is lots of good news about the whole fisheries sector and/or the company itself. During this time when the sector remains under-toned with short-term challenges, even fundamentally-excellent company like VHC may not receive immediate attention and strong demand from investors to see its share price soar. Therefore, investment in VHC should be made with a mid-to-long-term horizon.

## Company overview

### Overview

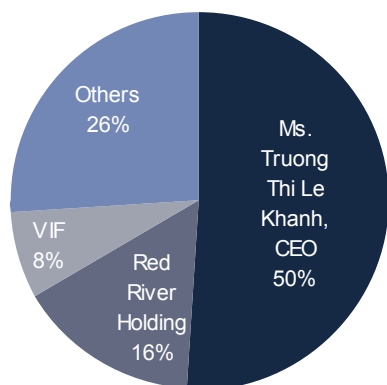
Established in December 1997 and equitized in April 2007, VHC has now become a leading Vietnamese tra/basa producer and exporter. Since 2006 up to date, VHC has always been among top 3 largest tra/basa exporters in terms of both volume and value.

VHC stands out from the crowd of over 100 domestic tra/basa companies thanks to its environment-friendly and integrated production system which enables VHC to optimally control the quality of products and operating costs. VHC's products target at high-end markets in developed countries like US and EU.

In December 2007, VHC listed 30 million shares on HoChiMinh Stock Exchange (HOSE). The number of shares outstanding has now increased to 35.3 million, equivalent to the chartered capital of VND 353bn.

Over 50% of VHC is owned by Madam Truong Thi Le Khanh -- the Chairwoman-cum-CEO, who is the founder of the company and also has respectable voice in tra/basa sector. Other major shareholders include: Red River Holding (16%) and Vietnam Investment Fund (VIF, 8%).

Chart 1: VHC: Ownership structure









Source: VHC, Mekong Securities

### Business profile

VHC's main business is processing and exporting high-quality tra/basa fillets, value-added products made from tra/basa such as: burger basa, tra/basa topped potato mousse, tra/basa wrapped in potatoes..., and other products like tra/basa portion/loins/block.

In addition, VHC also owns a fishmeal factory (Vinh Hoan 1), which uses the by-products from processing factories to produce fishmeal/ fishfeed/ fishoil/ fishskin partly exported to markets like China.

Chart 2: VHC's major products

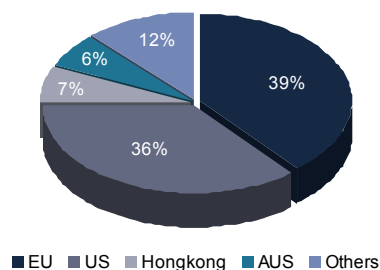
a. Tra/basa fillets			
b. Value-added products from tra/basa: <i>burger basa, tra/basa topped potato mousse, tra/basa wrapped in potatoes</i>			
c. Others: <i>tra/basa portions, loins, block</i>			
d. By-products: <i>fishmeal/fish feed/fish oil/ fish skin</i>			

Source: VHC

Main products (tra/basa fillets and others) account for 83% total revenue and 80% profit. VHC's major export markets include: EU (39%), US (36%), Hong Kong (7%), Australia (6%).

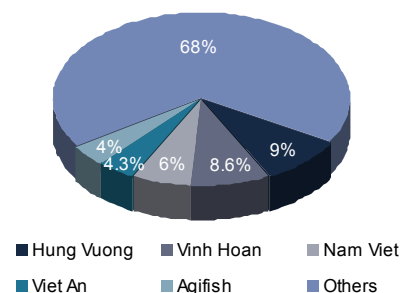
VHC remains among top 3 largest Vietnamese tra/basa exporters since 2006. Particularly, in 2009 VHC surpassed Nam Viet (ANV) to become the second largest exporter with turnover of USD 115m, presenting 8.6% of Vietnam's total tra/basa export turnover in 2009.

Chart 3: VHC's major export markets



Source: VHC, Mekong Securities

Chart 4: Export turnover shares of top 5 (2009)



Source: VASEP, Mekong Securities



### Competitive analysis: VHC versus other players

Tra/basa sector has witnessed an interesting change in the top positions when VHC surpassed other bigger players to become the largest exporter during the first five months of 2010 according to the statistics from Vietnam Association of Seafood Exporters and Producers (VASEP).

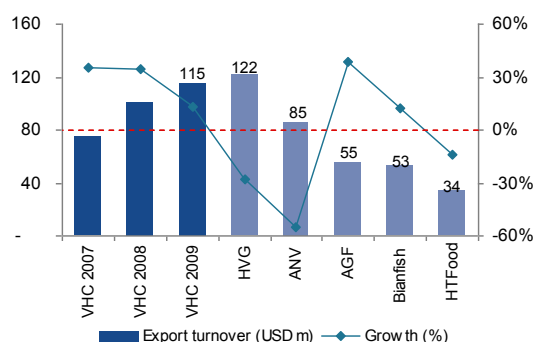
**VHC always stays among top three Vietnamese tra/basa exporters**

During the period 2007-2009 (since listed on HOSE), VHC has always maintained a steady export growth year over year. In 2009, the company earned USD 115m in tra/basa export, up 13.5% yoy while the whole sector experienced a negative growth (-7.6%) and big players like HVG and ANV also saw their export turnovers decline seriously by 28-55%. Market-share of VHC in the country's total tra/basa exports increased from 7% (2008) to 8.6% (2009), second only to HVG (9%).

**Export turnover and net sales kept growing steadily in spite of challenges confronting the sector during 2008-2009**

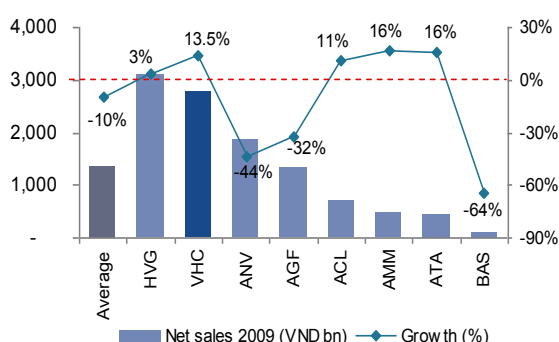
After posting a strong growth of 71% in 2008, VHC's net sales kept growing by 13.5% in 2009. This was a really good performance given the fact the whole sector was faced with lots of difficulties during the period, and average sales growth of eight listed tra/basa companies dropped by 10%. VHC's sale growth rate was among the highest, after only Mekong Fish (AAM, 16.3%), and NTACO (ATA, 16%). In absolute terms, VHC's sales (VND 2,771bn) stood behind only HVG's (VND 3,085bn).

Chart 5: VHC's export turnover vs. other players in top 10



Source: VHC, VASEP, Mekong Securities

Chart 6: VHC's 2009 net sales growth vs. other listed tra/basa producers



Source: VASEP, Mekong Securities

VHC's leading position in tra/basa export may be viewed as temporary during the time when other bigger players like HVG or ANV are faced with difficulties in their major export markets. Yet a position in top 3 is absolutely secured for VHC thanks to its solid fundamentals as follows:

**VHC's leading position is secured by sustainable fundamentals: processing capacity, integrated system meeting international standards, strong foothold in big markets like US and EU**

i) Processing capacity of 500 tons/day is the third largest after ANV (1,200 tons) and HVG (nearly 1,000 tons);

ii) A modern production system getting fully integrated enables VHC to grow steadily and sustainably. With a sustainable development strategy, VHC takes the lead in building an environmental-friendly and integrated business model. VHC prides itself on being among very few tra/basa companies that have developed their own farming areas to supply materials for processing factories. Moreover, VHC currently possesses the largest farming area certified by Global GAP, which gives the company a great advantage in winning contracts from European clients and negotiating for higher prices. VHC has a plan to expand its farming areas by additional 50-70ha so that it can meet 100% material demand from its three processing factories from 2011 onwards. A fish nursery farm also plans to be

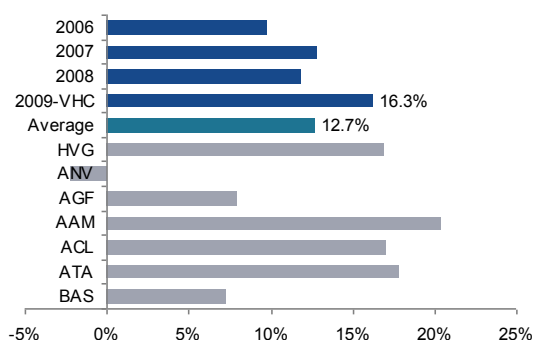
completed by the end of 2010. To control quality of tra/basa material, VHC also has a fishmeal factory which has doubled capacity from 70.000 tons to 140.000 tons per year since early 2010. Other companies also want to build an integrated system as VHC; however, most of them are either lack of resources or simply late movers. It is said that currently HVG is the only one who gets close to VHC in terms of building such a system, but still lags behind VHC in winning global certifications. VHC is enjoying first-mover advantages to strengthen and expand its client base.

iii) With a production system meeting the highest global standards, VHC can penetrate big and developed markets like US and EU. At present, VHC makes up for the largest shares in total tra/basa exports by Vietnam to these markets (US: 30%, Britain: 27%, Belgium: 27%). Thanks to its brandname and professionalism, VHC has built a stable client base that has less payment risk than that of other companies. For example, during 2008-2009 while other companies like ANV or HVG had their receivables days outstanding jumped from 106-178 to 155-232 days, VHC maintained its ratio at around 43 days.

**Profit margin is improving thanks to better cost control**

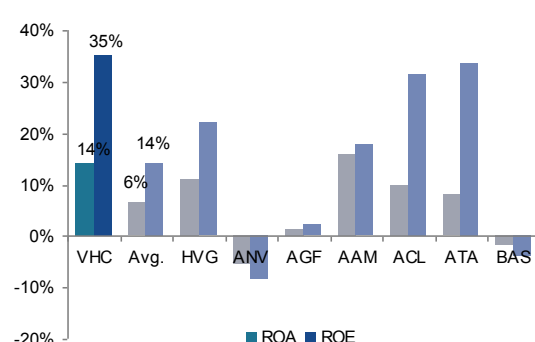
Regarding profit margin, currently VHC has gross profit margin (16.3%) higher than sector average (12.7%), but lower than several listed companies, namely Mekong Fish (AAM, 20.4%), CuuLong Seafood (ACL, 17%), or NTACO (ATA, 17.8%). An important reason is that VHC has made large investments in farming areas and modernizing processing factories to meet international standards, which resulted in higher cost of goods sold. Meanwhile during the period 2007-2009, prices of finished products were under downward pressure due to global slowdown. These factors combined to make VHC's gross profit margin remain lower than some players for the time being. However, it should be noted that gross profit margin of VHC keeps improving steadily from 9.8% (2006) to 16.3% (2009) thanks to strong commitment from the management board with effective policies on cost control.

Chart 7: VHC's gross profit margin vs. other listed tra/basa producers



Source: VHC, VASEP, Mekong Securities

Chart 8: VHC's profitability vs. other listed tra/basa producers



Source: VHC, VASEP, Mekong Securities

**ROA and ROE is among the highest in tra/basa sector**

In terms of profitability, VHC is a leading player among eight listed companies with 2009 ROA and ROE of 14% and 35% respectively as compared to the average of 6% and 14%. According to updated data till Q1 2010, VHC maintained its number one position with ROA: 14%, ROE: 32% vs. sector average of 8% (ROA) and 16% (ROE).

VHC's EPS trailing (till Q1 2010) reached nearly VND 6,500 per share, the second highest after ACL (VND 7,100); BVPS reached approximately VND 22,800, equal to sector average. At current price of VND 40,100 (dated 03 August 2010), VHC is trading

at PE of 6.3x -- 20% discount of sector average (7.9x), and PB of 1.8x -- 29% premium of sector average (1.4x)

**VHC is owned the most by foreign investors (23.3%)**

With VND 353bn, VHC has the third largest chartered capital among eight listed tra/basa companies, after Hung Vuong (HVG) and Nam Viet (ANV). But the company has the second largest market capitalization, after only HVG; and has the highest foreign ownership (23.3%).

Table 1: Market and financial statistics of listed tra/basa producers and exporters

	Average	VHC	HVG	ANV	AGF	AAM	ACL	ATA	BAS
Price on 27 July 2010 (VND)		40,100	29,000	18,900	32,700	29,900	36,900	27,200	11,700
Shares outstanding (m)		35.33	66.00	65.61	12.86	11.34	11.00	10.00	9.60
Foreign ownership (%)	7.2%	23.3%	13.8%	5.9%	5.8%	1.2%	4.8%	2.7%	0.0%
Mkt Cap (VND bn)	765	1,417	1,914	1,240	421	339	406	272	112
3m avg. daily volume	122,589	12,500	101,745	504,409	23,176	67,000	104,000	34,720	133,164
P/E (x)	7.9	6.3	5.7	na	17.3	5.5	5.2	7.5	na
P/B (x)	1.4	1.8	1.2	0.9	0.7	1.1	1.9	2.1	1.3
P/S (x)	0.7	0.4	0.7	0.7	0.3	0.7	0.4	0.6	1.5
EPS (VND)	3,560	6,480	5,420	(1,430)	1,940	5,550	7,100	3,620	(201)
BVPS (VND)	23,870	22,780	26,620	22,700	48,020	28,380	19,970	12,820	9,670
ROA (%)	7.7%	13.6%	11.0%	-4.4%	2.0%	17.7%	14.7%	8.0%	-1.0%
ROE (%)	18.1%	31.9%	21.9%	-6.2%	4.0%	20.4%	41.4%	33.5%	-2.1%

Source: Bloomberg, Mekong Securities



## Earnings outlook

The sector has overcome the gloomiest time and a good company like VHC will become stronger

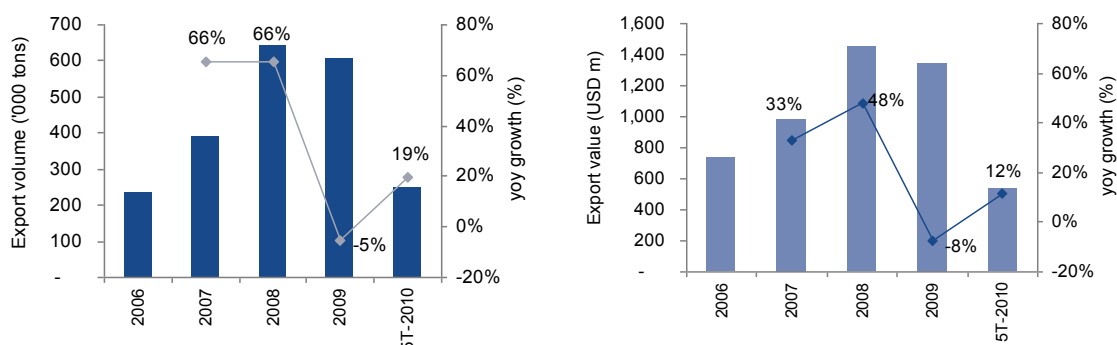
*2008-2009 was the most challenging period for tra/basa sector when export turnover dropped for the first time since 1997*

Tra/basa sector faced its hardest time from Q4 2008 through 2009. Total export volume and value in 2009 dropped (for the first time since 1997) by 5.2% and 7.6% respectively versus 2008 figures. Vietnamese tra/basa exporters had to deal with lots of difficulties such as: weaker demand from importers who didn't want to purchase and store too much; poor payment ability of importers resulting in a surge in receivables for many tra/basa exporters; rising trade barriers (i.e. stricter regulations on farming standards, lower glaze weight...) and non-trade barriers (i.e. smear and misrepresentation against Vietnamese tra/basa by media and interest groups in several importing countries).

*But there has been sign of recovery in the first half of 2010*

Yet, real demand for Vietnamese tra/basa remains strong thanks to the increasing popularity and affordability of the fish. Hence once the world economy started bottoming out of the 2008-2009 crisis, demand from importers for Vietnamese tra/basa also picked up at a quicker pace. According to the statistics of the first five months of 2010, Vietnam exported about 249,000 tonnes of tra/basa, worth USD533 million, up by 19.4% and 11.6% yoy respectively.

Chart 9: Vietnam's tra/basa export during 2006 till May-2010



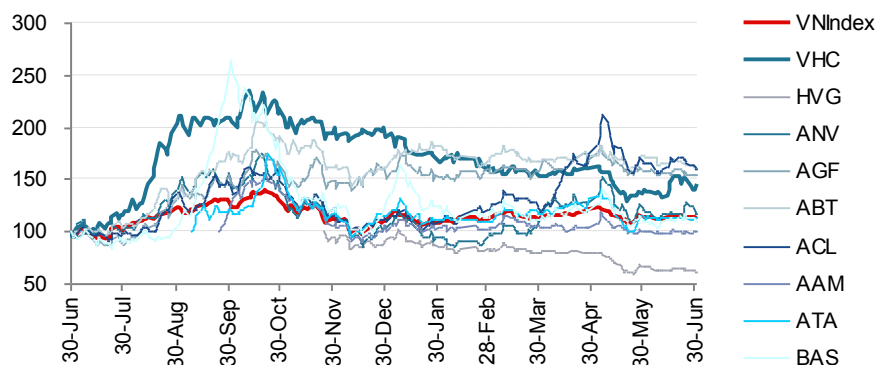
Source: VASEP, Mekong Securities

*There remain challenges on the recovery path, particularly austerity in the Eurozone*

Though remaining positive about the long-term outlook of tra/basa sector (some say strong recovery from late 2011 onwards), many industry insiders are concerned about the sector's current difficulties such as i) the volatility of raw material supply -- a long-standing issue in this sector, ii) rising trade barriers (e.g. Russia market has recently required lowering the glaze weight down to under 10% from 20%; or US's Farm Bill, if adopted, would cause substantial challenges for many tra/basa exporters to meet the stricter requirements on fish farming, and iii) on-going austerity in the European zone slowing down recovery in tra/basa demand. Additionally, due to the depreciation of Euro against US dollars, European importers are requesting Vietnamese exporters to reduce the selling price, and importers in other regions also take advantage of this to bargain down the price.

These challenges have been priced into fisheries stocks when most of them have corrected significantly since January 2010, and are now moving sideways.

Chart 10: Fisheries stocks' relative performance vs. VNIndex (June.2009-June.2010)



Source: Bloomberg, Mekong Securities

*Potential and long-term outlook of the sector are bright, and a good company like VHC is well-positioned to become the best player*

In our view, tra/basa export will have an upbeat outlook from second half 2011. In spite of current difficulties faced by overall sector, there are good companies in the sector which have solid foundation to overcome those short-term challenges and grow stronger. They are undeniably the ones to have strong and fastest growth when the overall market fully recovers. According to our analysis, we believe VHC is one of these companies.

*Strengths and competitiveness of VHC have been proved very well during volatile period 2006-2009*

During 2006-2009, when tra/basa sector encountered great challenges, VHC proved itself to be one of the leading companies with a sustainable business model. Thanks to its early moves in building an integrated production system that is environmental-friendly and qualified for strict international standards, VHC has managed to meet rising non-tariff barriers from importing countries and build a stable client base in developed markets. Its export volume and value have increased constantly over the past four years. In 2009, VHC surpassed Nam Viet (ANV) to become the second largest Vietnamese tra/basa exporter. According to the first five months 2010 statistics, VHC has risen to the number one position.

Table 2: Top 10 largest Vietnamese tra/basa exporters (2006-2009)

	2006		2008		2009
Navico (ANV)	111.5	Navico (ANV)	187.7	Hung Vuong (HVG)	122
Agifish (AGF)	55.4	Hung Vuong (HVG)	169.4	<b>Vinh Hoan (VHC)</b>	<b>115</b>
<b>Vinh Hoan (VHC)</b>	<b>53.7</b>	<b>Vinh Hoan (VHC)</b>	<b>101.3</b>	NamViet (ANV)	85
Hung Vuong (HVG)	48.2	Agifish (AGF)	89.9	VietAn	57
Caseamex	29.6	Thimaco	48.0	Agifish (AGF)	55
ThanhThien	29.2	Bianfish	47.2	Bianfish	53
Thufico	25.9	Anvifish	45.0	Thimaco	43
VanDuc	24.8	HTFood	39.3	CuuLong Seapro	39
Q.V.DFood	22.6	Q.V.D Food	38.4	HTFood	33.9
Docifish	21.5	CL-Fish	37.9	Caseamex	33.7
<b>Total</b>	<b>736.8</b>	<b>Total</b>	<b>1,450</b>	<b>Total</b>	<b>1,340</b>

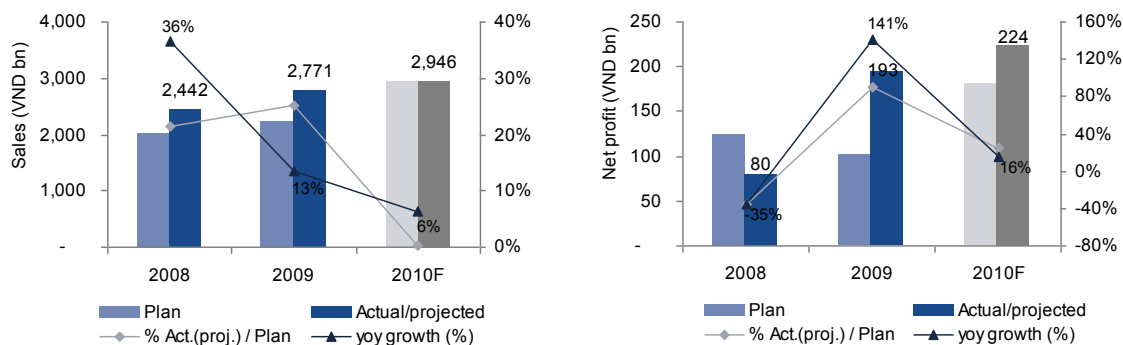
Source: VASEP, Mekong Securities

The company far exceeded its revenue targets for both 2008 and 2009, while profit target for 2008 was not met mainly due to a surge in interest expense. But in 2009, VHC exceeded the profit target by 91% when interest expense was controlled thanks to the government's interest-rate subsidy programme.

**We forecast VHC can achieve 2010 plan with profit exceeding target by 16%**

In 2010, we forecast VHC can maintain a revenue growth of 6% supported partly by VND depreciation against USD, and revenue from the fishmeal factory which has capacity doubled from 70,000 to 140,000 tonnes/year. We forecast VHC is likely to exceed the profit target (VND 180bn) by 16% on the ground that gross profit margin is maintained at 16% and interest expense is under control as the company has a better cash position to meet working capital needs without having to rely too much on bank borrowings.

Chart 11: VHC: planned vs. actual/projected sales and profit (2008-2010F)



Source: VHC, Mekong Securities

#### VND depreciation and doubled capacity of the fishmeal factory supports 2010 revenue growth

Our model forecasts VHC's revenue based on its two core businesses: tra/basa export and fishmeal production.

For tra/basa export, we make a conservative forecast based on following assumptions:

i) *Average export price: In 2010, because of the EUR depreciation against USD, European importers put more downward pressure on price and importers in other countries also take advantage of this opportunity to ask for lower prices. In the base case, we assume 2010 average export price equals to last year's (USD 2.6/kg), and then increases to USD 2.7/kg in 2011 (implying a yoy growth of 5%). Please note that during the good time like in 2007 and the first three quarters of 2008, VHC's average export price is around USD 3.0/kg plus.*

ii) *Overall European zone -- a major market of VHC -- is facing a difficult summer this year due to its public debt crisis. Hence, we forecast VHC's 2010 export value will just hit the target of USD 120m. In 2011, the export value will grow by 20% to reach USD 144m supported by strong recovery of global seafood markets.*

iii) *VND depreciation benefits exporters like VHC: In November 2009, VND was devalued by 5.4% against USD; then in February 2010, it was devalued by additional 3%. Since the beginning of 2010 till June, average exchange rate quoted by commercial banks stands around 19,100. To estimate VHC's revenue in VND, we decide to use the exchange rate of 19,100 for 2010 and VND19,291(depreciated by 1%) for 2011.*

Therefore, the 2010 revenue generated from tra/basa export is estimated at VND 2,298bn, up by 12% yoy; and in 2011, the revenue is forecast to grow by 21% to reach VND 2,781bn.

Table 3: VHC: Projected revenue from tra/basa exports

	2007	2008	2009	2010F	2011F
Export value (USD m)	75	101	115	120	144
Avg. exchange rate (VND:USD)	-	-	17,860	19,100	19,291
<b>Est. revenue (VND bn)</b>	-	-	<b>2,054</b>	<b>2,298</b>	<b>2,781</b>
<i>Growth (%)</i>				12%	21%

Source: VHC, Mekong Securities

Our forecast of VHC's revenue from tra/basa export is built with a fairly conservative view based on available information and trends observed in the sector upon the publication of this report. The company's management confidently told us that the export target of USD 120m in 2010 was achievable. We also believe the real case is more likely to outperform (than underperform) our base case.

*Sales from the fishmeal factory are likely to exceed plan and contribute c.35% to total net sales*

On the other hand, revenue generated from the fishmeal factory (VH1) will also contribute significantly to 2010 total revenues (c.35% vs 16% in 2009) thanks to its doubled capacity from 70,000 to 140,000 tonnes/year. We were told by the company management that fishmeal price was enjoying a slight uptrend in 2010, while fish-feed price remained stable as VHC wanted to support fish farmers supplying material to the company. We forecast VH1's revenue would reach VND 1,036bn in 2010, up by 43% yoy and achieving 123% the target (VND 845bn). In the first half of 2010, the fishmeal factory already earned approximately VND 500bn.

*We forecast sales to grow by 6% in 2010 before growing strongly by 23% in 2011 on the back of clearer recovery of global seafood markets*

To sum up, we forecast 2010 aggregated revenue (net sales) will hit VND 2,946bn, up by 6.3% yoy and slightly 0.3% higher than the target. 2011 revenue is forecast at VND3,615bn, up by 23% yoy supported by strong recovery of global seafood markets. From 2012 onwards, we expect R&D projects on value-added products will be implemented and add more revenue to VHC, such as seabass farming project or collagen production from tra/basa skin.

Table 4: VHC: Projected aggregate net sales

	2008	2009	2010F	2011F
<b>Actual / projected net sales</b>	<b>2,442</b>	<b>2,771</b>	<b>2,946</b>	<b>3,615</b>
Plan	2,010	2,213	2,939	na
% act.(proj.) / plan	21,5%	25,2%	0,3%	na
<i>Growth (%)</i>	36,5%	13,5%	6,3%	22,7%

Source: VHC, Mekong Securities

**Collagen project:** This is the most expected project of VHC, which will produce gelatin/hydrolyzed collagen to be used as raw material for nutritional products, pharmacy and cosmetics. In the market, gelatin collagen products are priced from USD25 plus per kilogram. Hence, the project is expected to add great value to VHC as it has very high profit margin. After successful laboratory trial production, VHC is now in the process of reviewing market responses and looking for proper waste treatment technology for the project, and the collagen factory with a capacity of 1,000 tons per year plans to be constructed in 2011.

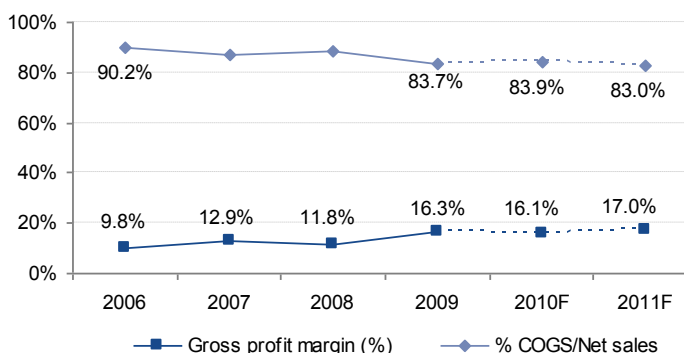
With assumptions that the factory will operate with 60% of its capacity in the first year upon completion (est. 2012) and full capacity in the following years, and output price at USD25/kg (to be conservative), the collagen project will add about USD15m to VHC's total revenue in the first year and at least USD25m from the second years onwards. Using a net profit margin of 40% provided by VHC, we make a simple estimation that net profit generated by the collagen project in the first year would be about USD6m and at least USD10m in the following years. In VND terms (using constant exchange rate forecast for 2011), the net profit added by the collagen factory would be about VND116bn in the first year and VND193bn in following years, which is equal to the 2009 consolidated net profit generated by all three current fish processing and one fishmeal factories.

### Gross profit margin may dip slightly in 2010 and improve in the next year

During 2006-2008, VHC had gross profit margin improve steadily (except for 2008) from 9.8% to 16.3%.

*Gross profit margin is overall on an improving trend as VHC has better cost control*

Chart 12: VHC: Gross profit margin (2006-2011F)



Source: VHC, Mekong Securities

VHC is among very few companies in the sector that have successfully managed to build an integrated production system, enhancing the rate of self-material-supply from under 30% in previous years to currently 50% and to planned 100% as from 2011. This enables the company to have a better control on both product quality and production costs. During 2006-2009, the cost of goods sold-to-net sales ratio has been reduced remarkably from 90% to under 84%.

*But higher COGS-to-sales incurred by fishmeal production may lower gross profit margin in 2010*

For 2010, we forecast the COGS-to-net sales ratio may increase because input costs for fishmeal factory are increasing while output prices stay unchanged (fish feed) or increase mildly (fishmeal). This will make VHC's overall gross profit margin dip slightly to 16.1% in 2010. From 2011 onwards, we forecast the ratio continues its improving trend as VHC has better control on material supply, and sales will increase faster thanks to strong recovery in both export volume and price, as well as new income from value-added products.

### Better cash position to meet working capital needs enables VHC to control interest expense in 2010

During 2006-2009, VHC didn't have strong cash position. Net cash flows were negative during 2007-2008, so the company had to rely mainly on short-term bank loans to meet its working capital needs.

In 2008, VHC's short-term debt surge by five times as compared to 2007. Unfortunately in the year, interest rates also experienced unprecedented volatility and skyrocketed to as high as 21%, which made most domestic companies including VHC incur an unexpected rise in interest expenses, thus severely dampening their bottom-line earnings.

Table 5: VHC: Net cash flows and debts (2007-2009)

<i>Unit: VND million</i>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net cash from operating activities	(7,022)	(181,119)	298,363
Net cash from investing activities	(187,637)	(251,084)	(105,591)
Net cash from financing activities	190,782	432,045	(2,688)
<b>Cash and equivalents at year-end</b>	<b>20,898</b>	<b>20,826</b>	<b>209,968</b>
Short-term debts	97,955	465,237	399,402
Long-term debts	36,487	212,251	209,822
Interest expenses	213	47,400	49,058

Source: VHC, Mekong Securities

*Interest expense in 2010 will be under control and can hardly be higher than last year's*

In 2010, with abundant cash retained from 2009 (nearly VND 210bn) plus the capital raised early this year (totalling VND 130bn) from private issuance to strategic investor (at average price of VND46,000 per share), VHC can proactively manage its working capital needs. From our recent talks with the company's managers, we learnt that VHC had only one major project to be completed in this year -- the fish nursery farm, with total investment of VND 15bn -- and the company intended to use long-term borrowings to finance the project. As such, we forecast VHC's total debts, particularly short-term debt, will be reduced significantly in 2010. Interest expense, therefore, will be controlled and can hardly be higher than last year's. In their factsheet explaining Q1-2010 business performance, VHC also reported the factor attributable to 19% yoy increase in the quarter's profit was a remarkable reduction in interest expense.

### Profit exceeds plan and profitability ratios continue to improve

Based on above sales and costs projections, we forecast VHC can reach VND275bn earnings before tax (EBT) in 2010, up 14% yoy. It is notable that in this number, we haven't taken into account earnings from financial and other activities as these earnings fluctuate in a "random walk" so it may not be practical to make projections on them. Additionally, we would argue that thanks to ability to control interest expense in 2010, VHC may not have to incur loss from financial activities as it did in 2009 (minus VND 17bn). Therefore, the actual EBT is unlikely to be too different from our projection.

Our model forecasts VHC can earn VND 224bn in net profit this year, exceeding 24% plan (VND 180bn) and up 16% yoy. 2011 net profit is forecasted to grow faster by 36% to reach VND305bn thanks to strong sales and better profit margin.

*2010 net profit is forecasted to reach VND 224bn, up 16%yoy; ROE: 26%; EPS: VND 5,697, BVPS: VND 22,361*

Net profit margin will improve from 7% (2009) to 7.6% (2010) and 8.6% (2011). Return on assets (ROA) also increases from 14% to 14.7% and 18.9% during the same period.



Meanwhile, return on equity (ROE) may contract from 35% to 26% (2010) and 27% (2011) due to rapid expansion in equity base.

Based on these earnings projections and the company's stock dividend plan (at ratio 10:3 during Q4 2010), we estimate 2010 EPS and BVPS can reach VND 5,697 and 22,361 respectively, which will increase to VND 6,631 and VND 26,138 in 2011.

Table 6: VHC: Profit and profitability ratios (2007-2011F)

	2007	2008	2009	2010F	2011F
Net profit-planned (VND bn)	109	124	101	180	na
<b>Net profit-actual/projected (VND bn)</b>	<b>123</b>	<b>80</b>	<b>193</b>	<b>224</b>	<b>305</b>
<i>% act.(proj.) / plan</i>	13%	-35%	91%	24%	na
<i>Growth (%)</i>		-35%	141%	16%	36%
Net profit margin (%)	6.7%	3.3%	7.0%	7.6%	8.4%
ROA (%)	20.2%	8.7%	14.1%	14.7%	18.9%
ROE (%)	30.0%	19.8%	35.1%	26.1%	27.3%
Shares outstanding (m)	30.0	30.0	32.6	45.9	45.9
Basic EPS (VND)	4,525	2,668	6,427	5,697	6,631
<b>EPS_adjusted (VND)</b>	<b>3,481</b>	<b>1,878</b>	<b>4,711</b>	<b>5,697</b>	<b>6,631</b>
EPS growth (%)		-46%	151%	21%	16%
<b>BVPS (VND)</b>	<b>13,141</b>	<b>13,842</b>	<b>21,054</b>	<b>22,361</b>	<b>26,138</b>
<b>Net sales per share (VND)</b>	<b>52,144</b>	<b>81,412</b>	<b>88,576</b>	<b>75,075</b>	<b>78,716</b>

Source: VHC, Mekong Securities

## Valuation

We use both relative approach (based on market multiples including PS, PE and PB) and discounted cash flow (DCF) valuation to arrive at price target for VHC.

*Our blended valuation points to a price target of VND 48,000 per share*

- VND 48,187 is the price target based on relative approach;
- VND 47,184 is the price target based on DCF valuation.

We believe relative approach can capture the market sentiment better and faster, and it is a more suitable approach to value Vietnam's equities market at present, which is driven significantly by sentiment factor. Therefore, we give more weightage to relative approach valuation (80% vs. 20% to DCF) and arrive at the price target of VND 48,000 for VHC over the next 6 months.

### 1. Valuation based on PS, PE and PB ratios

We have selected seven listed companies specialized in producing and exporting tra/basa for peer comparison.

Table 7: Peer comparison

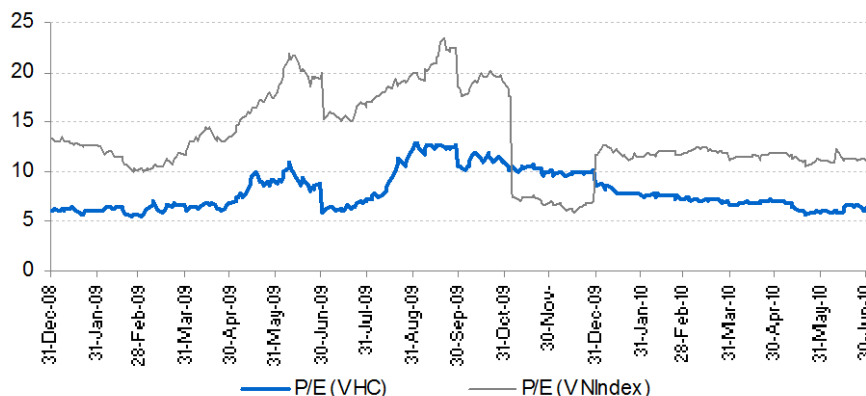
Companies	Ticker	Mkt Cap (VND bn)	ROA (%)		ROE (%)		P/S (x)	P/E (x)	P/B (x)	PB avg. 5 year (x)
			2009	Trailing	2009	Trailing				
HUNG VUONG CORP	HVG	1,914	11.0	11.0	21.9	21.9	0.7	5.7	1.2	na
NAM VIET CORP	ANV	1,240	(5.3)	(4.4)	(8.3)	(6.2)	0.7		0.9	0.8
AN GIANG FISHERIES JSC	AGF	421	1.2	2.0	2.3	4.0	0.3	17.3	0.7	0.6
CUULONG FISH JSC	ACL	406	10.0	14.7	31.6	41.4	0.4	5.2	1.9	1.5
MEKONG FISHERIES JSC	AAM	339	15.8	15.8	17.6	17.6	0.7	5.5	1.1	na
NTACO JSC	ATA	272		8.0		33.5	0.6	7.6	2.1	na
BASA JSC	BAS	112	(1.8)	(1.0)	(3.9)	(2.1)	1.5		1.3	1.6
<b>Average</b>		<b>672</b>	<b>5.2</b>	<b>6.6</b>	<b>10.2</b>	<b>15.7</b>	<b>0.7</b>	<b>8.3</b>	<b>1.3</b>	<b>1.1</b>
VINH HOAN CORP.	VHC	1,417	14.2	13.6	35.1	31.9	0.4	6.3	1.8	2.2

Source: Bloomberg, Mekong Securities

For PS: VHC is among the top 3 companies in terms of market capitalization as well as profitability. Given its brand-name and stable client base concentrated in developed markets like US and EU, VHC's sales outlook is clearly better than other peers which have large exposure to markets having higher regulation and payment risks. Therefore, we believe VHC deserves a price-to-sale ratio (PS) at least equal to sector average and ratios of other big peers (0.7x).

For PE: VHC is one of the two most profitable tra/basa companies. So, we believe price-to-earnings ratio (PE, reflecting market expectation of a company's earnings outlook) proper for VHC should be no less than the sector average (8.3x). According to our research, average historical PE of VHC during the period 2008 till June 2010 also stands at 8.0x. Given overall market trend and sentiment towards fisheries sector in this year, we believe a forward PE of 8.3x is suitable for VHC.

Chart 13: Historical PE of VHC and VNIndex (Dec.2008 - June.2010)



Lowest PE (VHC) : 5,4x (23.Feb.2009, VNIndex: 244 pts)

Highest PE (VHC) : 12,8x (01.Sep.2009, VNIndex: 548 pts)

Average PE (VHC) : 8,0x (Dec.2008 - June.2010)

Current PE (VHC) : 6,3x (03.Aug.2010, VNIndex: 492 pts)

Source: Bloomberg, Mekong Securities

For PB: VHC is being traded at PB of 1.8x, which is higher than sector average of 1.3x. Over the past three years since listed on HOSE, VHC was traded at an average PB of 2.2x. We believe VHC deserves PB as high as 2.0x given its asset profile composed of valuable and good earning-generated assets such as modern equipment and factories, well-managed inventories, and moderate level of account receivables from trustworthy clients in developed markets.

Based on projected 2010 Sales per share, EPS, BVPS, and corresponding justified multiples, we arrive at the price target of VND48,187 for VHC, which is an equally-weighted average of:

- VND52,552 PS valuation, which uses the PS multiple of 0.7x against the projected Sales per share of VND75,075;
- VND47,287 PE valuation, which uses the PE multiple of 8.3x against the projected EPS of VND5,697;
- VND44,722 PB valuation, which uses the PB multiple of 2.0x against the projected BVPS of VND22,361.

## 2. Valuation based on discounted cash flows (DCF)

Key drivers		Remarks				
Risk free rate (RFR)	11.5%	10-year government bond yield				
Market risk premium (MRP)	6%					
Beta	0.8	Adjusted beta by Bloomberg				
Cost of equity	17.3%					
Tax rate	25%					
Cost of debt	10.1%					
Debt/Equity	28%					
<b>Weighted average capital cost</b>	<b>14.6%</b>					
Long-term growth rate	4%					
Valuation	2010	2011	2012	2013	2014	2015
<i>Unit: VND million, otherwise stated</i>						
<b>Free cash flow to firm (FCFF)</b>	(85,237)	141,174	143,940	169,455	189,456	192,840
Terminal value						1,893,625
Discount factor (x)	0.93	0.76	0.66	0.58	0.51	0.44
Present values (FCFF)	(74,384)	107,511	95,660	98,277	95,886	921,528
<b>Total present values (FCFF)</b>	<b>1,239,236</b>					
Total debts	427,678					
<b>Free cash flow to equity</b>	<b>1,666,914</b>					
Shares outstanding (m)	35.33					
<b>Value per share (VND)</b>	<b>47,184</b>					

Source: Mekong Securities

\* Note: For this DCF valuation, we haven't taken into account the collagen project. We'll update on the valuation once we get more details on the project. We believe the collagen project will provide potential upside to the DCF valuation.

### Concerns

The major risk to our valuation is that European markets may stay quiet due to public debt crisis longer than expected, which would negatively impact VHC's total exports. However, we believe this risk is low as we have already used rather conservative projection which is in line with the company's target (USD 120m). It's noted that VHC is recognized having a very professional and competent management board, who always set business targets on a certain and prudent basis.

Liquidity of VHC stock per se is another risk. Currently, VHC's market liquidity is rather low. The number of free floating shares is estimated at nearly 10 million, and average daily trading volume in recent 3 months stays under 13,000 shares. Poor liquidity makes the stock less attractive and limits actions of big/institutional investors. Meanwhile, retail investors only pay attention to the stock when there is lots of good news about the whole fisheries sector and/or the company itself. During this time when the sector remains under-toned with short-term challenges, even fundamentally-excellent company like VHC may not receive immediate attention and strong demand from investors to see its share price soar. Therefore, investment in VHC should be made with a mid-to-long-term horizon.

Technical view: Buy once price breaks above VND 42,000



**Technical view:** VHC sets its long-term supports around VND 35,000 and 26,000 and its long-term resistances at VND 47,000, 56,000 and 66,000.

In short-term, VHC's support and resistance levels are placed at VND 38,500 and 42,000.

VHC is now moving within the downward trend channel while the price is testing the higher edge of this channel (at VND 42,000). VHC is very likely to head higher once the price breaks above the channel.

**Trading strategy:** Buy once the short-term resistance at VND 42,000 is broken through, with a target price placed at VND 56,000. The stop loss is placed at VND 40,000. In case price continues to break above VND 47,000, the stop loss should be trailed to VND 42,000.

Quyen Luong - Technical Analyst

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## Financials

INCOME STATEMENT	2005	2006	2007	2008	2009	2010F	2011F
<i>(Unit: VND million)</i>							
<b>Net sales</b>	<b>507,014</b>	<b>1,516,245</b>	<b>1,425,436</b>	<b>2,442,360</b>	<b>2,771,003</b>	<b>2,946,472</b>	<b>3,615,155</b>
Cost of goods sold	465,609	1,367,578	1,242,043	2,153,443	2,318,806	2,472,436	2,999,118
<b>Gross profit</b>	<b>41,405</b>	<b>148,667</b>	<b>183,393</b>	<b>288,917</b>	<b>452,197</b>	<b>474,036</b>	<b>616,038</b>
Selling expense	29,856	39,990	49,406	113,828	159,219	162,588	196,484
G&A expense	4,646	10,098	26,011	18,857	35,032	36,451	42,835
Total operating expenses	34,502	50,088	75,417	132,685	194,251	199,039	239,319
<b>Operating profit (EBIT)</b>	<b>6,903</b>	<b>98,579</b>	<b>107,975</b>	<b>156,232</b>	<b>257,946</b>	<b>274,997</b>	<b>376,719</b>
Financial income	803	1,561	4,977	42,031	54,951	-	-
Financial expense	7,217	9,272	1,964	113,508	71,730	-	-
Of which: Interest expenses	-	-	213	47,400	49,058	-	-
<b>Gain (loss) from financial activities</b>	<b>(6,414)</b>	<b>(7,711)</b>	<b>3,012</b>	<b>(71,477)</b>	<b>(16,779)</b>	-	-
Other incomes	4,076	645	309	137	5,048	-	-
Other expenses	4,098	3,976	102	234	5,892	-	-
<b>Gain (loss) from other activities</b>	<b>(22)</b>	<b>(3,331)</b>	<b>208</b>	<b>(97)</b>	<b>(844)</b>	-	-
<b>Gain (loss) from associated companies</b>	-	-	-	-	-	-	-
<b>Earnings before tax (EBT)</b>	<b>467</b>	<b>87,537</b>	<b>111,196</b>	<b>84,658</b>	<b>240,323</b>	<b>274,997</b>	<b>376,719</b>
Corporate income tax	47	8,921	15,218	2,413	32,342	37,125	52,741
<b>Earnings after tax</b>	<b>420</b>	<b>78,616</b>	<b>95,978</b>	<b>82,245</b>	<b>207,981</b>	<b>237,872</b>	<b>323,978</b>
Minorities interests	-	-	(171)	2,203	14,752	14,272	19,439
<b>Net profit</b>	<b>420</b>	<b>78,616</b>	<b>96,149</b>	<b>80,043</b>	<b>193,229</b>	<b>223,600</b>	<b>304,539</b>

Source: VHC, Mekong Securities

BALANCE SHEET	2005	2006	2007	2008	2009	2010F	2011F
<i>(Unit: VND million)</i>							
<b>Current assets</b>	<b>114,361</b>	<b>237,294</b>	<b>359,704</b>	<b>697,635</b>	<b>914,828</b>	<b>899,106</b>	<b>1,054,881</b>
Cash and equivalents	-	24,320	13,016	20,826	209,968	178,797	239,351
Short-term financial investments	-	-	-	410	15,300	10,800	4,800
Short-term receivables	-	172,876	242,958	321,161	333,781	355,191	425,895
Inventories	-	39,292	91,442	333,750	334,240	331,916	361,537
Other current assets	-	806	12,289	21,487	21,540	22,401	23,298
<b>Non-current assets</b>	<b>55,117</b>	<b>91,692</b>	<b>262,810</b>	<b>517,535</b>	<b>601,428</b>	<b>619,699</b>	<b>654,164</b>
Long-term receivables	-	-	-	-	-	-	-
Fixed assets	45,322	91,580	230,883	499,579	569,140	587,088	621,227
Investment property	-	-	1,778	-	-	-	-
Long-term financial investments	9,659	10	30,047	10	10	10	10
Other long-term assets	-	101	102	17,946	32,278	32,601	32,927
<b>TOTAL ASSETS</b>	<b>169,478</b>	<b>328,986</b>	<b>622,514</b>	<b>1,215,170</b>	<b>1,516,257</b>	<b>1,518,805</b>	<b>1,709,046</b>
<b>LIABILITIES</b>	<b>136,648</b>	<b>82,255</b>	<b>228,280</b>	<b>799,898</b>	<b>830,556</b>	<b>491,853</b>	<b>508,622</b>
<b>Current liabilities</b>	<b>126,042</b>	<b>70,328</b>	<b>191,436</b>	<b>586,911</b>	<b>619,706</b>	<b>315,852</b>	<b>322,462</b>
Short-term debts	-	24,136	97,955	465,237	399,402	109,402	90,402
Accounts payable	-	33,319	72,478	97,204	169,209	155,797	172,552
Taxes and payables to the State	-	7,450	8,717	2,047	21,900	20,625	26,370
Payroll	-	4,209	11,467	18,121	24,042	24,724	26,992
Other current liabilities	-	1,215	819	4,301	5,153	5,304	6,146



	2005	2006	2007	2008	2009	2010F	2011F
<b>Long-term liabilities</b>	<b>10,606</b>	<b>11,926</b>	<b>36,844</b>	<b>212,988</b>	<b>210,851</b>	<b>176,001</b>	<b>186,160</b>
Long-term debts	-	11,870	36,487	212,251	209,822	174,822	184,822
Other long-term liabilities	-	57	356	737	1,028	1,179	1,338
<b>EQUITY</b>	<b>32,830</b>	<b>246,731</b>	<b>394,234</b>	<b>415,271</b>	<b>685,700</b>	<b>1,026,952</b>	<b>1,200,424</b>
<b>Owner's equity</b>	<b>32,830</b>	<b>246,731</b>	<b>389,629</b>	<b>388,819</b>	<b>642,319</b>	<b>976,727</b>	<b>1,144,533</b>
Chartered capital	17,300	246,731	300,000	300,000	325,680	459,264	459,264
Capital surplus	-	-	-	-	92,448	85,824	85,824
Treasury shares	-	-	-	-	-	-	-
Other funds	2,805	-	-	596	998	945	954
Retained earnings	12,725	-	89,629	88,223	223,193	430,694	598,491
<b>Other resources and funds</b>	<b>-</b>	<b>-</b>	<b>4,604</b>	<b>3,086</b>	<b>8,808</b>	<b>15,652</b>	<b>21,318</b>
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,366</b>	<b>34,573</b>	<b>34,573</b>	<b>34,573</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>169,478</b>	<b>328,986</b>	<b>622,514</b>	<b>1,215,170</b>	<b>1,516,257</b>	<b>1,518,805</b>	<b>1,709,046</b>

Source: VHC, Mekong Securities

FINANCIAL RATIOS	2005	2006	2007	2008	2009	2010F	2011F
<b>Growth (%)</b>							
Total assets		94.1%	89.2%	95.2%	24.8%	0.2%	12.5%
Equity		651.5%	59.8%	5.3%	65.1%	49.8%	16.9%
Net sales		199.1%	-6.0%	71.3%	13.5%	6.3%	22.7%
Gross profit		259.1%	23.4%	57.5%	56.5%	4.8%	30.0%
EBITDA		na	na	56.3%	74.3%	5.4%	30.3%
EBIT		1328.1%	9.5%	44.7%	65.1%	6.6%	37.0%
Net profit		18618.1%	22.3%	-16.8%	141.4%	15.7%	36.2%
<b>Profitability (%)</b>							
Gross profit margin	8.2%	9.8%	12.9%	11.8%	16.3%	16.1%	17.0%
EBITDA/Net sales		na	8.3%	7.6%	11.6%	11.5%	12.3%
EBIT/Net sales	1.4%	6.5%	7.6%	6.4%	9.3%	9.3%	10.4%
EBT margin	0.1%	5.8%	7.8%	3.5%	8.7%	9.3%	10.4%
Net profit margin	0.1%	5.2%	6.7%	3.3%	7.0%	7.6%	8.4%
ROA		31.5%	20.2%	8.7%	14.1%	14.7%	18.9%
ROE		56.2%	30.0%	19.8%	35.1%	26.1%	27.3%
<b>DuPont analysis (%)</b>							
Net profit margin (1)		5.2%	6.7%	3.3%	7.0%	7.6%	8.4%
Total asset turnover (2)		608.4%	299.6%	265.8%	202.9%	194.2%	224.0%
Equity multiplier (Total assets/equity) (3)		178.3%	148.4%	227.0%	248.1%	177.2%	144.9%
ROE (= 1x2x3)		56.2%	30.0%	19.8%	35.1%	26.1%	27.3%
<b>Management efficiency</b>							
Receivables turnover (x)		na	6.9	8.7	8.5	8.6	9.3
Inventories turnover (x)		na	19.0	10.1	6.9	7.4	8.6
Payables turnover (x)		na	23.5	25.4	17.4	15.2	18.3
Receivables outstanding days		na	53.2	42.2	43.1	42.7	39.4
Inventories outstanding days		na	19.2	36.0	52.6	49.2	42.2
Payables outstanding days		na	15.5	14.4	21.0	24.0	22.0

	2005	2006	2007	2008	2009	2010F	2011F
<b>Liquidity</b>							
Current ratio (x)		3.37	1.88	1.19	1.48	2.85	3.27
Quick ratio (x)		2.80	1.34	0.58	0.90	1.72	2.08
Cash ratio (x)		0.35	0.07	0.04	0.34	0.57	0.74
<b>Capital structure and solvency</b>							
Total debts/Equity (x)		0.15	0.34	1.63	0.89	0.28	0.23
Total debts/ Total assets (x)		0.11	0.22	0.56	0.40	0.19	0.16
Total debts/ EBITDA (x)		na	1.14	3.66	1.89	0.84	0.62
Total assets/Equity (x)		1.33	1.58	2.93	2.21	1.48	1.42
EBIT/Interest expense (x)		na	507.52	3.30	5.26	5.89	11.64

Source: VHC, Mekong Securities

## Mekong Securities' Rating System

We currently use a three-tier recommendation system for the stocks in our formal coverage: BUY, HOLD, or SELL.

A **BUY** is applied when the expected total return over the next twelve months is at least 10%.

A **HOLD** is applied when the expected total return over the next twelve months ranges between -10% to 10%.

A **SELL** is applied when the expected total return over the next twelve months is -10% or worse.

These benchmarks are subject to change.

Expected Total Return (12 months) = [(Target Price - Current Price)/Current Price] + Forecast 12-month Dividend Yield.

### Our Analyst's Methodology

#### Target price and expected total return

Initially, an analyst derives an expected 12-month target price using multiple valuation methodologies. Different valuation methods have been used, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA).

Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

Once analysts derive a risk-adjusted valuation for a company under review, its current market price is then compared with the target price to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

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