

VINH HOAN CORP (VHC)

Long-term sustainable growth

BUY – Price target: VND 36,000

We update coverage on Vinh Hoan Corp (VHC : HOSE), one of Vietnam's largest tra/basa producers and exporters, reiterating BUY recommendation with the 12-month price target of VND36,000. The fair value based on DCF valuation is estimated at VND50,000. But given the stock liquidity and market sentiment towards the seafood sector which is undergoing an overhaul, we think it's more reasonable to derive the 12-month target price from relative valuations based on market multiples including PSR, PER and PBR.

VHC is a leading Vietnamese tra/basa producer and exporter, with a 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 2007-2010 when tra/basa sector experienced a slowdown and volatility, VHC proved its strengths and advantages when maintaining positive growth year over year. In 2010, VHC saw its export revenue keep growing by 15% while the overall sector grew by only 6.5%. Net sales and profit grew by 9% and 10% respectively, which shows VHC's ability to control costs and maintain profit margin in a challenging year like 2010. We forecasts VHC's 2011 sales denominated in VND will enjoy strong growth of 26% driven by higher export price and VND depreciation. Conservatively assuming a possible dip in profit margin due to rising operating costs, and also assuming higher corporate tax, we estimate 2011 net profit still keep growing by 9% to reach VND231bn, putting the stock on a forward PE of 4.8x and PB of 1.0x, which are really undemanding valuations for a leading company in the sector like VHC.

Seabass and collagen projects, two earning drivers that have higher profit margin than current tra/basa business, will add in substantial power from 2012 and 2013 respectively. Assuming stable growth from current business and adding in the contributions from those two projects, we estimate the fair value for VHC based on DCF model at VND50,000, which is 110% higher than the current price. In the face of the industry's overhaul, we see a very positive outlook for companies with a solid base like Vinh Hoan, which is well-positioned to take over more market-share.

	2008	2009	2010	2011F	2012F
Net sales (VND bn)	2,442	2,771	3,019	3,816	4,491
Growth (%)	71%	13%	9%	26%	18%
EBITDA (VND bn)	185	322	343	407	495
Net income (VND bn)	80	193	212	231	283
Growth (%)	-17%	141%	10%	9%	22%
EPS adj. (VND)	2,047	4,931	4,524	4,909	6,011
EPS growth (%)	-41%	141%	-8%	9%	22%
Dividend (VND)	2,700	1,500	0	2,500	2,700
Dividend yield (%)	11.3%	6.3%	0.0%	10.5%	11.3%
EV/Sales (x)	0.6	0.4	0.5	0.4	0.4
EV/EBITDA (x)	7.4	3.6	4.2	4.0	3.5
PE (x)	11.6	4.8	5.3	4.8	4.0
PB (x)	1.7	1.1	1.1	1.0	0.9
ROE (%)	20%	35%	26%	23%	25%
ROIC (%)	20%	25%	25%	24%	24%

* Total cash dividend paid in 2008 includes VND1,500 paid for 2007 and VND1,200 paid for 2008. In 2010, VHC paid stock dividend only (30% par value). Cash dividend for 2011-2012 is our estimate (based on historical rate and forecasted retained earnings amount).

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Company update

Recommendation	BUY
HOSE:VHC	
Fisheries industry	
Price (VND)	23,800
Price Target (VND)	36,000
Expected share price return (%)	51.3%
Expected dividend yield (%)	10.5%
Expected total return (%)	61.8%

Source: Bloomberg, Mekong Securities



Ownership structure

State	0.00%
Board of directors	50.98%
Foreigners	22.80%
Others	26.22%

Stock statistics 08 April 2010

Bloomberg code	VHC VN
Last price (VND)	23,800
52-week range (VND)	22,400-40,400
Shares O/S (m)	47.1
Mkt Cap (VND bn)	1,122
Mkt Cap (USD m)	53
Est. free float (m)	13
3m avg daily volume (shares)	12,500
VND/USD	21,000
Index: VNIndex/HNX	464 / 90

Source: Bloomberg

Please refer to important disclosures at the end of this document

Company overview

Overview

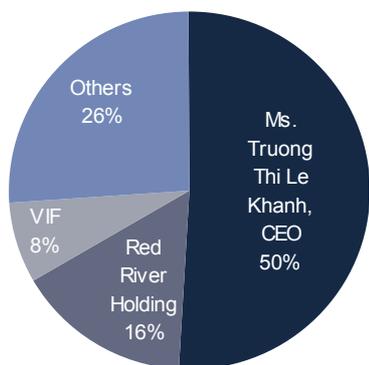
Established in December 1997 and equitized in April 2007, VHC has now become a leading Vietnamese tra/basa producer and exporter. Since 2006 up to date, VHC has always been among top 3 largest tra/basa exporters in terms of both volume and value. With processing capacity of 500 tons of material per day, VHC is behind only Nam Viet and Hung Vuong. 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. In 2010, VHC has become N^o1 tra/basa exporter with totally USD132m, accounting for 9.4% Vietnam’s total tra/basa export turnover.

VHC stands out from the crowd of over 100 domestic tra/basa processing 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 47.2 million, equivalent to the chartered capital of VND 472bn.

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%).

Figure 1: VHC: Ownership structure



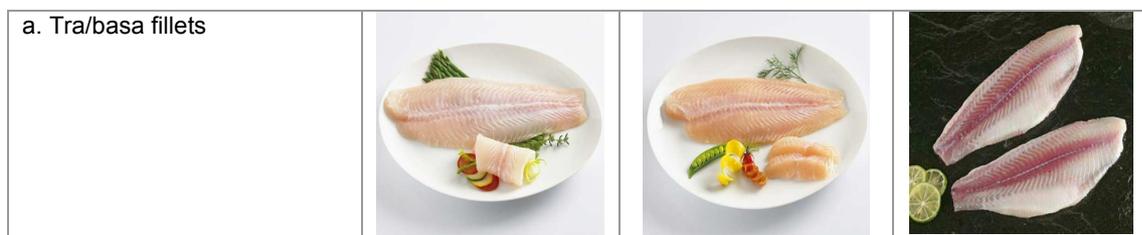
Source: VHC, Mekong Securities

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.

Figure 2: VHC’s major products



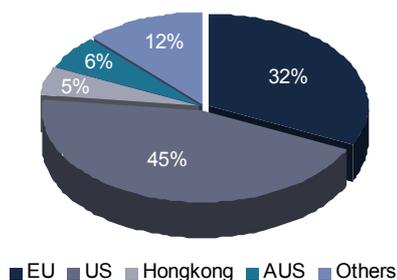
<p>b. Value-added products from tra/basa: <i>burger basa, tra/basa topped potato mousse, tra/basa wrapped in potatoes</i></p>			
<p>c. Others: <i>tra/basa portions, loins, block</i></p>			
<p>d. By-products: <i>fishmeal/fish feed/fish oil/ fish skin</i></p>			

Source: VHC

Main products (tra/basa fillets and others) account for 83% total revenue and 80% profit. VHC's major export markets include: EU (32%), US (45%), Australia (6%), and Hong Kong (5%).

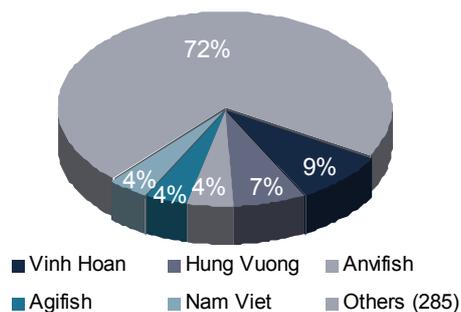
VHC remains among top 3 largest Vietnamese tra/basa exporters since 2006. Particularly, in 2010 VHC has become the largest exporter with fillet export turnover of USD 126m, presenting 8.8% of Vietnam's total tra/basa export turnover.

Figure 3: VHC's major export markets



Source: VHC, Mekong Securities

Figure 4: Export turnover shares of top 5 (2010)



Source: VASEP, Mekong Securities

VHC's leading position in tra/basa is based on solid fundamentals:

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 (800 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 (200ha) to supply 80% 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 almost 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 fish-feed 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 hard time in 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.



Barramundi project: Barramundi fillet will be a new product that VHC is developing to export to US, EU and Australia. Average export price of Barramundi fillet (about USD8/kg) is much higher than tra/basa (~ USD3/kg), generating a gross profit margin of about 20%-25% (tra/basa: 10%-17%). VHC has started farming Barramundi since Sep-2010 in an area of 170ha, and expects to harvest about 700 tons of Barramundi in 2011, which will bring about a revenue of VND44bn and pre-tax profit of VND5.5bn. VHC aims to expand the farming area to 300ha by 2013 in order to raise the output to 6,100 tons, which will octuple the revenue and pre-tax profit to about VND359bn and VND43bn respectively.

Figure 5: Projections on Barramundi project

	2011	2012	2013
Raw material output (tons)	700	4,100	6,100
Revenue (VND bn)	44	245	359
Pre-tax profit (VND bn)	5.5	30	43

Source: VHC

Collagen project: VHC has successfully extracted collagen from tra/basa fish-skin in laboratory, which can be used as inputs for production of food and nutritional products, pharmaceutical products (i.e. Encapsulation), and cosmetics (i.e. Anti-Wrinkle agent). VHC said they would focus on medium products, which have prices ranging from USD12-25/kg.

The collagen factory with a capacity of 1,000 tons/year will be built and completed in 2012 with a total investment of USD12m. The project will bring profit to VHC shareholders from 2013 onwards. This project promises to generate a gross profit of 40%.

2010 Review: VHC continued swimming up the stream

2010 is another challenging year for tra/basa industry when it continued to face tightened demand in EU due to public debt crisis, and technical barriers from importing countries, particularly the US. Average export price still stayed at the same low level as 2009 (about 2.2 USD/kg). Thus, total export volume was up only 7% YoY (reaching 650,000 tons), equal to export turnover of 1.4bn (up only 6.5% YoY).

Withstanding the headwinds, VHC kept growing steadily and surpassing other bigger players (in terms of production capacity) to become the largest tra/basa exporter in 2010, according to Vietnam Association of Seafood Exporters and Producers (VASEP).

Figure 6: Top 10 largest Vietnamese tra/basa exporters (2008-2010) (fillet export turnover, USD m)

	2008		2009		2010
Navico (ANV)	187.7	Hung Vuong (HVG)	122	Vinh Hoan (VHC)	126
Hung Vuong (HVG)	169.4	Vinh Hoan (VHC)	115	Hung Vuong (HVG)	101
Vinh Hoan (VHC)	101.3	NamViet (ANV)	85	Anvifish (AVF)	62
Agifish (AGF)	89.9	Anvifish (AVF)	57	Agifish (AGF)	59
Thimaco	48.0	Agifish (AGF)	55	NamViet (ANV)	58
Bianfish	47.2	Bianfish	53	CL-Fish (ACL)	48
Anvifish (AVF)	45.0	Thimaco	43	Bianfish	44
HTFood	39.3	CL-Fish (ACL)	39	NTSF	37
Q.V.D Food	38.4	HTFood	33.9	South Vina	35
CL-Fish (ACL)	37.9	Caseamex	33.7	I.D.I Corp	35
Total	1,450	Total	1,340	Total	1,427

Source: VASEP, Mekong Securities

During the period 2007-2010 (since listed on HOSE), VHC has always maintained steady export growth: 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%); in 2010, its export value grew nearly 10%, while the sector only grew 6.5%. VHC has become the N^o 1 tra/basa exporter with the market-share increasing from 8.6% (2009) to 8.9% (2010).

Its 2010 net sales also grew by 9% YoY (2009: 13.5%). This growth rate is not the highest among listed tra/basa companies (average 2010: 26%), but it is notable that many other companies had experienced sluggish (even negative) growth in 2009, so their 2010 growth rates might statistically look higher. In absolute terms, VHC's actual sales (VND 3,019bn) stood behind only HVG's (VND 4,432bn), and exceeded its annual sales target for the third consecutive year.

Figure 7: VHC's export turnover vs. other players in top 10



Source: VHC, VASEP, Mekong Securities

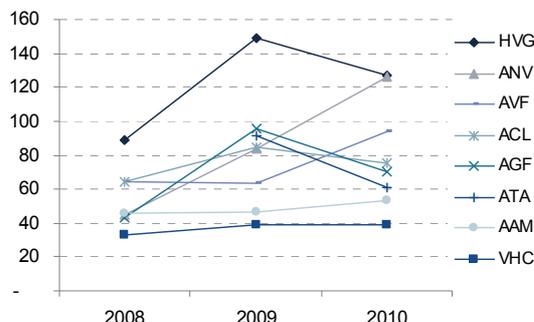
Figure 8: VHC's 2010 net sales growth vs. other listed tra/basa companies



Source: VASEP, Mekong Securities

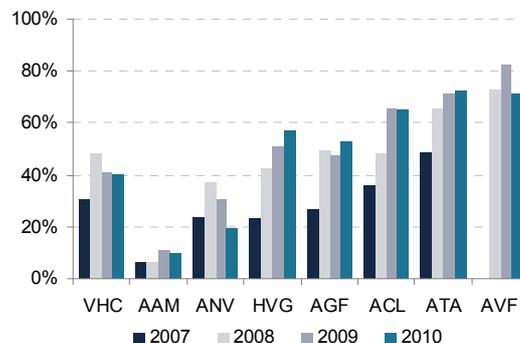
VHC is the most efficient in receivables management. Its receivables outstanding days ratio is always the lowest among all other exporters, which shows the quality of its client base and enables VHC to manage a stable short-term borrowings to meet working capital need. This is very important advantage for VHC in a current high-interest environment.

Figure 9: Receivables outstanding days



Source: Bloomberg, Mekong Securities

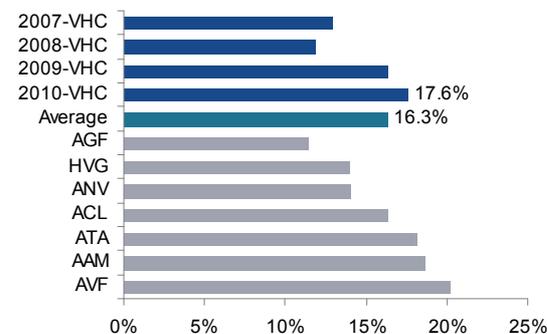
Figure 10: Short-term debts/Total assets



Source: Bloomberg, Mekong Securities

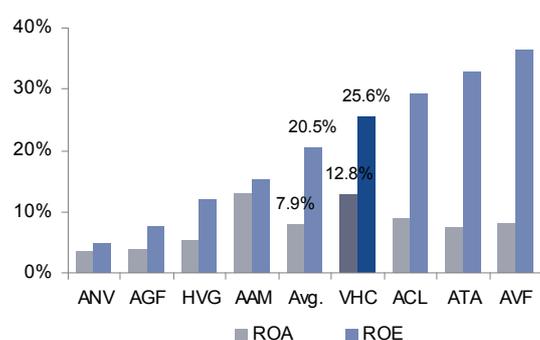
Regarding profit margin, VHC continued to enjoy gross profit margin (17.6%) higher than sector average (16.3%), but still lower than several listed companies, namely Anvifish (AVF, 20%), Mekong Fish (AAM, 19%), and NTACO (ATA, 18%). However, it should be noted that while others' gross margins were rather volatile during 2008-2010, VHC's profit margin keeps improving steadily from 11.8% (2008) to 17.6% (2010). We believe that the strong commitment from VHC's management board in cost control and their integrated production system will enable the company to hold up and improve profit margin better than other players in the long run.

Figure 11: VHC's gross profit margin vs. other listed tra/basa producers (2010)



Source: Bloomberg, Mekong Securities

Figure 12: VHC's profitability vs. other listed tra/basa producers (2010)



Source: Bloomberg, Mekong Securities

In terms of profitability, VHC is also a leading player among nine listed companies with 2010 ROA and ROE of 13% and 25.6% respectively as compared to the sectoral average of 8% and 20.5%. According to our calculations, VHC's 2010 EPS reached VND4,916 per share, the third highest after AVF (VND6,227) and ACL (VND5,730). At current price of VND 23,800 (dated 8 Apr.2011), VHC is trading at PE of 4.8x -- 8% discount of sector average (5.3x).

With VND471bn, VHC has the third largest chartered capital among 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%).

Figure 13: Market and financial statistics of listed tra/basa producers and exporters

	Average	VHC	HVG	ANV	AVF	ACL	AGF	AAM	ATA
Price on 08 April 2011 (VND)		23,800	19,400	11,200	16,300	24,000	20,900	20,500	22,000
Shares outstanding (m)		47.15	66.00	65.61	22.50	11.00	12.86	11.34	10.00
Foreign ownership (%)	7.9%	22.8%	9.7%	4.2%	15.4%	4.2%	4.3%	1.4%	1.5%
Mkt Cap (VND bn)	561	1,122	1,280	735	367	264	269	232	220
3m avg. daily volume	52,663	29,500	51,300	204,000	72,000	14,700	12,700	20,900	16,200
P/E (x)	5.3	4.8	5.2	9.8	2.6	4.2	5.6	5.1	4.7
P/B (x)	0.9	1.1	0.6	0.5	1.0	1.2	0.4	0.8	1.4
P/S (x)	0.3	0.3	0.3	0.5	0.2	0.2	0.2	0.5	0.3
EPS (VND)	4,269	4,916	3,739	1,141	6,227	5,703	3,765	4,028	4,634
BVPS (VND)	25,779	20,750	34,253	24,094	16,778	20,756	48,544	25,720	15,337
ROA (%)	7.9%	12.8%	5.4%	3.6%	8.2%	9.0%	3.8%	13.1%	7.5%
ROE (%)	20.5%	25.6%	12.1%	4.9%	36.4%	29.4%	7.7%	15.3%	32.9%

Source: Bloomberg, Mekong Securities

2011 Outlook: VHC is well-prepared to maintain steady growth in a sector, which needs to undergo an overhaul

Entering 2011, the sector is expected to start undergoing a policy-driven overhaul when the export price is set at no less than USD3/kg, which is aimed to prevent unhealthy competition lowering export price by many trading companies, and force all other surviving exporters to maintain and upgrade their product quality to retain clients. We don't know how effective this measure will be, but recognize this is the first step taken by regulators to overhaul the industry, which are too crowded with about 290 exporters (and about 200 of them are just trading companies without processing factories). Higher export price would benefit professional exporters like VHC and enable the sector to defend anti-dumping claims.

Material supply and electricity shortage will be renewed challenges faced by the sector in 2011, which will lower exports and push up COGS. 2011 tra/basa export volume forecast by VASEP will halve to 360,000 tons; but thanks to higher average export price (at least USD3/kg, 36% higher than 2010 average price), the export value will just go down by 14%YoY to reach about USD1.2bn.

In the face of the industry's overhaul, we see a positive outlook for companies with a solid base like Vinh Hoan, which is well-positioned to take over more market-share. The company has managed to self-supply 80% of its material need, which will enable VHC to minimize the impact of COGS hike. On the other hand, recent US DOC's decision not to impose anti-dumping tariff on VHC is very good news, which make us believe in stronger top-line growth for the company in 2011.

According to VASEP, from 1.Jan to 15.Feb.2011, Vietnam exported over 66.000 tons tra/basa fish with total turnover of nearly USD160m, down 13.5% in volume and 1.4% in value YoY. Still, the US market saw impressive growth of 45% in volume and 50% in value YoY. VHC continued to be the largest exporters with USD15m (average export price USD3.4/kg), followed by Hung Vuong (HVG: 13m, average price USD2.4/kg), Agifish (AGF: 8.5m), South Vina (5.3m), and CL-Fish (ACL: 4.5m).

- We expect VHC's 2011 sales will grow by 26.4% YoY which is driven by higher export price (c.15%), benefit from VND:USD depreciation (c.10%), and revenue contribution from barramundi project (~ VND44bn, equal to 1.5% of 2010 revenue). The collagen project has been delayed for one year, and will be an additional earnings driver from 2013.

- We forecast a dip in gross profit margin (from 17.6% in 2010 to 17.3% in 2011) as cost of goods sold will rise due to material shortage and power (electricity) cut faced by the whole sector. Compared to other seafood companies, VHC is better-prepared to manage the rise in COGS given that 80% of its material demand is self-supplied. Still we choose to be conservative as we want to make provision for possible serious power cut in 2011 and the rise in other input costs like gasoline and materials for production of fish-feed.
- For selling and administration expenses, we expect their 2011 percentages in sales would stay at the same levels as in 2010 before rising in 2012-2013 when VHC needs to promote its newly developed product - Collagen.
- Interest expenses may rise in 2011 and 2012 since VHC will have to increase long-term debts for projects expanding farming areas (tra/basa and barramundi), building a rice mill (to provide input for Vinh Hoan 1), and building collagen factory (delayed to 2012). On the other hand, we believe the company can maintain stable short-term debt levels thanks to excellent asset management (i.e. receivables). Overall, we estimate VHC incurs roughly same loss level from financial activities for period 2010-2012.
- From above sales and costs projections, we estimate VHC can reach VND322bn earnings before tax (EBT) in 2011, up 22% YoY; the net profit (after tax and minority interest) will be VND232bn, up by 9.3%, as we assume full corporate tax-rate (25% instead of 14% as in 2010) for the mother company. Based on current shares outstanding (the company told us that they didn't have plan to issue additional shares in 2011), we estimate 2011 EPS can reach VND4,909, up 8.5% YoY.

Figure 14: VHC: Earnings projections (2007-2012F)

<i>(Unit: VND bn, unless stated specifically)</i>	2007	2008	2009	2010	2011F	2012F
Sales	1,425	2,442	2,771	3,019	3,816	4,491
<i>Growth (%)</i>		71.3%	13.5%	9.0%	26.4%	17.7%
COGS	1,242	2,153	2,319	2,487	3,155	3,690
<i>Growth (%)</i>		73.4%	7.7%	7.2%	26.9%	17.0%
<i>Gross margin (%)</i>	12.9%	11.8%	16.3%	17.6%	17.3%	17.8%
Selling expenses	49	114	159	214	270	331
<i>% Sales</i>	3.5%	4.7%	5.7%	7.1%	7.1%	7.4%
G&A expenses	26	19	35	49	59	72
<i>% Sales</i>	1.8%	0.8%	1.3%	1.6%	1.5%	1.6%
Operating profit (EBIT)	108	156	258	270	332	397
Profit from financial activities	3	(71)	(17)	(12)	(10)	(13)
Earnings before tax (EBT)	111	85	240	263	322	385
<i>Growth (%)</i>	27%	-24%	184%	9%	22%	20%
Corporate tax	15	2	32	38	76	85
<i>Effective tax rate (%)</i>	13.7%	2.9%	13.5%	14.4%	23.5%	22.1%
Profit after tax	96	82	208	225	246	300
Minority interest	(0.2)	2	15	13	14	16
Net profit (VND bn)	96	80	193	212	231	283
<i>Growth (%)</i>		-16.8%	141.4%	9.6%	9.3%	22.4%
ROE (%)	30.0%	19.8%	35.1%	25.6%	22.6%	24.9%
Shares outstanding (m)	30	30	32.6	47.2	47.2	47.2
Basic EPS (VND)	4,525	2,668	6,427	4,524	4,909	6,011
EPS_adjusted (VND)	3,472	2,047	4,931	4,524	4,909	6,011
<i>EPS growth (%)</i>		-41%	141%	-8%	9%	22%
BVPS (VND)	12,988	13,740	20,784	20,750	22,782	25,552
Net sales per share (VND)	52,144	81,412	88,576	75,742	80,941	95,237

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 estimate a fair value for VHC. But we believe the relative approach can capture the market sentiment better, and it is a more suitable approach to value Vietnam's equities market at present, which is driven significantly by retail investors' sentiment. Therefore, we use the relative valuation to derive 12-month target price for VHC; on the other hand, we also present our DCF valuation for investors' reference.

- VND 36,000 is the price target based on relative approach;
- VND 50,000 is the fair value based on DCF valuation.

1. Valuation based on PS, PE and PB ratios

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

Figure 15: Peer comparison (as of 8th April 2011)

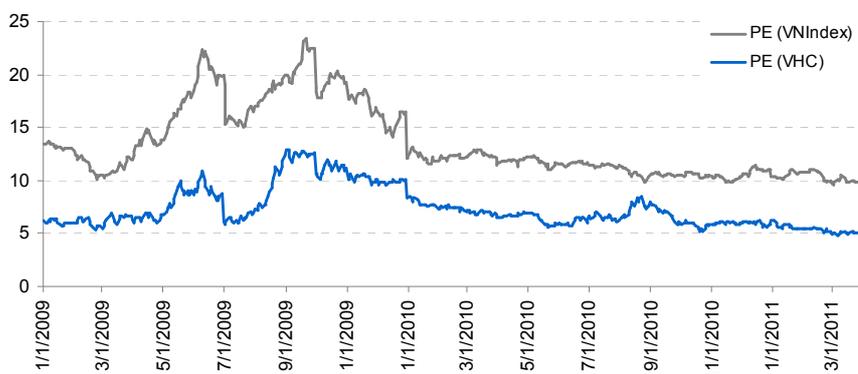
Companies	Ticker	Mkt Cap (VND bn)	ROA (%)		ROE (%)		P/S (x)	P/E (x)	P/B (x)	PB avg. 5 year (x)
			2009	2010	2009	2010				
HUNG VUONG CORP	HVG	1,280	11.0	5.4	21.3	12.1	0.3	5.2	0.6	1.2
NAM VIET CORP	ANV	735	(5.3)	3.6	(8.3)	4.9	0.5	9.8	0.5	0.8
ANVIFISH	AVF	367	8.4	8.2	51.3	36.4	0.2	2.6	1.0	
AN GIANG FISHERIES JSC	AGF	269	1.2	3.8	2.3	7.7	0.2	5.6	0.4	0.6
CUULONG FISH JSC	ACL	264	10.0	9.0	29.4	29.4	0.2	4.2	1.2	1.5
MEKONG FISHERIES JSC	AAM	232	15.8	13.1	17.9	15.3	0.5	5.1	0.8	1.1
NTACO JSC	ATA	220	8.4	7.5	28.2	32.9	0.3	4.7	1.4	1.9
	Average	481	7.1	7.2	20.3	19.8	0.3	5.3	0.8	1.2
VINH HOAN CORP.	VHC	1,122	14.2	12.8	35.1	25.6	0.3	4.8	1.1	1.8

Source: 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) higher than sector average. The export outlook for VHC appears better this year, so we think forward **PS of 0.5x** will not be too demanding for VHC.

For PE: VHC is one of the three 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. According to our research, average historical PE of VHC during the period 2008-2010 stands at 8.0x. Given overall equity market trend and sentiment towards fisheries sector in this year, we believe a forward **PE of 7.0x** is fairly justifiable for VHC.

Figure 16: Historical PE of VHC and VNIndex (2009 – April 2011)



Lowest PE (VHC) : 4.8x (7.Mar.2011, VNIndex: 468 pts)
 Highest PE (VHC) : 12.8x (03.Sep.2009, VNIndex: 541 pts)
 Average PE (VHC) : 7.3x (2009 - Apr.2011)
 Current PE (VHC) : 4.8x (08.Apr.2011, VNIndex: 464 pts)

Source: Bloomberg, Mekong Securities

For PB: VHC is being traded at PB of 1.1x, which is higher than current sector average of 0.8x. Over the past three years since listed on HOSE, VHC was traded at an average PB of 1.8x-2x. We believe VHC deserves PB as high as 1.5x-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 2011 Sales per share, EPS, BVPS, and corresponding justified multiples, we arrive at the price target of VND36,335 for VHC, which is an equally-weighted average of:

- VND40,470 PS valuation, which uses the PS multiple of 0.5x against the projected Sales per share of VND80,941;
- VND34,363 PE valuation, which uses the PE multiple of 7.0x against the projected EPS of VND4,909;
- VND34,173 PB valuation, which uses the PB multiple of 1.5x against the projected BVPS of VND22,782.

2. Valuation based on discounted cash flows (DCF)

Key assumptions		Remarks
Risk free rate (RFR)	11.5%	10-year government bond yield
Market risk premium (MRP)	8%	Vietnam should have higher MRP than neighbouring markets like Singapore, Thailand, Indonesia (5%-7%)
Beta	1.0	
Cost of equity	19.5%	
Tax rate	20%-25%	
Cost of debt	14%-11%	Interest rates will reduce from as high as 18% in 2011 to 16% in 2012 and 14% in following years
Debt/Equity	40%-20%	
Weighted average capital cost	17.4-17.9%	
Long-term growth rate	4%	Based on long-term economic growth & food demand

Valuation	2011	2012	2013	2014	2015
<i>Unit: VND bn, otherwise stated</i>					
Free cash flow to firm (FCFF)	(45,102)	54,122	232,283	372,192	445,331
Terminal value					3,262,850
Discount factor (x)	0.85	0.73	0.63	0.53	0.44
Present values (FCFF)	(38,428)	39,773	146,510	196,775	1,626,987
Total present values (FCFF)	1,971,618				
Total debts (up to date)	436,921				
Free cash flow to equity	2,408,539				
Shares outstanding (m)	47.15				
Value per share (VND)	51,081				

Source: Mekong Securities

Concerns

The major risk to our valuation is a slowdown in tra/basa export due to unexpected political-driven market barriers put up by US or European authorities. It's notable that US will make annual review on antidumping tariff during September-March. If there is no political intervention, VHC is very likely to enjoy "zero" tariff again in three consecutive years. Should the protectionism prevails, anything could happen, and higher tariff may affect VHC's export to the US. Though VHC can buffer this risk by (as they say) expanding to EU markets, the impact in the short-to-medium term on export/sales would be negative as US is a key market of VHC.

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 13 million, and average daily trading volume in recent 3 months stays around 30,000 shares. Poor liquidity makes the stock less attractive and limits actions of 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.

Financials

INCOME STATEMENT	2006	2007	2008	2009	2010	2011F	2012F
<i>(Unit: VND million)</i>							
Net sales	1,516,245	1,425,436	2,442,360	2,771,003	3,019,065	3,816,458	4,490,559
Cost of goods sold	1,367,578	1,242,043	2,153,443	2,318,806	2,486,595	3,155,159	3,690,262
Gross profit	148,667	183,393	288,917	452,197	532,470	661,299	800,296
Selling expense	39,990	49,406	113,828	159,219	213,517	270,452	330,537
G&A expense	10,098	26,011	18,857	35,032	48,719	58,942	72,444
Total operating expenses	50,088	75,417	132,685	194,251	262,236	329,395	402,981
Operating profit (EBIT)	98,579	107,975	156,232	257,946	270,234	331,905	397,316
Financial income	1,561	4,977	42,031	54,951	63,891	70,280	75,200
Financial expense	9,272	1,964	113,508	71,730	75,404	80,682	87,944
Of which: Interest expenses	-	213	47,400	49,058	44,772	62,631	76,661
Gain (loss) from financial activities	(7,711)	3,012	(71,477)	(16,779)	(11,513)	(10,402)	(12,744)
Other incomes	645	309	137	5,048	4,563	-	-
Other expenses	3,976	102	234	5,892	384	-	-
Gain (loss) from other activities	(3,331)	208	(97)	(844)	4,179	-	-
Gain (loss) from associated companies	-	-	-	-	-	-	-
Earnings before tax (EBT)	87,537	111,196	84,658	240,323	262,900	321,502	384,572
Corporate income tax	8,921	15,218	2,413	32,342	37,765	75,663	84,997
Earnings after tax	78,616	95,978	82,245	207,981	225,135	245,839	299,575
Minorities interests	-	(171)	2,203	14,752	13,382	14,376	16,194
Net profit	78,616	96,149	80,043	193,229	211,753	231,436	283,425

Source: VHC, Mekong Securities

BALANCE SHEET	2006	2007	2008	2009	2010	2011F	2012F
<i>(Unit: VND million)</i>							
Current assets	237,294	359,704	697,635	914,828	1,157,715	1,186,909	1,433,250
Cash and equivalents	24,320	13,016	20,826	209,968	126,803	114,451	171,523
Short-term financial investments	-	-	410	15,300	37,563	15,000	20,000
Short-term receivables	172,876	242,958	321,161	333,781	339,914	449,610	529,025
Inventories	39,292	91,442	333,750	334,240	623,648	575,083	676,660
Other current assets	806	12,289	21,487	21,540	29,787	32,766	36,043
Non-current assets	91,692	262,810	517,535	601,428	638,027	745,210	850,261
Long-term receivables	-	-	-	-	-	-	-
Fixed assets	91,580	230,883	499,579	569,140	591,662	696,527	799,145
Investment property	-	1,778	-	-	-	-	-
Long-term financial investments	10	30,047	10	10	-	-	-
Other long-term assets	101	102	17,946	32,278	46,364	48,683	51,117
TOTAL ASSETS	328,986	622,514	1,215,170	1,516,257	1,795,742	1,932,119	2,283,511
LIABILITIES	82,255	228,280	799,898	830,556	817,362	857,932	1,078,706
Current liabilities	70,328	191,436	586,911	619,706	726,693	716,772	807,142
Short-term debts	24,136	97,955	465,237	399,402	348,051	468,051	518,051
Accounts payable	33,319	72,478	97,204	169,209	96,981	155,597	181,986
Taxes and payables to the State	7,450	8,717	2,047	21,900	22,747	26,797	28,332
Payroll	4,209	11,467	18,121	24,042	30,768	37,862	44,283
Other current liabilities	1,215	819	4,301	5,153	208,406	7,633	8,981

	2006	2007	2008	2009	2010	2011F	2012F
Long-term liabilities	11,926	36,844	212,988	210,851	90,669	141,160	271,564
Long-term debts	11,870	36,487	212,251	209,822	88,870	138,870	268,870
Other long-term liabilities	57	356	737	1,028	1,799	2,290	2,694
EQUITY	246,731	394,234	415,271	685,700	978,380	1,074,188	1,204,805
Owner's equity	246,731	389,629	388,819	642,319	930,425	1,026,233	1,156,850
Chartered capital	246,731	300,000	300,000	325,680	471,513	471,513	471,513
Capital surplus	-	-	-	92,448	191,808	191,808	191,808
Treasury shares	-	-	-	-	(32,725)	(32,725)	(32,725)
Other funds	-	-	596	998	(2,942)	600	1,167
Retained earnings	-	89,629	88,223	223,193	302,772	395,071	525,121
Minority interest	-	-	23,366	34,573	47,955	47,955	47,955
TOTAL LIABILITIES AND EQUITY	328,986	622,514	1,215,170	1,516,257	1,795,742	1,932,119	2,283,511

Source: VHC, Mekong Securities

FINANCIAL RATIOS	2006	2007	2008	2009	2010	2011F	2012F
Growth (%)							
Total assets	94.1%	89.2%	95.2%	24.8%	18.4%	7.6%	18.2%
Equity	651.5%	59.8%	5.3%	65.1%	44.5%	9.8%	12.2%
Net sales	199.1%	-6.0%	71.3%	13.5%	9.0%	26.4%	17.7%
Gross profit	259.1%	23.4%	57.5%	56.5%	17.8%	24.2%	21.0%
EBITDA	na	na	56.3%	74.3%	6.4%	18.6%	21.5%
EBIT	1328.1%	9.5%	44.7%	65.1%	4.8%	22.8%	19.7%
Net profit	18618%	22.3%	-16.8%	141.4%	9.6%	9.3%	22.4%
Profitability (%)							
Gross profit margin	9.8%	12.9%	11.8%	16.3%	17.6%	17.3%	17.8%
EBITDA/Net sales	na	8.3%	7.6%	11.6%	11.4%	10.7%	11.0%
EBIT/Net sales	6.5%	7.6%	6.4%	9.3%	9.0%	8.7%	8.8%
EBT margin	5.8%	7.8%	3.5%	8.7%	8.7%	8.4%	8.6%
Net profit margin	5.2%	6.7%	3.3%	7.0%	7.0%	6.1%	6.3%
ROA	31.5%	20.2%	8.7%	14.1%	12.8%	12.4%	13.4%
ROE	56.2%	30.0%	19.8%	35.1%	25.6%	22.6%	24.9%
DuPont analysis (%)							
Net profit margin (1)	5.2%	6.7%	3.3%	7.0%	7.0%	6.1%	6.3%
Total asset turnover (2)	608.4%	299.6%	265.8%	202.9%	182.3%	204.8%	213.0%
Equity multiplier (Total assets/equity) (3)	178.3%	148.4%	227.0%	248.1%	200.1%	181.6%	185.0%
ROE (= 1x2x3)	56.2%	30.0%	19.8%	35.1%	25.6%	22.6%	24.9%
Management efficiency							
Receivables turnover (x)	na	6.9	8.7	8.5	9.0	9.7	9.2
Inventories turnover (x)	na	19.0	10.1	6.9	5.2	5.3	5.9
Payables turnover (x)	na	23.5	25.4	17.4	18.7	25.0	21.9
Receivables outstanding days	na	53.2	42.2	43.1	40.7	37.8	39.8
Inventories outstanding days	na	19.2	36.0	52.6	70.3	69.3	61.9
Payables outstanding days	na	15.5	14.4	21.0	19.5	14.6	16.7

	2006	2007	2008	2009	2010	2011F	2012F
Liquidity							
Current ratio (x)	3.37	1.88	1.19	1.46	1.59	1.66	1.78
Quick ratio (x)	2.80	1.34	0.58	0.90	0.69	0.81	0.89
Cash ratio (x)	0.35	0.07	0.04	0.34	0.17	0.16	0.21
Capital structure and solvency							
Total debts/Equity (x)	0.15	0.34	1.63	0.89	0.45	0.57	0.65
Total debts/ Total assets (x)	0.11	0.22	0.56	0.40	0.24	0.31	0.34
Total debts/ EBITDA (x)	na	1.14	3.66	1.89	1.27	1.49	1.59
Total assets/Equity (x)	1.33	1.58	2.93	2.21	1.84	1.80	1.90
EBIT/Interest expense (x)	na	507.52	3.30	5.26	6.04	5.30	5.18

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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