

## HOA PHAT GROUP JSC (HPG) – EARNINGS FLASH

Market Price	Target Price	Dividend Yield	Rating	Sector
VND38,350	VND47,300	1.14%	Add	STEEL

1 February 2021

**Outlook – Short term:** Positive  
**Outlook – Long term:** Positive  
**Valuation:** Positive

Consensus\*: Add:10 Hold:3 Reduce:0

Target price / Consensus: 6.2%

### Key changes in the report

➤ NA

### Price performance



Source: VNDIRECT RESEARCH

### Key statistics

52w high (VND)	44,900
52w low (VND)	13,253
3m Avg daily value (VNDmn)	820,654
Market cap (VND bn)	129,715
Free float (%)	27
TTM P/E (x)	9.46
Current P/B (x)	2.15

### Ownership

Tran Dinh Long	26.1%
Vu Thi Hien	7.3%
Others	66.6%

Source: VNDIRECT RESEARCH

### Analyst(s):



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### Steel price rally fueled strong 4Q20 earnings growth

- HPG's 4Q20 net profit (NP) surged 141.1% yoy, driven by 198.1% yoy earnings growth of steel segment and 4-fold yoy earnings rise of agriculture segment.
- Reiterate Add with unchanged TP of VND47,300.

### 4Q20 net profit has surprised us

- Hoa Phat Group (HPG) posted strong 4Q20 results, with revenue increasing 43.4% yoy to VND25,778bn and NP increasing 141.1% yoy to VND4,638bn.
- 4Q20 steel segment revenue surged 53.9% yoy thanks to 1) construction steel and billet combined sales volume grew by 27.1% yoy; 2) the average selling price of construction steel jumped to VND12,500/kg (+12.3% yoy and +16.8% qoq); and 3) Hot Rolled Coil (HRC) products started to contribute to 20.5% of HPG's sales volume in 4Q20.
- In 4Q20, gross margin surged by 8.5% pts yoy, mainly due to the increase in the utilisation rate of all furnaces which reduced fixed production costs per steel unit and the new contribution of HRC products with higher margin.
- Accumulated FY20, HPG's revenue and NP reached VND90,119bn (+41.6% yoy) and VND13,439bn (+78.5% yoy), respectively, and fulfilled 101.2%/106.1% of our full year forecasts.

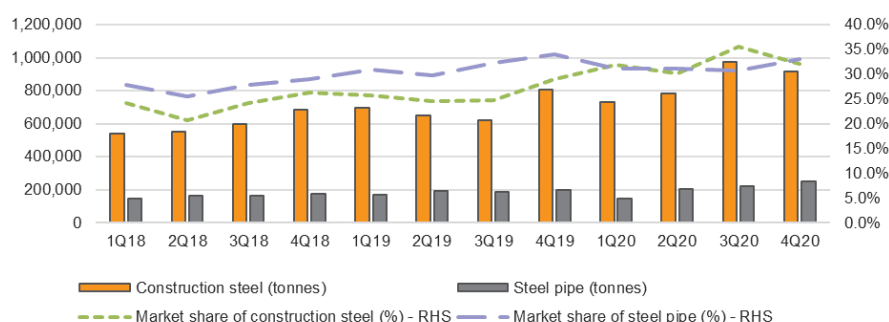
### HPG's crude steel production capacity was lifted to 8 million per annum

- The fourth and also the last blast furnace of Dung Quat Steel Complex was successfully inaugurated in early Jan 21, lifting crude steel production capacity to c.8m tonnes p.a from 6.6m tonnes p.a. We estimate HPG's furnaces to run at full utilisation rate after just 1-2 months. HRC production volume is expected to record 2.4m tonnes in 2021F (+246.2% yoy).
- In FY21F, HPG expects to sell 2.7m tonnes of HRC (+364.3% yoy) and 5m tonnes of long steel (-2.6% yoy). The company's target is 19.7% higher than our forecast of total HRC and long steel sales volume this year.

### Reiterate ADD with TP of VND47,300

- Our valuation is based on an equal weighting of: 1) a forward P/E of 10.0x on FY21F EPS, and 2) a DCF valuation over a 10-year projection period.
- Downside risk: slower-than-expected steel demand growth. Re-rating catalyst: lower-than-expected iron ore price.

### HPG's quarterly steel sales volume



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 1: 4Q20 results review (VND bn)**

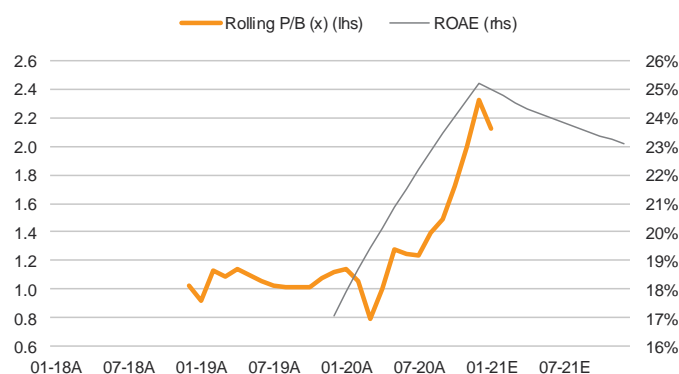
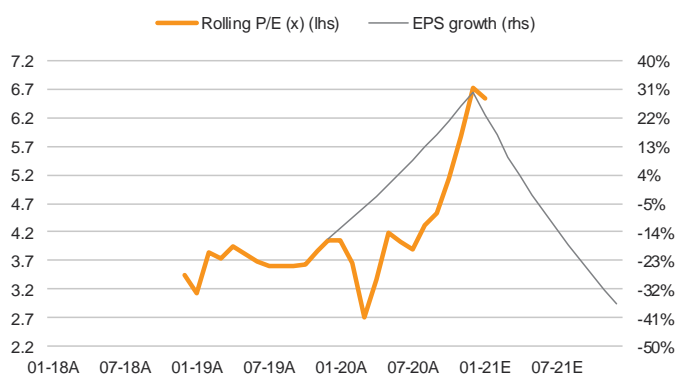
	4Q20	4Q19	% yoy	2020	2019	yoy	vs full year forecast	Comment
<b>Total revenue</b>	<b>25,778</b>	<b>17,975</b>	<b>43.4%</b>	<b>90,119</b>	<b>63,658</b>	<b>41.6%</b>	<b>101.2%</b>	In line with our expectation.
Steel	22,179	14,411	53.9%	76,250	50,837	50.0%	101.7%	
Industrial production	679	294	130.6%	2,566	2,826	-9.2%	102.7%	
Agriculture	2,719	662	310.5%	10,553	6,041	74.7%	97.9%	
Real estates	201	2,607	-92.3%	750	3,954	-81.0%	93.0%	
<b>Gross profit</b>	<b>6,267</b>	<b>2,836</b>	<b>121.0%</b>	<b>18,905</b>	<b>11,185</b>	<b>69.0%</b>	<b>102.7%</b>	
Gross profit margin	24.3%	15.8%	8.5% pts	21.0%	17.6%	3.4% pts	0.3% pts	
SG&A expense	497	376	32.4%	1,785	1,442	23.7%	100.2%	
<b>EBITDA</b>	<b>7,156</b>	<b>3,218</b>	<b>122.4%</b>	<b>21,934</b>	<b>12,350</b>	<b>77.6%</b>	<b>100.4%</b>	In line with our expectation.
Interest expense	662	270	145.0%	2,207	937	135.6%	114.7%	
Pretax profit	5,330	2,285	133.3%	15,355	9,097	68.8%	105.7%	
<b>Net profit</b>	<b>4,638</b>	<b>1,923</b>	<b>141.1%</b>	<b>13,439</b>	<b>7,527</b>	<b>78.5%</b>	<b>106.1%</b>	Above our forecast.
Net margin	18.0%	10.7%	7.3% pts	14.9%	11.8%	3.1% pts	0.7% pts	
EBITDA margin	27.8%	17.9%	9.9% pts	24.3%	19.4%	4.9% pts	-0.2% pts	
SG&A as % of revenue	1.9%	2.1%	-0.2% pts	2.0%	2.3%	-0.3% pts	0.0% pts	
<b>Sale volume (tonne)</b>	<b>1,960,714</b>	<b>1,228,534</b>	<b>59.6%</b>	<b>6,535,972</b>	<b>2,939,783</b>	<b>122.3%</b>	<b>111.5%</b>	
Construction steel	913,487	807,906	13.1%	3,400,404	1,967,160	72.9%	101.8%	
Steel billets	393,000	219,928	78.7%	1,732,263	220,000	687.4%	100.1%	
Steel pipe	252,762	200,700	25.9%	821,840	752,623	9.2%	104.0%	
HRC	401,465	-	NA	581,465	-	NA	165.8%	HRC volume used internally is only 15.3% of total HRC production in 2020, lower than our previous forecast of 45%.

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 2: Peer comparison**

Company	Ticker	Recom.	Price		Mkt cap	P/E (x)		3-year		P/BV (x)		EV/EBITDA (x)		ROE (%)	
			LC\$	LC\$		CY21F	CY22F	EPS	CAGR (%)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
			LC\$	LC\$		US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m	US\$ m
<u>Regional listed steel producers</u>															
Sansteel Minguang Co Ltd -A	002110 CH	na	6.4	na	2,409	5.9	5.4	78.9	0.7	0.7	4.6	4.2	12.8	12.7	
Xinyu Iron & Steel Co Ltd-A	600782 CH	na	4.0	na	1,988	5.3	5.2	179.9	0.5	0.4	na	na	9.8	9.0	
Nanjing Iron & Steel Co-A	600282 CH	na	3.2	na	3,015	7.8	7.2	322.5	0.9	0.8	5.0	4.6	12.1	12.5	
Liuzhou Iron & Steel Co-A	601003 CH	na	5.6	na	2,229	7.6	7.3	327.1	1.2	1.1	na	na	14.2	13.7	
Angang Steel Co Ltd-A	000898 CH	na	2.9	na	4,084	14.2	9.3	87.1	0.5	0.5	5.7	4.9	3.6	5.0	
Xinyu Iron & Steel Co Ltd-A	600782 CH	na	4.0	na	1,988	5.3	5.2	179.9	0.5	0.4	na	na	9.8	9.0	
Hyundai Steel	004020 KS	na	39,450	na	4,705	21.3	13.9	(48.7)	0.3	0.3	7.4	6.9	1.4	2.1	
JFE Holidng Inc	5411 JP	na	934.0	na	5,477	na	8.3	na	0.3	0.3	15.2	7.5	(4.8)	4.6	
Tata Steel	TATA IN	na	621.3	na	9,798	15.5	7.7	50.0	1.0	0.9	7.4	6.3	5.2	10.5	
Jindal Steel & Power Ltd	JSP IN	na	269.8	na	3,768	5.4	7.2	58.5	0.8	0.7	3.9	4.4	15.8	10.6	
NMDC Ltd	NMDC IN	na	106.3	na	4,455	6.5	6.5	14.4	1.0	0.9	4.6	4.4	16.3	15.2	
<i>Average</i>					3,992	9.5	7.6	125.0	0.7	0.6	6.7	5.4	8.7	9.5	
<i>Median</i>					3,768	7.1	7.2	83.0	0.7	0.7	5.4	4.8	9.8	10.5	
Hoa Phat Group	HPG VN	Add	38,350	47,300	5,515	8.0	8.8	5.2	2.2	2.2	6.8	5.8	22.1	20.5	

SOURCES: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 01 FEB 2021

**Valuation**

**Income statement**

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	90,119	111,138	116,289
Cost of sales	(71,214)	(88,492)	(91,848)
Gen & admin expenses	(1,094)	(1,334)	(1,395)
Selling expenses	(690)	(889)	(930)
<b>Operating profit</b>	<b>17,120</b>	<b>20,423</b>	<b>22,116</b>
Operating EBITDA	21,604	27,244	28,937
<b>Depreciation and amortisation</b>	<b>(4,484)</b>	<b>(6,821)</b>	<b>(6,821)</b>
<b>Operating EBIT</b>	<b>17,120</b>	<b>20,423</b>	<b>22,116</b>
Interest income	991	131	131
Financial expense	(3,413)	(3,116)	(2,638)
Net other income	655	1,050	1,133
Income from associates & JVs	2	(1)	(1)
<b>Pre-tax profit</b>	<b>15,355</b>	<b>18,487</b>	<b>20,740</b>
Tax expense	(1,849)	(2,220)	(2,472)
Minority interest	(67)	(71)	(71)
<b>Net profit</b>	<b>13,439</b>	<b>16,196</b>	<b>18,197</b>
Adj. net profit to ordinary	13,439	16,196	18,197
Ordinary dividends	(1,419)	(1,657)	(3,313)
<b>Retained earnings</b>	<b>12,019</b>	<b>14,539</b>	<b>14,884</b>

**Balance sheet**

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	13,001	7,859	18,993
Short term investments	8,822	8,933	8,933
Accounts receivables	6,125	9,135	8,336
Inventories	26,287	30,037	31,784
Other current assets	2,566	2,698	2,823
<b>Total current assets</b>	<b>56,800</b>	<b>58,662</b>	<b>70,870</b>
Fixed assets	72,373	69,875	68,015
Total investments	171	26	26
Other long-term assets	2,167	5,557	5,814
<b>Total assets</b>	<b>131,511</b>	<b>134,120</b>	<b>144,725</b>
Short-term debt	36,798	7,473	3,503
Accounts payable	10,916	10,910	12,892
Other current liabilities	4,261	6,401	6,505
<b>Total current liabilities</b>	<b>51,975</b>	<b>24,785</b>	<b>22,900</b>
Total long-term debt	17,343	18,358	15,146
Other liabilities	2,973	9,447	9,885
Share capital	33,133	33,133	33,133
Retained earnings reserve	21,783	41,406	56,290
<b>Shareholders' equity</b>	<b>59,062</b>	<b>81,207</b>	<b>96,400</b>
Minority interest	158	324	394
<b>Total liabilities &amp; equity</b>	<b>131,511</b>	<b>134,120</b>	<b>144,725</b>

**Cash flow statement**

(VNDbn)	12-20A	12-21E	12-22E
<b>Pretax profit</b>	<b>15,355</b>	<b>18,487</b>	<b>20,740</b>
Depreciation & amortisation	4,799	6,840	6,840
Tax paid	(1,714)	(2,220)	(2,472)
Other adjustments	(598)	(348)	(366)
<b>Change in working capital</b>	<b>(8,837)</b>	<b>(8,047)</b>	<b>706</b>
<b>Cash flow from operations</b>	<b>9,004</b>	<b>14,712</b>	<b>25,449</b>
Capex	(9,370)	(6,000)	(5,000)
Proceeds from assets sales	36	0	0
Others	(7,663)	0	0
Other non-current assets changes	399	0	0
<b>Cash flow from investing activities</b>	<b>(16,599)</b>	<b>(6,000)</b>	<b>(5,000)</b>
New share issuance	3	0	0
Shares buyback	0	0	0
Net borrowings	17,468	(12,197)	(6,001)
Other financing cash flow			
Dividends paid	(1,419)	(1,657)	(3,313)
<b>Cash flow from financing activities</b>	<b>16,051</b>	<b>(13,854)</b>	<b>(9,314)</b>
Cash and equivalents at beginning of period	4,545	13,001	7,859
<b>Total cash generated</b>	<b>8,456</b>	<b>(5,142)</b>	<b>11,134</b>
Cash and equivalents at the end of period	13,001	7,859	18,993

**Key ratios**

	12-20A	12-21E	12-22E
<b>Dupont</b>			
Net profit margin	14.9%	14.6%	15.6%
Asset turnover	0.77	0.84	0.83
ROAA	11.5%	12.2%	13.1%
Avg assets/avg equity	2.19	1.89	1.57
ROAE	25.2%	23.1%	20.5%
<b>Efficiency</b>			
Days account receivable	24.9	30.0	26.2
Days inventory	135.1	123.9	126.3
Days creditor	56.1	45.0	51.2
Fixed asset turnover	1.27	1.56	1.69
ROIC	11.9%	15.1%	15.8%
<b>Liquidity</b>			
Current ratio	1.1	2.4	3.1
Quick ratio	0.6	1.2	1.7
Cash ratio	0.4	0.7	1.2
Cash cycle	103.9	108.9	101.2
<b>Growth rate (yoy)</b>			
Revenue growth	41.6%	23.3%	4.6%
Operating profit growth	75.7%	19.3%	8.3%
Net profit growth	78.5%	20.5%	12.4%
EPS growth	78.5%	20.5%	12.4%

Source: VNDIRECT RESEARCH

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**RECOMMENDATION FRAMEWORK**

**Stock Ratings**

Definition:

- Add                    The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold                    The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce                The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

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

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