

## HOA PHAT GROUP JSC (HPG) – UPDATE

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND48,400	VND62,600	1.0%	Add	STEEL

12 August 2021

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

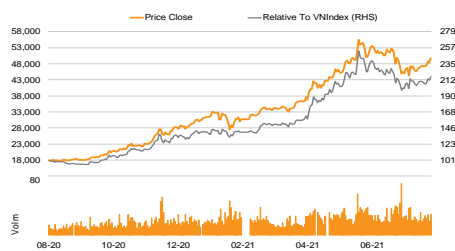
Consensus\*: Add:14 Hold:2 Reduce:0

Target price / Consensus: 16.5%

### Key changes in the report

➤ FY21-23F EPS increased by 13.2%-34.2%

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	55,500
52w low (VND)	17,719
3m Avg daily value (VNDmn)	1,448,468
Market cap (VND bn)	218,279
Free float (%)	27
TTM P/E (x)	8.7
Current P/B (x)	3.0

### Ownership

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

Source: VND RESEARCH

### Analyst(s):



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## Strengthening market leadership

- 2Q21 net profit surged 354% yoy to VND9,721bn, driven by strong growths of both sales volume and prices.
- We revise up selling price and take into model the new iron ore mine in Australia, which has triggered a 13.2% -34.2% FY21- 23F EPS upgrade.
- Reiterate Add with a higher TP of VND62,600.

### Better than expected 1H21 performance

HPG posted strong 2Q21 results, with net revenue increase 72% yoy to VND35,188bn while net profit jumping 354% yoy to VND9,721bn, on the back of 1) 42% yoy increase in total steel sales volume, 2) 40% yoy increase in construction steel ASP. 2Q21 gross profit margin (GPM) widened to 32.7% from 26.2% of 1Q21 and much higher than that of 18.1% of 2Q20. For 1H21, revenue rose 67% yoy to VND66,295bn. and net profit increased 232% yoy to VND16,670bn, fulfilling 73.5% of our FY21F forecast.

### Acquiring the new iron ore mine to solidify the input

In May 2021, HPG successfully acquired the 4-million-ton-capacity Australia's Roper Valley iron ore mine (RVIM). Together with the iron ore mine in Ha Giang province, HPG's total iron ore production capacity has increased to 4.8m tonnes p.a, meeting about 30% of the company demand, per our estimate. We expect that new iron ore mine will run at 75% of design capacity, adding about 5% to HPG's FY22F pre-tax profit (~ VND1,530bn). HPG's management target to buy more iron ore and coking coal mines in near future.

### Changes to FY21 – 23F forecasts

We expect the global steel rebar price to decrease towards the long-term average of US\$600/tonne. The FY21F domestic steel price is expected to reach VND14.6m/tonne (+28% yoy), before falling to below VND13.5m/tonne by the end of FY22F, given the government's effort to control the price. We raise our FY21F net profit forecast by 34.2% to VND30,496bn (+126.7% yoy) on a 3.8% upward revision in FY21F revenue to VND153,629bn (+70.5% yoy) and 4.5% pts increase in GPM assumption. We also increase our FY22/23F net profit forecasts by 16.1%/13.2% to VND28,049bn/VND28,766bn, respectively, to reflect the new iron ore mine in Australia to the model.

### Reiterate ADD with a higher TP of VND62,600, following EPS upgrade

Our valuation is based on an equal weighting of: 1) a target P/E of 10.0x on FY21F EPS, and 2) a DCF valuation over a 10-year projection period. HPG's stock price has dropped 13% in the last 2 months and makes the company's valuation more attractive. Re-rating catalyst: new business plans (container manufacturing and new miners) to develop the value chain. Downside risk: slower-than-expected steel demand growth.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net revenue (bn)	90,119	153,629	151,639	151,907
Revenue growth	41.6%	70.5%	(1.3%)	0.2%
Gross margin	21.0%	24.8%	23.7%	24.1%
EBITDA margin	24.4%	28.3%	28.6%	30.4%
Net profit (bn)	13,450	30,496	28,049	28,766
Net profit growth	78.7%	126.7%	(8.0%)	2.6%
Recurring profit growth	78.7%	126.7%	(8.0%)	2.6%
Basic EPS	3,007	6,818	6,271	6,431
Adjusted EPS	2,754	6,189	5,686	5,824
BVPS	13,206	19,628	25,385	31,318
ROAE	25.2%	41.5%	27.9%	22.7%

Source: VND RESEARCH

## STRENGTHENING MARKET LEADERSHIP

### Reiterate Add with a higher TP of VND62,600

We raise our TP to VND62,600 to reflect the FY21-23F EPS upgrade, the incorporation of RVIM into our model and changes in key commodity price assumptions. Our valuation is based on an equal weighting of: 1) a target P/E of 10.0x on FY21F EPS, and 2) a DCF valuation over a 10-year projection period.

HPG stock price has dropped 13% in the past 2 months, due to the following negative information: (1) weak domestic construction steel demand in May-Jun 2021 due to the impact of the Covid-19 pandemic, and (2) construction steel selling price fell 3 times in Jun-Jul 2021 with a total decrease of 8% since mid-May peak. However, we think the pandemic will be gradually controlled in 3Q21 and the government will accelerate disbursement of public investment from 4Q21F. With the largest market share position in construction steel, HPG will be the main beneficiary of this trend.

We are also optimistic about HPG's plans for vertical integration as the company acquired two large vessels and an Australian iron ore mine, supporting the company's GPM in 2H21-22F not falling much from its peak in 1H21. Therefore, we maintain our Add recommendation on HPG.

**Figure 1: DCF model – key assumptions**

General assumptions	
Risk free rate (10-year VGB yield)	3.0%
Equity risk premium	11.0%
Beta (source: BB, 1-y adj. beta)	1.1
Cost of equity	15.1%
Long-term growth rate	1.0%
Cost of Debt	5.0%
WACC	11.4%
(in VND bn, otherwise noted)	
PV of DCF (10 years)	146,662
PV of Terminal value	159,480
Enterprise value	306,142
Less: Total Debt	58,096
Plus: Cash and Cash equiv.	35,038
Less: Minority Interest	210
Implied EV	282,874
No. of o/s shares (mn shares)	4,473
Implied value per share (VND)	63,241

Source: VNDIRECT RESEARCH

**Figure 2: P/E method assumptions**

EPS 2021	6,189
Industry average multiple	6.4
Premium	56.3%
Target multiple	10.0
Implied value per share (VND)	61,888

Source: VNDIRECT RESEARCH

**Figure 3: Blended target price, based on our estimates**

Method	Implied value per share (VND)	Weight (%)	Weighted price (VND)
DCF	63,241	50%	31,621
P/E	61,888	50%	30,944
Target price (VND, rounded)			62,600

Source: VNDIRECT RESEARCH

HPG now trades at 7.8x FY21F P/E vs. regional peer's 6.4x FY21F median P/E. Despite its smaller capacity scale, we believe that HPG deserves a higher valuation than its peers given its superior profitability (FY21F ROE of 41.5% vs 14.9% peer median) and solid growth prospects with an FY21F net profit growth of 127% yoy, based on our forecast.

**Figure 4: Peer comparison**

Company	Ticker	Price	Mkt cap	P/E (x)		3-year EPS		P/BV (x)		EV/EBITDA (x)		ROE (%)	
		LC\$	US\$ m	CY21F	CY22F	CAGR (%)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	
<b>Regional listed steel producers</b>													
JSW Steel	JSTL IN	745.0	24,249	8.6	10.4	23.0	2.8	2.3	6.1	6.9	34.8	23.2	
Tata Steel	TATA IN	1,429.2	23,176	6.1	9.3	35.6	1.7	1.5	4.6	6.2	31.7	16.6	
Hindalco Industries	HNDL IN	361.4	13,166	9.7	9.3	0.7	1.3	1.2	6.2	6.2	14.0	12.9	
Jindal Steel & Power Ltd	JSP IN	421.6	5,790	5.8	7.6	58.5	1.1	1.0	3.7	4.6	21.2	13.3	
NMDC	NMDC IN	171.6	6,770	5.7	7.7	26.5	1.4	1.3	3.9	5.4	26.5	17.5	
Nippon Steel Corp	5401 JP	1,896.0	18,907	6.7	7.5	na	0.7	0.6	5.7	6.4	10.5	8.3	
JFE Holding Inc	5411 JP	1,513.0	8,422	5.6	6.1	na	0.5	0.5	5.6	5.9	8.3	7.8	
Bluescope Steel Ltd	BSL AU	21.3	9,212	11.0	7.0	7.1	1.8	1.5	6.0	4.4	15.8	22.3	
Angang Steel Co Ltd-A	000898 CH	5.0	7,088	7.1	6.7	(15.6)	0.8	0.7	4.4	4.2	12.0	12.1	
Hyundai Steel	004020 KS	50,500.0	5,796	5.9	6.3	na	0.4	0.4	5.4	5.6	6.7	5.9	
<i>Average</i>			12,258	7.2	7.8	19.4	1.2	1.1	5.1	5.6	18.1	14.0	
<i>Median</i>			8,817	6.4	7.5	23.0	1.2	1.1	5.5	5.8	14.9	13.1	
<b>Hoa Phat Group</b>	<b>HPG VN</b>	<b>48,400</b>	<b>9,493</b>	<b>7.8</b>	<b>8.5</b>	<b>17.8</b>	<b>2.5</b>	<b>1.9</b>	<b>6.6</b>	<b>6.5</b>	<b>41.5</b>	<b>27.9</b>	

Source: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 12 AUG 2021

Upside risks include new business plans (container manufacturing and new miners) to develop the value chain. Downside risk: slower-than-expected steel demand growth.

### 2Q21 recap: net profit soared on significant GPM expansion

**Figure 5: 2Q21 business results**

	2Q21	2Q20	% yoy	1H21	1H20	yoy	vs full year forecast	Comment
<b>Total revenue</b>	<b>35,118</b>	<b>20,422</b>	<b>72.0%</b>	<b>66,295</b>	<b>39,655</b>	<b>67.2%</b>	<b>44.8%</b>	
Steel	32,496	18,056	80.0%	61,300	33,921	80.7%	46.5%	
Agriculture	2,369	2,263	4.7%	4,617	5,043	-8.4%	33.5%	
Real estates	253	103	145.2%	378	356	6.3%	24.8%	
Gross profit	11,477	3,706	209.7%	19,660	7,469	163.2%	65.2%	
<i>Gross profit margin</i>	<i>32.7%</i>	<i>18.1%</i>	<i>14.5% pts</i>	<i>29.7%</i>	<i>18.8%</i>	<i>10.8% pts</i>	<i>9.3% pts</i>	Higher than our forecast thanks to (1) 11.8% higher-than-expected construction steel price in 1H21; and (2) steel products with higher gross profit margin - HRC accounted for 31% of the company's total steel sales volumes in 1H21, higher than our full-year forecast of 26.6%.
SG&A expense	785	415	89.3%	1,405	826	70.2%	48.0%	
EBITDA	12,203	4,430	175.5%	21,220	8,874	139.1%	59.2%	
Interest expense	600	523	14.6%	1,221	1,004	21.6%	61.7%	
Pretax profit	10,349	3,096	234.3%	18,040	5,753	213.6%	70.4%	
<b>Net profit</b>	<b>9,721</b>	<b>2,743</b>	<b>254.4%</b>	<b>16,699</b>	<b>5,028</b>	<b>232.1%</b>	<b>73.5%</b>	Higher than our forecast.
Net margin	27.7%	13.4%	14.3% pts	25.2%	12.7%	12.5% pts	9.8% pts	
EBITDA margin	34.7%	21.7%	13.1% pts	32.0%	22.4%	9.6% pts	7.8% pts	
SG&A as % of revenue	2.2%	2.0%	0.2% pts	2.1%	2.1%	0.0% pts	0.1% pts	
<b>Sale volume (tonne)</b>	<b>2,133,842</b>	<b>1,500,102</b>	<b>42.2%</b>	<b>4,297,949</b>	<b>2,747,326</b>	<b>56.4%</b>	<b>49.5%</b>	
Construction steel	983,086	780,404	26.0%	1,838,132	1,512,837	21.5%	44.9%	
Steel billets	205,641	483,263	-57.4%	591,772	830,263	-28.7%	55.6%	
Steel pipe	191,237	202,200	-5.4%	375,249	347,100	8.1%	40.8%	
Galvanised steel	86,306	34,235	152.1%	159,952	57,126	180.0%	53.3%	
HRC	667,572	-	NA	1,332,844	-	NA	57.8%	

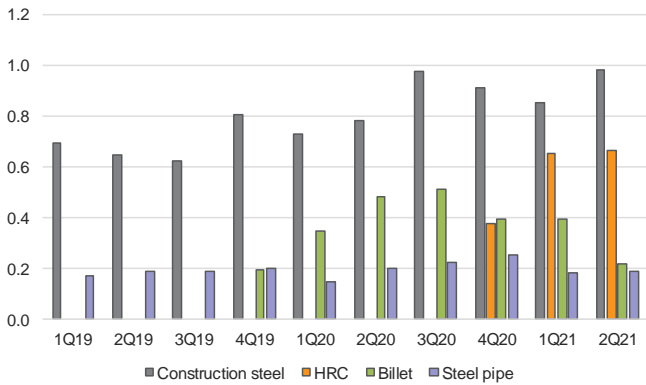
Source: VNDIRECT RESEARCH, COMPANY REPORTS

According to Vietnam Steel Association (VSA) data, HPG's 1H21 construction steel sales volume grew 21.5% yoy (~1.8m tonnes), outperforming the industry's +8.7% yoy growth (~5.3m tonnes). Thus, HPG's construction steel market share widened to 34.6% in 1H21 from 32.5% at end-2020.

Meanwhile, HPG's 1H21 steel pipe sales volumes rose 8.1% yoy to 0.4m tonnes, which lower than the 12.1% yoy increase in the domestic steel industry. Currently, HPG accounted about 30% of the steel pipe market in 1H21, slightly below 31.6% level seen at end-2020.

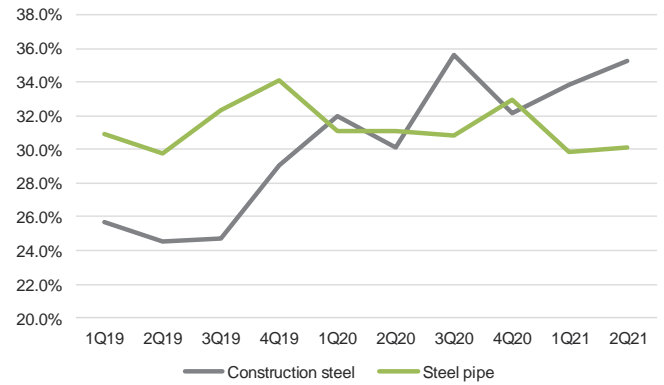
Hot Roll Coin (HRC) sales volume reached 1.3m tonnes in 1H21 (no HRC sold in 1H20), while billet sales volume dropped by 55% yoy to 0.2m tonnes as the company has shifted to produce higher-margin product lines, including construction steel and HRC.

**Figure 6: HPG's quarterly sales volume of steel products (m tonnes)**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 7: HPG's market share by quarter**



Source: VNDIRECT RESEARCH, VSA

**Acquiring RVIM will help HPG to solidify its position among regional steel manufacturers, in our view**

HPG purchased RVIM in the Northern Territory (NT) from UAE firm Al Rawda Resources, under a deal originally agreed in Feb 2021. The mine contains 320m tonnes of reserves and has mining capacity for 4m tonnes p.a, according to HPG. Previous owners have struggled to maintain production at what has been a relatively high-cost, low-grade operation.

Al Rawda acquired the RVIM from administrators in 2016 and applied, through its Australian subsidiary Northern Territory Iron Ore, to the NT government to reopen the mine in early 2018. But this did not happen and the mine has sat dormant.

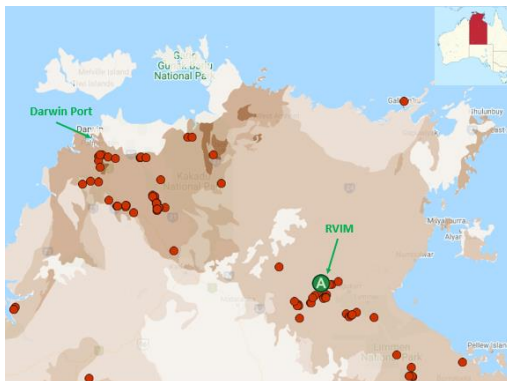
The mine's previous owner, Sherwin Iron, was one of the first small Australian iron ore mining firms to enter voluntary administration in Jul 2014. RVIM when it went into administration had a resource estimate of 488m tonnes, with Sherwin forecasting that it had the potential to produce 81m tonnes of marketable product at an average 57% Fe.

Operating costs are now much lower in Australia than in 2014, although they are starting to creep back up as Covid-19 border closures make it difficult to attract skilled labour. Iron ore prices are also at close to record-high levels, prompting several more marginal projects back into production.

Local indigenous communities oppose the restart of RVIM because it includes barging the ore up the Roper river for transshipping in the Gulf of Carpentaria, although there is the higher cost option of trucking it to Darwin.

HPG is also looking to acquire Australian coking coal mines to become self-sufficient in the key steel feedstock. While Australian iron ore mines and projects are currently trading at a premium because of the current high price environment, there are several coking coal mines up for sale following weaker coking coal prices because of China's ban on imports of Australian coal. These include the BHP Mitsui Coal mines in Queensland and some mines in the Illawarra region of New South Wales.

**Roper Valley iron ore mine**



RVIM is the first project in the HPG's plan to secure at least 50% of its iron ore demand or 10m tonnes p.a through Australian mine ownership.

**FY21 – 23F OUTLOOK: RIDING ON SURGE OF INFRASTRUCTURE DEVELOPMENT**

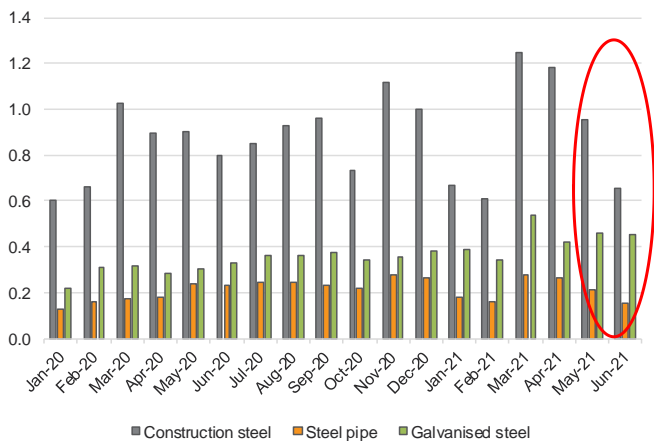
**3Q21F construction steel sales volume will be hurt by the current wave**

Over the past few months, Vietnam’s construction steel sales volume showed a gradual decline from its historical high of 1.25m tonnes in Mar 2021 to 1.18m tonnes, 1.0m tonnes and 0.7m tonnes in Apr, May, Jun 2021, respectively.

We believe that the weak construction steel demand in recent months was due to the resurgence of Covid-19 pandemic from late-Apr. Besides, the rainy season that came earlier than usual in the South and the construction steel price fell from beg-Jun, that discouraged distributors to accumulate inventories.

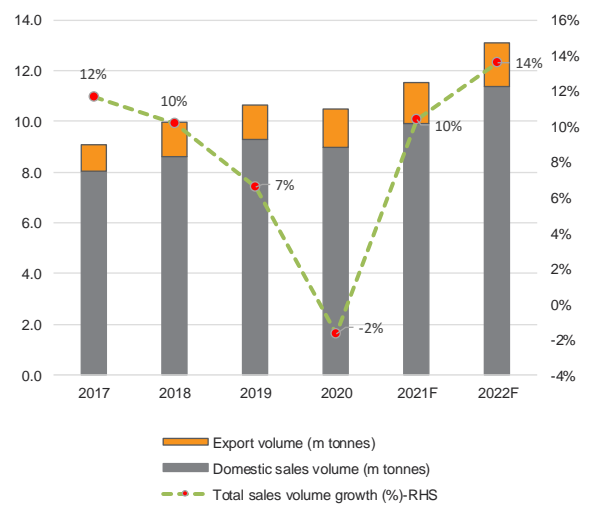
Under Directive 16, most construction projects have been closed since early Jul 2021. Therefore, domestic demand for steel products (especially construction steel and steel pipe) will be hit sharply during 3Q21F lockdowns. However, we expect pandemic will be gradually controlled thanks to the government vaccination targets. Therefore, steel demand will recover strongly from 4Q21F, in our view. In FY22F, we expect sales volume of Vietnam construction steel to grow 14% yoy on the back of: (1) acceleration of infrastructure development in FY22F, thanks to state investment expansion; and (2) our view that the residential property market will heat up in FY22F due to low mortgage rates and higher new supply.

**Figure 8: Sales volume of construction steel and steel pipes in Jun 2021 plunged compared to the same period last year (m tonnes)**



Source: VNDIRECT RESEARCH, VSA

**Figure 9: Construction steel: expect sales to grow at a 12% CAGR in FY21-22F**



Source: VNDIRECT RESEARCH, VSA

**We adjust our sales volume forecasts over FY21-23**

Due to Covid-19 impacts negatively, we revise HPG’s FY21F sales volume of construction steel and steel pipes to 3.9m tonnes and 0.8m tonnes, down 5.4% and 9%, respectively. However, the company’s total steel sales volume will remain at 8.7m tonnes in FY21F thanks to strong galvanised steel exports and HRC orders, which are signed on forward contracts, remain on track, in our view. We also note that HPG can choose to produce construction steel or HRC with a design capacity of 5.6m tonnes at DQSC (based on certain rate) thanks to its flexible production line.

**Figure 10: Changes in HPG's steel sales forecast ('000 tonnes)**

	Old forecasts			New forecasts			% Δ change			Comment
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	
Construction steel	4,093	4,491	4,941	4,093	4,545	5,055	-5.4%	1.2%	2.3%	We raise our FY22-23F construction steel sales volume thanks to (1) HPG focuses on selling finished steel with higher profit margin instead of billet; (2) Hai Duong Steel Complex has expanded its designed capacity by 30% to 2.5m tonnes in early 2021; and (3) strong domestic demand on the back of acceleration of infrastructure development in 2022-23F
Steel billet	1,064	722	268	848	430	228	-20.3%	-40.5%	-14.9%	HPG is testing No.3 rolling mill (at DQSC) and will put it into commercial operation this year. This means that their billet sales business is moving gradually along its timeline for the No.3 rolling mill launching.
Steel pipe	920	966	1,015	838	880	924	-9.0%	-9.0%	-9.0%	
Galvanised steel	300	315	330	392	396	396	30.6%	25.6%	19.9%	
HRC	2,306	2,334	2,301	2,732	2,686	2,580	18.5%	15.1%	12.1%	HPG will boost HRC production when construction steel demand is weak in 3Q21F. In FY22-23F, we reduce the rate of HRC for internal demand to 14% from 23% in vs. our previous forecasts.
<b>Total</b>	<b>8,683</b>	<b>8,828</b>	<b>8,855</b>	<b>8,681</b>	<b>8,936</b>	<b>9,182</b>	<b>0.0%</b>	<b>1.2%</b>	<b>3.7%</b>	

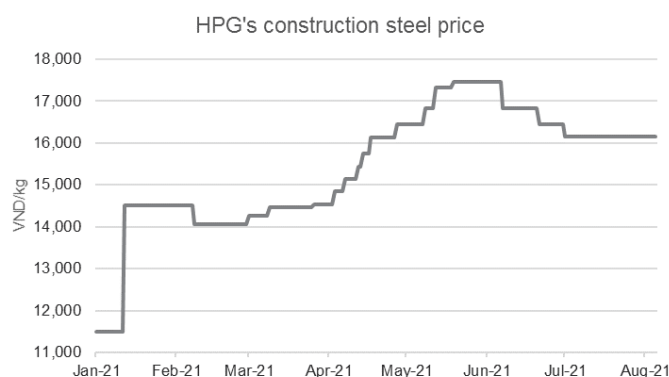
Source: VNDIRECT RESEARCH

**Profit margin will remain high in 2H21-22F**

**HPG's construction steel selling price has rallied since Dec 2020 and currently reversed to VND16,100/kg**

Strong demand in the midst of recovering supply chains has led to record steel prices across the US, EU and Asia in 1H21. In China - the largest steel producer in the world, average steel rebar price 1H21 was approximately 41% higher than that the same period in 2020. However, prices are expected to ease from 2H21F, as this demand impulse recedes and supply continues to come back online.

Following the global steel prices movement, HPG's construction steel selling price also surged in 1H21, and peaked at VND17,500/kg (+53% ytd) in mid-May, and then corrected by 8% in the next 2 months due to the trend in the global price, slowdown in domestic demand, and the government's willingness to control the domestic steel price. On average 1H21, HPG's construction steel ASP reached VND15,300/kg (+40% yoy), 11% higher than our full-year forecast. Thus, we increase HPG's construction steel ASP by 6% in FY21F from our previous forecast of VND13,800/kg to VND14,600/kg. In FY22-23F, construction steel ASP will gradually decrease to the long-term average of VND13,400-13,100/kg, down 8%-2% yoy, respectively, in our view.



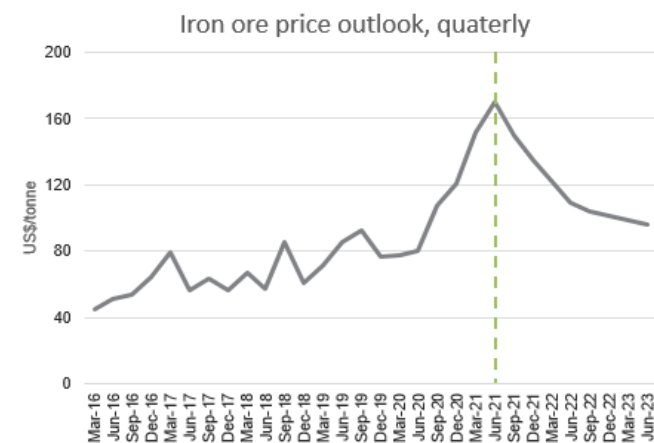
Source: HPG

**Iron ore prices to remain well above US\$100/tonne in FY21F**

Iron ore prices continued to hit record highs during 2Q21, reaching US\$238/tonne in early May. The average spot price for 62% Fe iron ore fines at Chinese ports in May was an increase of 37% since the start of 2021, and around 120% from the end-May 2020.

However, the recovery in steel output by major ex-Chinese producers is expected to continue in coming months, and will bring greater supply to the market. This create downward pressure on steel prices and margins of Chinese steel mills, leading to a softening in iron ore prices. It is also expected that China's strong demand for steel will abate in 2H21F. As a result, spot price for 62\$ Fe iron ore was only US\$165/tonne in 10 Aug, down about 20% from the peak in May 21.

According to Australian Department of Industry, Science, Energy and Resources (DISR) estimates, the FY21F average iron ore price is forecasted to reach US\$150/ tonne (+43% yoy), before falling to below US\$100/ tonne by the end of FY22F, as Brazilian supply recovers and Chinese steel production softens.



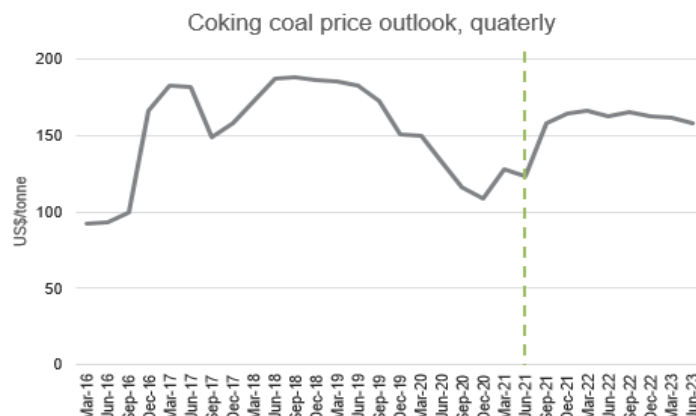
Source: DISR FORECASTS

### World steel production recovers to push coking coal prices up

Coking coal prices have recovered moderately, in line with improving global industrial production and economic activity. The Australian premium hard coking coal price is trading at US\$218/tonne, up 96% from the end of 2020. DISR forecasts coking coal to increase from an average US\$143/tonne (+14% yoy) in FY21F to around US\$157/tonne by FY23F.

Potential weather events over autumn remain the most significant upside risk to prices, with weather around this time regularly disrupting shipping from Queensland. Prices for Australian metallurgical coal would also rise should Chinese import restrictions be relaxed.

On the downside, potential cuts in Chinese steelmaking remain a prospect. Any such cuts would likely take price pressure off non-Australian metallurgical coal, reducing the price differential and potentially enabling some cost rebalance between China and ex-China markets.



Source: DISR FORECASTS

### The new iron ore mine help to improve margins since late-2021F

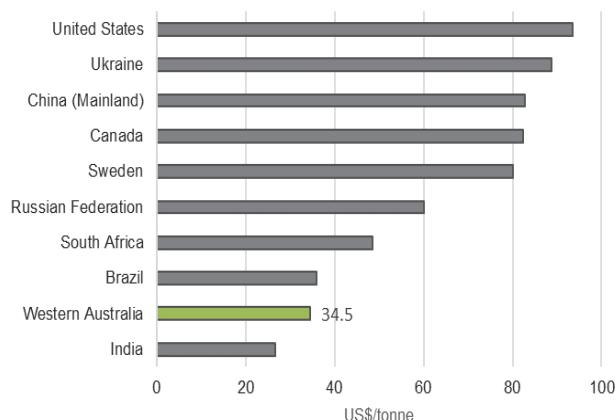
According to S&P Global Intelligence, Western Australia's iron ore miners are among the world's lowest cost seaborne iron ore exporters. The average total cash cost of Western Australia's iron ore exports was US\$34.5/tonne in 2020, below the world average of US\$45.3/tonne, and below its main competitor in Brazil (US\$36.0/tonne).

Despite the lack of data for Northern Territory, we estimate the cost of iron ore production in RVIM will be no more than US\$70/tonne. We also note that the previous owners of the RVIM struggled to maintain production at what has been a relatively high-cost, low-grade operation.

HPG expects that iron ore from the new mine will be delivered from late-2021F. Thus, we estimate RVIM will help HPG's pre-tax profit increase by about VND1,530bn, equivalent to 5.0% of HPG's pre-tax profit in FY22F. The above estimate is based on the following assumptions: (1) utilisation rate of RVIM will reach 75% (equivalent to 3m tonnes); (2) total production cost of RVIM is US\$100/tonne (including resource & environmental costs, transportation costs, depreciation and interest expense) and (3) the FY22F average iron ore price is forecasted to reach US\$120/tonne.

In the worst scenario, the FY22F average iron ore price is US\$160/tonne, RVIM can contribute about VND4,635bn, equivalent to 22.1% of HPG's pre-tax profit in next year (details in figure 13).

Total cash cost of global iron ore production (\*) in 2020



(\*) Includes the 10 largest iron ore producers only

Source: S&P GLOBAL MARKET INTELLIGENCE, MINE ECONOMICS MODEL

Figure 11: Prices of iron ore and coking coal

Commodity prices	Spot price	Commodity price performance			VNDS assumption			DISR estimate			
		Last month	Last quarter	Last year	2021	2022	Long term	2021	2022	Long term	
Iron Ore 62% Fe Fines	US\$/tonne	165.1	-21.3%	-30.8%	44.8%	150	120	95	152	106	90
Hard Coking Coal	US\$/tonne	218.5	7.1%	91.1%	98.9%	140	160	150	143	160	150

Source: VNDIRECT RESEARCH, BLOOMBERG, DISR

Figure 12: Sensitivity on FY22F pre-tax profit (Unit: VNDbn) on changes of total production cost of RVIM and iron ore price

Iron ore price (US\$/tonne)	Total production cost (*) of RVIM (US\$/tonne)						
	80	90	100	110	120	130	140
105	36,135	35,375	34,614	33,853	33,092	32,332	31,571
110	34,897	34,135	33,372	32,610	31,848	31,085	30,323
115	33,660	32,896	32,132	31,368	30,605	29,841	29,077
120	32,424	31,659	30,894	30,128	29,363	28,598	27,833
125	31,189	30,423	29,656	28,890	28,124	27,357	26,591
130	29,955	29,187	28,420	27,653	26,885	26,118	25,350
135	28,722	27,953	27,185	26,416	25,648	24,879	24,111
140	27,489	26,720	25,950	25,181	24,411	23,642	22,873

(\*) Including resource & environmental costs, transportation costs, depreciation and interest expense

Source: VNDIRECT RESEARCH

**Figure 13: Sensitivity on RVIM's contribution to FY22F HPG's pre-tax profit (Unit: VNDbn) on changes of iron ore price. Assume the total production cost of RVIM is US\$100/tonne**

	Iron ore price (US\$/tonne)					
	110	120	130	140	150	160
RVIM's contribution to FY22F HPG's pre-tax profit	762	1,530	2,302	3,078	3,855	4,635
% RVIM's contribution in FY22F HPG's pre-tax profit	2.3%	5.0%	8.1%	11.9%	16.4%	22.1%

Source: VNDIRECT RESEARCH

**Figure 14: Sensitivity on FY22F pre-tax profit (Unit: VNDbn) on changes of total production cost and utilisation rate of RVIM. Assume the iron ore price is US\$120/tonne**

	Total production cost (*) of RVIM (US\$/tonne)						
	80	90	100	110	120	130	140
50%	31,531	31,021	30,511	30,001	29,491	28,981	28,471
60%	31,888	31,276	30,664	30,052	29,440	28,828	28,216
70%	32,245	31,531	30,817	30,103	29,389	28,675	27,961
75%	32,424	31,659	30,894	30,128	29,363	28,598	27,833
80%	32,602	31,786	30,970	30,154	29,338	28,522	27,706
90%	32,959	32,041	31,123	30,205	29,287	28,369	27,451
100%	33,316	32,296	31,276	30,256	29,236	28,216	27,196

Source: VNDIRECT RESEARCH

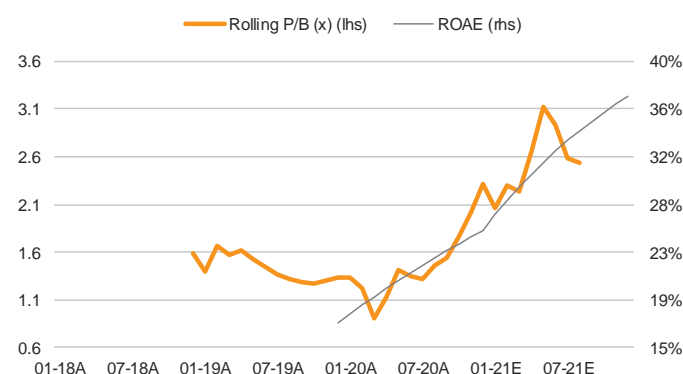
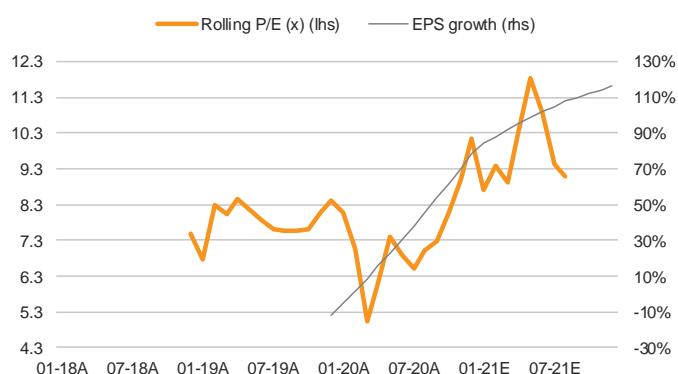
### FY21-23F earnings revision reflects better-than-expected steel ASP and strong HRC sales volume

**Figure 15: Earnings revision for FY21-23F (VND bn)**

	Old forecasts			New forecasts			The difference between new and old forecasts			Comments
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F	
<b>Total revenue</b>	<b>148,023</b>	<b>152,825</b>	<b>152,691</b>	<b>153,629</b>	<b>151,639</b>	<b>151,907</b>	<b>3.8%</b>	<b>-0.8%</b>	<b>-0.5%</b>	
Steel	131,706	132,557	132,280	142,206	135,203	133,071	8.0%	2.0%	0.6%	We raise our FY21/22/23F revenue forecasts by 8.0%/2.0%/0.6% as increases of 8.0%/0.8%/-3.0% in ASP and 0%/1.2%/3.7% in sales volume vs. our previous forecasts.
Gross profit	30,155	31,964	33,271	38,144	35,950	36,592	26.5%	12.5%	10.0%	
Gross profit margin	20.4%	20.9%	21.8%	24.8%	23.7%	24.1%	4.5% pts	2.8% pts	2.3% pts	We raise our FY21/22/23F gross profit margin forecasts by 4.5%/2.8%/2.3% pts thanks to (1) increases in ASP; and (2) a higher proportion of high-margin steel products - HRC in total steel sales volume offsetting 7.4%/15%/25% higher-than-expected iron ore prices vs. our previous forecasts.
SG&A expense	2,926	3,020	3,018	3,073	3,033	3,038	5.0%	0.4%	0.7%	
EBITDA	35,849	37,493	38,726	41,718	41,890	44,809	16.4%	11.7%	15.7%	
Interest expense	1,980	1,946	1,769	2,607	2,637	2,372	31.7%	35.5%	34.1%	
Pretax profit	25,612	27,233	28,651	33,494	30,894	31,715	30.8%	13.4%	10.7%	
<b>Net profit</b>	<b>22,731</b>	<b>24,161</b>	<b>25,416</b>	<b>30,496</b>	<b>28,049</b>	<b>28,766</b>	<b>34.2%</b>	<b>16.1%</b>	<b>13.2%</b>	
Net margin	15.4%	15.8%	16.6%	19.9%	18.5%	18.9%	4.5% pts	2.7% pts	2.3% pts	
EBITDA margin	24.2%	24.5%	25.4%	27.2%	27.6%	29.5%	2.9% pts	3.1% pts	4.1% pts	
SG&A as % of revenue	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0% pts	0.0% pts	0.0% pts	
Core EPS (VND)	4,613	4,897	5,146	6,189	5,686	5,824	34.2%	16.1%	13.2%	
<b>Sale volume ('000 tonne)</b>	<b>8,683</b>	<b>8,828</b>	<b>8,855</b>	<b>8,681</b>	<b>8,936</b>	<b>9,182</b>	<b>0.0%</b>	<b>1.2%</b>	<b>3.7%</b>	
Construction steel	4,093	4,491	4,941	3,871	4,545	5,055	-5.4%	1.2%	2.3%	
Steel billet	1,064	722	268	848	430	228	-20.3%	-40.5%	-14.9%	
Steel pipe	920	966	1,015	838	880	924	-8.9%	-8.9%	-8.9%	
Galvanised steel	300	315	330	392	396	396	30.8%	25.8%	19.8%	
HRC	2,306	2,334	2,301	2,732	2,686	2,580	18.5%	15.1%	12.1%	

Source: VNDIRECT RESEARCH, COMPANY REPORTS



**Valuation**

**Income statement**

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	90,119	153,629	151,639
Cost of sales	(71,214)	(115,484)	(115,689)
Gen & admin expenses	(1,091)	(1,844)	(1,820)
Selling expenses	(690)	(1,229)	(1,213)
<b>Operating profit</b>	<b>17,123</b>	<b>35,072</b>	<b>32,918</b>
Operating EBITDA	21,607	42,476	42,683
<b>Depreciation and amortisation</b>	<b>(4,484)</b>	<b>(7,405)</b>	<b>(9,766)</b>
<b>Operating EBIT</b>	<b>17,123</b>	<b>35,072</b>	<b>32,918</b>
Interest income	1,005	1,694	1,470
Financial expense	(3,427)	(4,389)	(4,932)
Net other income	654	1,115	1,436
Income from associates & JVs	2	2	2
<b>Pre-tax profit</b>	<b>15,357</b>	<b>33,494</b>	<b>30,894</b>
Tax expense	(1,851)	(2,936)	(2,777)
Minority interest	(56)	(61)	(68)
<b>Net profit</b>	<b>13,450</b>	<b>30,496</b>	<b>28,049</b>
Adj. net profit to ordinary	13,450	30,496	28,049
Ordinary dividends	(1,419)	(2,236)	(2,236)
<b>Retained earnings</b>	<b>12,031</b>	<b>28,260</b>	<b>25,812</b>

**Balance sheet**

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	13,696	17,158	19,991
Short term investments	8,127	17,879	17,879
Accounts receivables	6,125	8,418	9,033
Inventories	26,287	39,549	41,707
Other current assets	2,513	3,841	3,791
<b>Total current assets</b>	<b>56,747</b>	<b>86,846</b>	<b>92,401</b>
Fixed assets	72,373	84,919	103,436
Total investments	171	171	171
Other long-term assets	2,220	3,784	3,735
<b>Total assets</b>	<b>131,511</b>	<b>175,720</b>	<b>199,744</b>
Short-term debt	36,798	39,771	40,205
Accounts payable	10,916	19,616	17,978
Other current liabilities	4,261	6,777	6,690
<b>Total current liabilities</b>	<b>51,975</b>	<b>66,164</b>	<b>64,873</b>
Total long-term debt	17,343	18,325	17,862
Other liabilities	2,973	3,226	3,184
Share capital	33,133	44,729	44,729
Retained earnings reserve	21,792	38,456	64,268
<b>Shareholders' equity</b>	<b>59,071</b>	<b>87,794</b>	<b>113,547</b>
Minority interest	149	210	278
<b>Total liabilities &amp; equity</b>	<b>131,511</b>	<b>175,720</b>	<b>199,744</b>

**Cash flow statement**

(VNDbn)	12-20A	12-21E	12-22E
<b>Pretax profit</b>	<b>15,357</b>	<b>33,494</b>	<b>30,894</b>
Depreciation & amortisation	4,776	7,424	9,785
Tax paid	(1,717)	(2,936)	(2,777)
Other adjustments	(556)	(463)	(503)
<b>Change in working capital</b>	<b>(6,272)</b>	<b>(9,129)</b>	<b>(7,281)</b>
<b>Cash flow from operations</b>	<b>11,587</b>	<b>28,390</b>	<b>30,117</b>
Capex	(11,916)	(20,000)	(28,333)
Proceeds from assets sales	34	0	0
Others	(6,968)	(9,752)	0
Other non-current assets changes	359	0	0
<b>Cash flow from investing activities</b>	<b>(18,490)</b>	<b>(29,752)</b>	<b>(28,333)</b>
New share issuance	3	0	0
Shares buyback	0	0	0
Net borrowings	17,470	7,061	3,286
Other financing cash flow			
Dividends paid	(1,419)	(2,236)	(2,236)
<b>Cash flow from financing activities</b>	<b>16,054</b>	<b>4,825</b>	<b>1,049</b>
Cash and equivalents at beginning of period	4,545	13,696	17,158
<b>Total cash generated</b>	<b>9,151</b>	<b>3,462</b>	<b>2,833</b>
Cash and equivalents at the end of period	13,696	17,158	19,991

**Key ratios**

	12-20A	12-21E	12-22E
<b>Dupont</b>			
Net profit margin	14.9%	19.9%	18.5%
Asset turnover	0.77	1.00	0.81
ROAA	11.5%	19.9%	14.9%
Avg assets/avg equity	2.19	2.09	1.86
ROAE	25.2%	41.5%	27.9%
<b>Efficiency</b>			
Days account receivable	24.9	20.0	21.7
Days inventory	135.1	125.0	131.6
Days creditor	56.1	62.0	56.7
Fixed asset turnover	1.27	1.95	1.61
ROIC	11.9%	20.9%	16.3%
<b>Liquidity</b>			
Current ratio	1.1	1.3	1.4
Quick ratio	0.6	0.7	0.8
Cash ratio	0.4	0.5	0.6
Cash cycle	103.9	83.0	96.6
<b>Growth rate (yoy)</b>			
Revenue growth	41.6%	70.5%	(1.3%)
Operating profit growth	75.7%	104.8%	(6.1%)
Net profit growth	78.7%	126.7%	(8.0%)
EPS growth	78.7%	126.7%	(8.0%)

Source: VND 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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