

## HOA PHAT GROUP JSC (HPG) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND34,000	VND57,800	1.47%	Add	Steel

09 June 2022

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

Consensus\*: Add:12 Hold:1 Reduce:0

Target price / Consensus: -2.0%

### Key changes in the report

➤ Revise FY22-24F EPS down 6.7%-13.3%.

### Price performance



Source: VNDIRECT RESEARCH

### Key statistics

52w high (VND)	58,000
52w low (VND)	34,450
3m Avg daily value (VNDmn)	911,688
Market cap (VND bn)	158,565
Free float (%)	29
TTM P/E (x)	4.1
Current P/B (x)	1.5

### Ownership

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

Source: VND RESEARCH

### Analyst(s):



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## Cheap but lacking catalysts in short term

- We lowered FY22-24F EPS by 6.7%-13.3% on higher input material prices.
- Current valuation (5.4x P/E 2022) is cheap but lacking near-term catalyst.
- Reiterate Add with a lower TP of VND57,800.

### The Chairman was pessimistic about the steel industry outlook for the rest of 2022...

HPG's management has set modest FY22F guidance with VND160tr in revenue (+7% yoy) and net profit after tax (NPAT) of VND25tr-30tr (lower than FY21 NP of VND34.5tr). At the Annual General Meeting (AGM) on May 25, 2022, the Chairman shared that the challenges of margin pressure would persist for the rest of 2022, following the steel prices drop but input material prices surge. That partially explained the recent HPG market price correction of 30.0% in the past six months, underperforming the VNIndex benchmark of 10.8%.

### ... but we think it's not as bad as feared, at least for HPG

Thanks to the advantage of economies of scale production, extensive distribution system and proven inventory management capabilities, we believe that HPG will be the few steel companies in Vietnam that can keep GM not to dropping significantly in FY22F thanks to (1) non-weather supply disruptions will ease in 2H22F (La Nina weather event often peak in Australia in 1Q) will lower coking coal price; and (2) China - HPG's important export market, has started to reopen in June, which will have a positive impact on steel demand and support the steel prices. We expect HPG's net profit to decrease 14% yoy to VND29,665bn in FY22F, before slightly increasing 1% yoy to VND29,966bn in FY23F.

### Is HPG undervalued?

HPG is now traded at 5.4x P/E 2022, which is historical-low within the last 10 years. We expect revenue and net profit to grow 10.7% and 6.8% CAGR, respectively, over FY22-25F, buoyed by increasing domestic steel demand. Given the Dung Quat Steel Complex 2 (DQSC 2) to bring the HPG's crude steel production capacity by 66% from now to 14.6m tonnes per annum from 2025F onwards, we believe this current valuation is yet attractive for long-term investment. However, there is lacking of strong catalyst for the rest of 2022. Major projects such as DQSC 3, Australian iron ore mine, Pho Noi urban area and aluminum project do not have much information yet and still need time to contribute to HPG's results. Meanwhile, according to Fitch Solutions' Mar 2022 note, average global steel prices will remain high at US\$980/tonne (+3% yoy) in 2022 then soften to US\$850/tonne (-13% yoy) in 2023.

### Reiterate ADD with lower TP of VND57,800

We lowered FY22-24F EPS by 6.7%-13.3% on higher input material (including iron ore & coking coal) price adjustments. Thus, we revised down our TP by 15.6% to VND57,800. Re-rating catalyst: new business plans (aluminium and home appliance projects) to develop the value chain. Downside risk: slower-than-expected steel demand growth.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	90,119	149,680	162,321	156,690
Revenue growth	41.6%	66.1%	8.4%	(3.5%)
Gross margin	21.0%	27.5%	23.5%	24.7%
EBITDA margin	24.4%	29.8%	25.5%	26.7%
Net profit (bn)	13,450	34,478	29,686	29,970
Net profit growth	78.7%	156.3%	(13.9%)	1.0%
Recurring profit growth	78.7%	156.3%	(13.9%)	1.0%
Basic EPS	3,007	7,708	6,637	6,700
Adjusted EPS	2,754	7,455	6,304	6,365
BVPS	13,206	20,261	26,476	32,641
ROAE	25.2%	46.1%	28.4%	22.7%

Source: VNDIRECT RESEARCH

## CHEAP BUT LACKING CATALYSTS IN SHORT TERM

### Investment thesis

**We like HPG for long-term investment:** (1) its leading position in the Southeast Asian steel industry will help HPG to ride on the surge of domestic construction demand post-pandemic; (2) the company's healthy balance sheet with cash-rich; and (3) DQSC 2 to bring the HPG's crude steel production capacity by 66% from now to 14.6m tonnes per annum from 2025F onwards. Besides, hot rolled coil (HRC) - the main output product of DQSC 2, is still facing a shortage of supply in the domestic market and depends on exports, thus not putting pressure on HPG's steel oversupply in 2025-30F, in our view.

In addition, the stimulus program post COVID-19 is expected to strongly support the economy's recovery. Due to the high cost of construction materials, the disbursement of public investment has been too delayed to date. Going forward, we still believe that the disbursement of capital will be improved. As the biggest steel producer in Vietnam, HPG is clearly a very bright candidate for investment under this investment theme.

In the short-term, Shanghai - China's largest city, reopened for business on Jun 1 after a two-month COVID-19 lockdown, with most construction sites resuming operations, and steel warehouses reopening for cargo pickup. We believe that the lockdowns easing in China will have a positive impact on steel demand and support the steel prices.

Re-rating catalyst: new business plans (aluminium, real estate and home appliance projects) to develop the value chain. Downside risk: slower-than-expected steel demand growth.

### Reiterate Add with a lower TP of VND57,800

We revised down our TP by 15.6% to VND57,800 to reflect the FY22-24F EPS downgrade. Our valuation is based on an equal weighting of: (1) a target P/E of 8.5x on FY22F EPS, and (2) a DCF valuation over a 10-year projection period. Our main assumptions are set out as below:

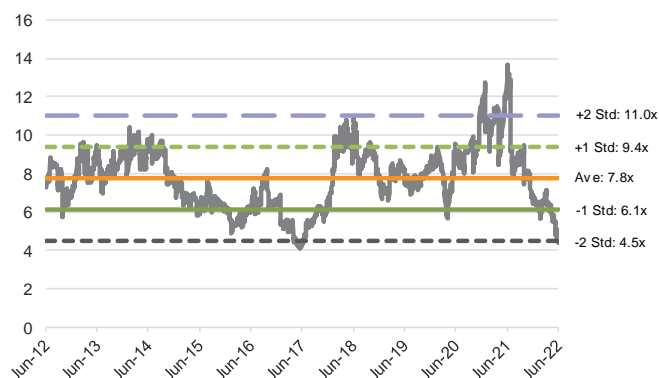
- We increase our beta to 1.2 from 1.1 to reflect reflects the stronger volatility of HPG stock compared to VNIndex. As a result, we apply a WACC of 12.4% from 11.6% previously to derive our new target price for HPG in DCF model.
- We use a new P/E valuation of 8.5x (from 10.0x previously), as the steel industry has entered a period of falling steel prices, in our view. Our target P/E of 8.5x is equivalent to the 5-year average and 13% premium the 10-year average of 7.8x as we believe the company's designed capacity has increased 5-fold compared to ten years ago.

On our new estimates, HPG is traded at 5.4x FY22F P/E, the latter representing a 31% discount (-1.5 Std) to its average of 7.8x (calculated over the past ten years).

**Figure 1: Blended target price, based on our estimates**

Method	Implied value per share (VND)	Weight (%)	Weighted price (VND)
DCF	62,002	50%	31,001
P/E	53,587	50%	26,794
Target price (VND, rounded)			57,800

Source: VNDIRECT RESEARCH

**Figure 2: HPG is trading at the lowest P/E trailing in ten years**


Source: VNDIRECT RESEARCH, BLOOMBERG

**Figure 3: P/E method assumptions**

EPS 2022	6,304
Industry median multiple	5.9
Premium	44.1%
Target multiple	8.5
Implied value per share (VND)	53,587

Source: VNDIRECT RESEARCH

**Figure 4: DCF model - key assumptions & input, based on our estimates**

<b>General assumptions</b>	
Risk free rate (10-year VGB yield)	3.0%
Equity risk premium	11.0%
Beta (source: BB, 1-y adj. beta)	1.2
Cost of equity	16.2%
Long-term growth rate	1.0%
Cost of Debt	5.0%
WACC	12.4%
(in VND bn, otherwise noted)	
PV of DCF (10 years)	164,160
PV of Terminal value	127,199
Enterprise value	291,359
Less: Total Debt	60,183
Plus: Cash and Cash equiv.	46,309
Less: Minority Interest	155
Implied EV	277,330
No. of o/s shares (mn shares)	4,473
Implied value per share (VND)	62,002

Source: VNDIRECT RESEARCH

**Figure 5: Peer comparison**

Company	Ticker	Price	Mkt cap	P/E (x)		EPS	P/BV (x)		EV/EBITDA (x)		ROE (%)	
		LC\$	US \$ m	FY22F	FY23F CAGR (%)		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Regional listed steel producers												
JSW Steel	JSTL IN	572.4	17,796	10.0	8.3	70.1	1.8	1.5	6.3	5.6	19.5	19.2
Tata Steel	TATA IN	1,063.8	16,722	5.2	6.0	147.1	1.0	0.9	4.0	4.2	19.6	15.0
Nippon Steel Corp	5401 JP	361.4	11,528	6.6	6.9	55.4	1.0	0.9	4.6	4.7	16.0	13.6
Hindalco Industries	HNDL IN	370.0	4,854	6.9	5.8	NA	0.9	0.8	4.3	4.0	13.7	13.5
JFE Holding Inc	5411 JP	122.6	4,622	5.8	6.1	36.4	1.0	0.9	3.5	3.7	17.1	16.0
Bluescope Steel Ltd	BSL AU	1,896.0	15,790	6.0	6.2	NA	0.6	0.6	5.7	5.7	10.5	8.9
NMDC	NMDC IN	1,652.0	7,587	5.5	6.5	NA	0.5	0.4	5.9	6.2	8.7	7.6
Jindal Steel & Power Ltd	JSP IN	21.3	6,224	3.4	6.4	81.3	0.9	0.8	2.1	3.4	30.1	13.1
Angang Steel Co Ltd-A	000898 CH	3.5	4,836	5.7	5.6	64.5	0.5	0.5	3.9	3.7	9.8	9.8
Hyundai Steel	004020 KS	41,400.0	4,406	3.6	4.0	NA	0.3	0.3	4.0	4.2	7.9	6.7
Average			9,437	5.9	6.2	75.8	0.9	0.8	4.4	4.5	15.3	12.3
Median			6,906	5.8	6.2	67.3	0.9	0.8	4.2	4.2	14.9	13.3
Hoa Phat Group	HPG VN	34,000	6,559	5.4	5.3	68.3	1.3	1.0	5.4	5.2	28.4	22.7

Source: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 09 Jun 2022

## 1Q22 recap: Strong sales volume and higher ASPs of steel to drive top lines growth

Figure 6: 1Q22 business results

	1Q22	1Q21	% yoy	vs full year forecast	Comment
<b>Total revenue</b>	<b>44,058</b>	<b>31,177</b>	<b>41.3%</b>	<b>29.3%</b>	
Steel	42,381	28,804	47.1%	30.9%	1Q22 steel revenue was higher than our forecast thanks to (1) total steel sales volumes higher than expected, and (2) average construction steel price in 1Q22 was 22.5% higher than our full-year forecast
Agriculture	1,628	2,248	-27.6%	17.2%	
Real estates	49	125	-60.8%	1.3%	Weak 1Q22 results of real estates segment due to the Hoa Phat Pho Noi residential project is not eligible for handover in FY22F, slower than our expectation.
Gross profit	10,108	8,183	23.5%	25.9%	
Gross profit margin	22.9%	26.2%	-3.3% pts	-3.0% pts	Lower than our forecasts mainly due to average iron ore/coking coal prices in 1Q22 was 36.4%/201% higher than our full-year forecast, respectively, offsetting the higher than expected steel selling price.
SG&A expense	841	621	35.5%	27.9%	
EBITDA	10,723	8,654	23.9%	25.2%	
Interest expense	597	622	-4.0%	23.8%	
Pretax profit	8,922	7,690	16.0%	25.7%	
<b>Net profit</b>	<b>8,217</b>	<b>6,978</b>	<b>17.8%</b>	<b>26.0%</b>	
Net margin	18.7%	22.4%	-3.7% pts	-2.4% pts	
EBITDA margin	24.3%	27.8%	-3.4% pts	-3.9% pts	
SG&A as % of revenue	1.9%	2.0%	-0.1% pts	-0.1% pts	
<b>Sale volume (tonne)</b>	<b>2,538,377</b>	<b>2,171,078</b>	<b>16.9%</b>	<b>28.6%</b>	Higher than our forecast thanks to (1) the commencement of new residential projects post Lunar new year, and (2) an increase in distributors' inventory in the rising steel selling prices in 1Q22
Construction steel	1,340,302	855,046	56.8%	29.2%	
Steel billets	111,859	393,000	-71.5%	25.4%	
Steel pipe	217,815	184,012	18.4%	28.3%	
Galvanised steel	105,706	73,748	43.3%	26.7%	
HRC	762,695	665,272	14.6%	28.4%	

Source: VNDIRECT RESEARCH, COMPANY REPORTS

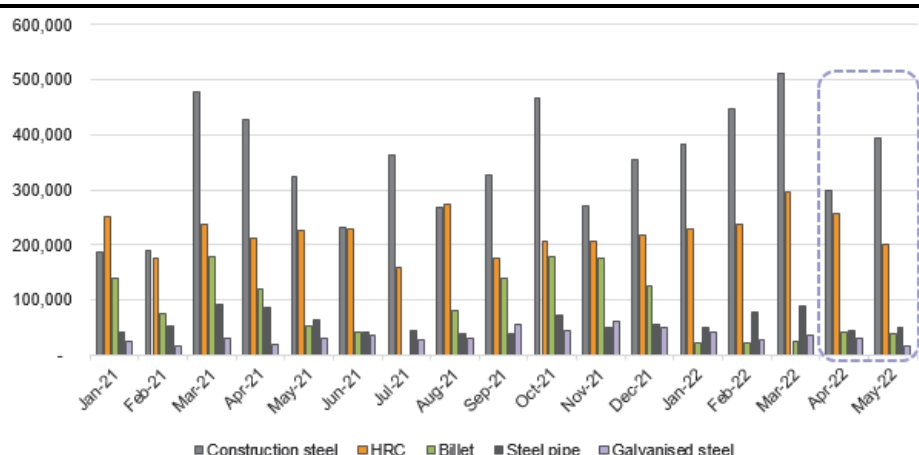
## We expect construction steel demand to recover in 2H22F

### HPG's low steel sales volume in April-May due to weak steel demand and high inventory level

In 1Q22, HPG recorded a strong total steel sales volume with nearly 2.5m tonnes (+15.0% yoy) thanks to strong demand from both export and domestic markets for steel products. Notably, HPG sold a record 511,348 tonnes of construction steel (+6.7% yoy) in Mar 2022. We note that HPG raised its selling prices of construction steel three times, with a total increase of 9.1%. Distributors have increased their inventory build-up as a result.

However, due to fears of steel prices being turned down in 2Q22, distributors reduced their inventory. As a result, total steel sales volume in Apr-May was only 1.37m tonnes (-12.4% yoy). In Jun, we expect steel sales volume will also remain low when the price of construction steel in the period has been adjusted down one more time after four times in May.

**Figure 7: HPG's total steel sales volume in Apr-May 2022 dropped sharply by 12.4% yoy (Unit: tonne)**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Despite weak steel sales volume expectations in 2Q22, we still revise up our forecast for HPG's total steel consumption in FY22F to 9m tonnes (+1.7% yoy and 1.3% higher than our previous forecast) thanks to the recovery of steel demand in the second half of the year. Our thesis backed by:

**(1) The downtrend in steel prices will support the domestic demand for both civil and transport infrastructure construction**

According to the Vietnam Association of Construction Contractors (VACC), the high price of construction materials (including steel) in early 2022 has increased the cost of basic construction by 50%, making it difficult for contractors. As a result, many construction works in both civil and transport infrastructure are behind schedule.

We expect lower steel prices for the remainder of 2022 to accelerate constructions projects, thereby increasing domestic steel demand.

**(2) China's oversupplied steel market could soon see some relief as demand is expected to bottom out in the near term**

Improved demand outlook is expected to mostly stem from China's latest move of reducing property loan interest rates by 0.2 points for first-home buyers on May 15, indicating that the country has shifted from deleveraging to supporting the property sector. Although this move will not reverse the downward trend in property sales or new home starts in the near term, it signals more supportive policies to be introduced to prevent uncontrolled default by cash-strapped developers, which will ease any further squeeze on steel demand.

Meanwhile, Shanghai - China's largest city, reopened for business on Jun 1 after a two-month COVID-19 lockdown, with most construction sites resuming operations, and steel warehouses reopening for cargo pickup.

In addition, for the remainder of 2022, signs are emerging that China's fiscal policy will be more expansionary, which should bolster demand for steel. China is expected to increase new infrastructure investment - which typically represents around 20-25% of China's total consumption of steel - in the first half of this year. For 2022, the Government has announced a quota of 1.46tr yuan (US\$229.8bn), which will include the front loading of financing of 102 mega infrastructure projects (roads, rail, power, industrial parks, etc) in the first six months of the year. Flow through of this funding is expected to boost construction activity from 2H22F.



## We revised down HPG's gross margin forecast in FY22-23F due to sudden high coal input prices in 5M22

### HPG's construction steel selling price have decreased four times in May 2022

In May 2022, HPG has adjusted its construction steel selling price four times, with a total decrease of 17.5% (-VND3,275/kg). We believe that the sharp decrease of construction steel price reflect: (1) high construction steel prices negatively impacted the real demand for construction steel products domestically; (2) new orders were also negatively impacted as the distributors waited for a steel price correction; and (3) input materials prices dropped sharply globally in Apr-May 2022 as a result of intensive lockdowns in China.

In 5M21, HPG's construction steel ASP reached VND17,600/kg (+18% yoy), 26% higher than our full-year forecast. Thus, we increase HPG's construction steel ASP by 12% in FY22F from our previous forecast of VND14,000/kg to VND15,600/kg. We still maintain the view that the selling price of construction steel will gradually decrease to the long-term average level, however, the prospect of robust steel demand recovery after the pandemic and high input material prices will make this price reduction process longer than expected. Therefore, we forecast that HPG's construction steel ASP will reach VND14,000/kg in FY23F, up 6% from the previous forecast. In FY24-25F, construction steel ASP will decrease to VND13,100-12,400/kg, down 7%-5% yoy, respectively, in our view.



Source: HPG

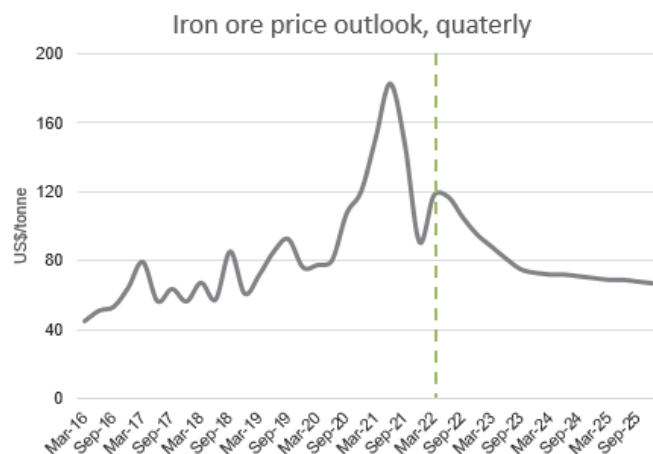
### Stronger prices in 2022 to fade over the outlook period

After falling more than 60% through the second half of 2021, iron ore prices have rebounded in early 2022 (to around US\$140/tonne by mid-Mar). This reflects an improvement in China's steel output in recent months, growing expectations of a more accommodative policy stance in China this year, and current supply concerns due to the Russian invasion of Ukraine.

The boost in new infrastructure investment and easier credit conditions in China this year are expected to provide further support to prices for the rest of 2022.

Over the outlook to 2027, iron ore prices are projected to decline to lower long-run levels. This decline will come as a result of more modest growth in blast-furnace steelmaking (compared with the past decade) from major producers such as the EU, US and China, as the world undergoes a transition to a low emissions environment. This softer demand growth will also take place alongside growing supply from Australia, Brazil and Africa, and is expected to dampen prices over the outlook period to 2027.

According to Australian Department of Industry, Science, Energy and Resources (DISR) estimates, the FY22F average iron ore price is forecasted to reach US\$110/tonne (-29.5% yoy), before falling to below US\$80/tonne by the end of FY23F. Over the outlook to 2027, real benchmark iron ore prices are projected to decline by around 15% a year, to reach US\$55 per tonne in FY27F.

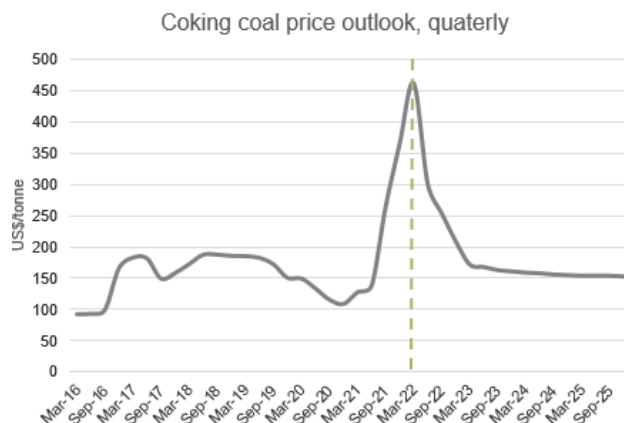


Source: DISR FORECASTS

### Coking coal prices are expected to ease gradually

After reaching record highs in October, coking coal prices fell back slightly in late 2021 before surging again in Jan and Feb 2022. The recent lift reflects supply issues due to weather disruptions in Australia and the Russia-Ukraine conflict. Australia has faced both heavy rainfall (which affected production and transport in Queensland), and a sharp rise in COVID-19 cases, which disrupted workforces at several coal operations.

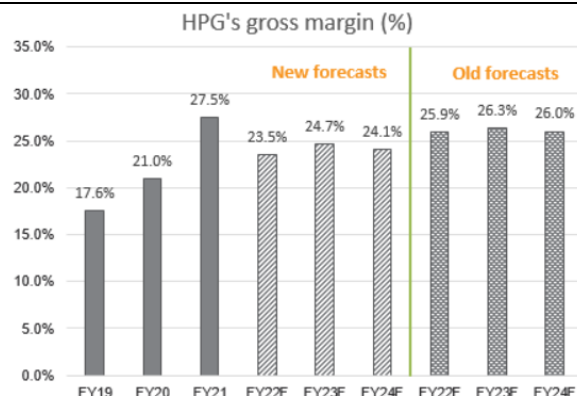
It is expected that disruptions will ease on some fronts over the remainder of 2022, allowing prices to start correcting. Over the outlook period, hard coking coal prices are expected to ease back from a war-affected peak of around US\$460/tonne in 1Q22, to reach US\$172/tonne by the 1Q23. Prices are then expected to stabilise at around US\$150/tonne towards the end of the outlook period.



Source: DISR FORECASTS

### We revise down HPG's gross margin forecast in FY22-24F

We assume iron ore and coke prices to be higher than DISR's latest forecast (made at the end of Mar 2022) to reflect that the prices of these inputs remain at high levels in Apr-May 2022 (details in Figure 10). As a result, we forecast HPG's GM will reach 23.5%/24.7%/24.1% in FY22-23-24F, lower than our previous forecast of 25.9%/26.3%/26.0% due to (1) 15.1%/17.3% increase iron ore prices in FY22-23F; (2) 96.9%/25.8%/20% increase coking coal prices in FY22-23-24F, offsetting 9.5%/10.8%/6.5% increase steel selling prices.



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 8: Prices of iron ore and coking coal

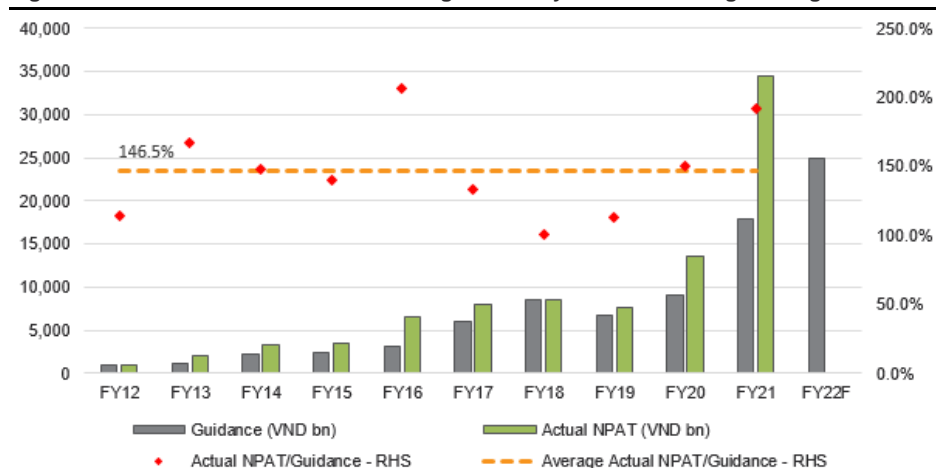
Commodity prices	Spot price	Commodity price performance			VNDS assumption			DISR estimate		
		Last month	Last quarter	Last year	2022	2023	Long term	2022	2023	Long term
Iron Ore 62% Fe Fines US\$/tonne	127.1	-3.0%	2.8%	-34.4%	115	95	80	109	77	65
Hard Coking Coal US\$/tonne	410.0	-13.2%	-11.5%	154.7%	325	200	150	307	166	145

Source: VNDIRECT RESEARCH, BLOOMBERG, DISR

### FY22F earnings guidance is lower than with our expectation

HPG's management set FY22 guidance for revenue of VND160tr (+7% yoy) and NPAT of VND25tr-30tr vs 2021 actual NPAT of VND34.5tr. HPG's revenue guidance is 6.3% higher than our previous FY22F revenue forecast of VND150.5tr; meanwhile, the company's earnings guidance is lower with our NPAT forecast of VND31.7tr (-8.1% yoy). We note that HPG often beats its annual NPAT target by 46.5% on average during FY12-21.

Figure 9: HPG's actual NPAT exceeded its guidance by 46.5% on average during FY12-21



Source: VNDIRECT RESEARCH, COMPANY REPORTS

### FY22-23 dividend plan

HPG's shareholder approved its FY22 dividend plan, involving a 30% stock dividend and a VND500/share cash dividend (equivalent to 1.5% dividend yield) with the expected payment in Jul 2022. The proposed FY22 cash dividend is in line with our expectations. For 2023F, the company expect to pay 25% of par value, either in cash or in stock.

## Update on new projects

### *Dung Quat Steel Complex 2 (DQSC 2) has started construction in May 2022*

HPG shared that the DQSC 2 has completed all necessary contracts to start construction in May 2022, which will allow the project to launch commercial products by 2024. The capex of DQSC2 was revised up by 10%-14% to around VND77tr-80tr, from VND70tr previously. The designed capacity is at 5.6m tonnes per annum (p.a.), consisting of 4.6m tonnes of flat steel products and one million tonnes of high-quality construction steel & other steel products. Once DQSC2 is completed, total HPG's crude steel capacity would be at 14.6m tonnes p.a., up 66% compared to the end of 2021.

HPG plans to build DQSC 3 project (with designed capacity of 6m tonnes p.a) once DQSC2 runs smoothly.

### *Other projects*

**Figure 10: Updates on new projects**

Project	Comment
Roper Valley iron ore mine (RVIM)	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. According to HPG management, the iron ore mine has not been put into commercial operation yet due to complicated procedures in the host country. HPG will have receive its first iron ore products from its Australian mine by the end of this year. HPG also bought one more iron ore mine in the south of Australia. Thus, we expect RVIM's iron ore production will only reach 200,000-800,000 tonnes in FY22-23F, respectively.
Long An steel pipe & galvanised steel plant	HPG bought a landside covering 21 ha in Long An and the company will kick off construction in 3Q22 for steel pipe and steel sheet factories at this location. Once the construction phase is completed, HPG will have a total steel pipe capacity of 1.5m tonnes p.a., from 1m tonnes p.a. at the moment.
Dak Nong alumina project	In Apr 2022, Dak Nong province carried a story that HPG is proposing to be an investor in an alumina project with plans to operate a full value chain, from bauxite ore, to alumina, and aluminium ingot production. HPG now proposes to build a full value chain for the new business, with an estimated capex of US\$4.3bn. However, at the HPG's recent AGM, the company's chairman shared that the aluminum project is undergoing research, with an outlook for FY24-25F. As such, this project is still at a very early stage.
Ha Nam & Ba Ria - Vung Tau home appliance projects	In November 2021, HPG broke ground on the first home appliance plant in Ha Nam. This plant will have a capacity of 1 million products/year and produce water purifiers, air coolers and air purifiers. The company also built a second factory in Ba Ria - Vung Tau province. Both plants are expected to be put into commercial operation in 2Q22. HPG targets revenue of US\$1bn from the business by 2030 and aims to become the country's biggest maker of home appliances, according to the company's annual report. However, Chairman Tran Dinh Long said that in the short term, the company will be more cautious than the original plan to research and improve products before developing on a large scale.
Real estates projects	The Yen My 2 expansion industrial park (216 ha, Hung Yen province) has recently been approved by the Government for investment policy. We expect this project to contribute to the business results of the real estate segment from FY24F. Meanwhile, the Hoa Phat Pho Noi urban area project (Hung Yen province) has not yet completed the legal procedures. Therefore, we moved the plan to open for sale at the project to 2024, compared to our previous expectations of 2022. HPG is still actively looking for new real estate projects, but the company will only expand its land bank through bidding, not acquiring other businesses, according to Chairman Tran Dinh Long.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

## Changes to our FY22-24F forecasts

The first container shell factory project is located at B5, D street, Phu My II expanded industrial park, Tan Phuoc ward, Phu My town, Ba Ria - Vung Tau province. The project has a total capacity of 500,000 TEU p.a., focusing on popular container products with length of 20-40 feet. The module phase 1 has a capacity of 200,000 TEU p.a. and total investment capital of VND2,500bn.

At HPG's AGM, the management shared that the first container factory will start commercial operation in Nov 2022. Therefore, we started adding this plant to our model.

We expect the container factory will contribute VND10,200-14,900bn in revenue and 17.7%-25.1% in gross margin, respectively, in FY23-24F.



**Figure 11: Earnings revision for FY22-24F (VND bn)**

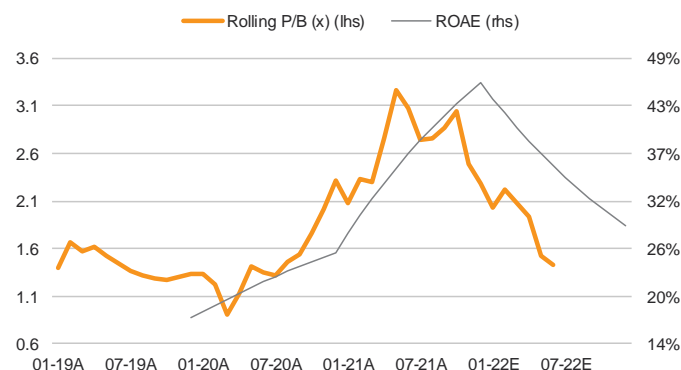
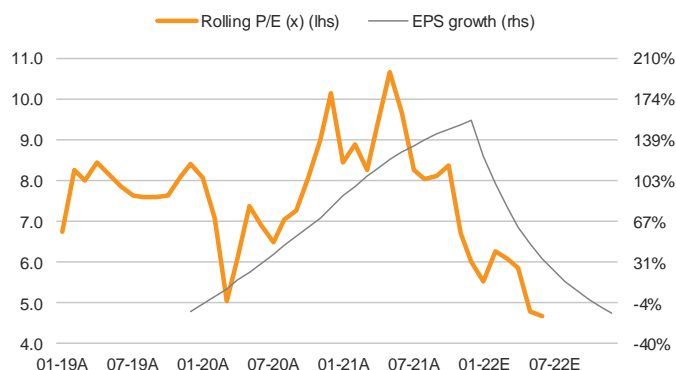
	Old forecasts			New forecasts			The difference between new and old forecasts			Comments
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	
<b>Total revenue</b>	<b>150,450</b>	<b>149,841</b>	<b>190,257</b>	<b>162,841</b>	<b>157,193</b>	<b>191,128</b>	<b>8.2%</b>	<b>4.9%</b>	<b>0.5%</b>	
Steel	137,195	134,093	172,898	152,137	146,192	178,050	10.9%	9.0%	3.0%	
Agriculture	9,477	9,750	11,398	9,040	9,702	11,090	-4.6%	-0.5%	-2.7%	
Real estate	3,778	5,998	5,961	1,664	1,299	1,988	-55.9%	-78.3%	-66.6%	We revised down our real estate revenue forecasts because the Hoa Phat Pho Noi urban area project has not yet completed the legal procedures. Therefore, we moved the plan to open for sale at the project to 2024, compared to the our previous expectation in 2022.
Gross profit	39,015	39,468	49,428	38,175	38,664	45,886	-2.2%	-2.0%	-7.2%	
Gross profit margin	25.9%	26.3%	26.0%	23.4%	24.6%	24.0%	-2.5% pts	-1.7% pts	-2.0% pts	
SG&A expense	3,009	2,997	3,805	3,384	3,267	3,972	12.5%	9.0%	4.4%	
EBITDA	42,550	45,304	57,843	39,224	40,691	49,488	-7.8%	-10.2%	-14.4%	
Interest expense	2,506	2,087	1,767	2,554	2,506	2,087	1.9%	20.0%	18.1%	
Pretax profit	34,744	35,494	45,019	32,498	32,725	39,403	-6.5%	-7.8%	-12.5%	
<b>Net profit</b>	<b>31,639</b>	<b>32,260</b>	<b>40,514</b>	<b>29,665</b>	<b>29,966</b>	<b>35,676</b>	<b>-6.2%</b>	<b>-7.1%</b>	<b>-11.9%</b>	
Net margin	21.0%	21.5%	21.3%	18.2%	19.1%	18.7%	-2.8% pts	-2.5% pts	-2.6% pts	
EBITDA margin	28.3%	30.2%	30.4%	24.1%	25.9%	25.9%	-4.2% pts	-4.3% pts	-4.5% pts	
SG&A as % of revenue	2.0%	2.0%	2.0%	2.1%	2.1%	2.1%	0.1% pts	0.1% pts	0.1% pts	
Core EPS (VND)	6,577	6,706	8,390	6,095	6,257	7,270	-7.3%	-6.7%	-13.3%	
<b>Sale volume ('000 tonne)</b>	<b>8,881</b>	<b>9,170</b>	<b>11,589</b>	<b>8,998</b>	<b>9,028</b>	<b>11,208</b>	<b>1.3%</b>	<b>-1.5%</b>	<b>-3.3%</b>	
Construction steel	4,587	5,055	5,055	4,587	5,055	5,055	0.0%	0.0%	0.0%	
Steel billet	440	228	224	440	228	224	0.0%	0.0%	0.0%	
Steel pipe	768	807	847	756	794	834	-1.6%	-1.6%	-1.6%	
Galvanised steel	396	396	396	437	446	455	10.5%	12.7%	15.0%	
HRC	2,690	2,685	5,068	2,778	2,505	4,640	3.3%	-6.7%	-8.4%	We revised down our HRC sales volume forecasts in FY23-24F mainly due to higher internal consumption for the container factory.

Source: VNDIRECT RESEARCH

**Figure 12: Forecast summary**

	FY21	FY22F	FY23F	FY24F
<b>Total revenue</b>	<b>150,160</b>	<b>162,841</b>	<b>157,193</b>	<b>191,128</b>
Steel	140,555	152,137	146,192	178,050
Gross profit	41,108	38,175	38,664	45,886
Gross profit margin	27.4%	23.4%	24.6%	24.0%
SG&A expense	3,444	3,384	3,267	3,972
EBITDA	41,424	39,224	40,691	49,488
Interest expense	2,526	2,554	2,722	2,649
Pretax profit	37,057	32,498	32,725	39,403
NPAT	34,521	29,712	30,017	35,733
<b>Net profit</b>	<b>34,478</b>	<b>29,665</b>	<b>29,966</b>	<b>35,676</b>
Net margin	23.0%	18.2%	19.1%	18.7%
EBITDA margin	27.6%	24.1%	25.9%	25.9%
SG&A as % of revenue	2.3%	2.1%	2.1%	2.1%
Revenue growth	66.1%	8.4%	-3.5%	21.6%
Net profit growth	156.3%	-14.0%	1.0%	19.1%
<b>Sales volume ('000 tonne)</b>	<b>8,848</b>	<b>8,998</b>	<b>9,028</b>	<b>11,208</b>
Construction steel	3,890	4,587	5,055	5,055
Steel billet	1,283	440	228	224
Steel pipe	675	756	794	834
Galvanised steel	429	437	446	455
HRC	2,570	2,778	2,505	4,640

Source: VNDIRECT RESEARCH

**Valuation**

**Income statement**

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	149,680	162,321	156,690
Cost of sales	(108,571)	(124,146)	(118,026)
Gen & admin expenses	(2,120)	(1,948)	(1,880)
Selling expenses	(1,324)	(1,436)	(1,386)
<b>Operating profit</b>	<b>37,664</b>	<b>34,791</b>	<b>35,397</b>
Operating EBITDA	42,637	41,126	41,827
<b>Depreciation and amortisation</b>	<b>(4,973)</b>	<b>(6,335)</b>	<b>(6,430)</b>
<b>Operating EBIT</b>	<b>37,664</b>	<b>34,791</b>	<b>35,397</b>
Interest income	3,071	1,369	1,328
Financial expense	(4,480)	(4,455)	(4,941)
Net other income	797	812	940
Income from associates & JVs	4	4	4
<b>Pre-tax profit</b>	<b>37,057</b>	<b>32,522</b>	<b>32,729</b>
Tax expense	(2,536)	(2,789)	(2,708)
Minority interest	(43)	(47)	(52)
<b>Net profit</b>	<b>34,478</b>	<b>29,686</b>	<b>29,970</b>
Adj. net profit to ordinary	34,478	29,686	29,970
Ordinary dividends	(1,693)	(2,236)	(2,236)
<b>Retained earnings</b>	<b>32,785</b>	<b>27,449</b>	<b>27,734</b>

**Balance sheet**

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	22,471	16,232	19,596
Short term investments	18,236	18,236	18,236
Accounts receivables	7,663	9,339	9,229
Inventories	42,134	40,815	40,420
Other current assets	3,650	3,958	3,821
<b>Total current assets</b>	<b>94,155</b>	<b>88,581</b>	<b>91,302</b>
Fixed assets	79,528	113,567	136,221
Total investments	7	7	7
Other long-term assets	4,547	4,931	4,760
<b>Total assets</b>	<b>178,236</b>	<b>207,086</b>	<b>232,290</b>
Short-term debt	43,748	39,951	27,799
Accounts payable	23,729	20,407	20,044
Other current liabilities	5,983	5,681	6,413
<b>Total current liabilities</b>	<b>73,459</b>	<b>66,039</b>	<b>54,256</b>
Total long-term debt	13,465	21,844	31,221
Other liabilities	532	576	556
Share capital	44,729	44,729	44,729
Retained earnings reserve	41,763	69,213	96,946
<b>Shareholders' equity</b>	<b>90,626</b>	<b>118,424</b>	<b>146,002</b>
Minority interest	155	202	254
<b>Total liabilities &amp; equity</b>	<b>178,236</b>	<b>207,086</b>	<b>232,290</b>

**Cash flow statement**

(VNDbn)	12-21A	12-22E	12-23E
<b>Pretax profit</b>	<b>37,057</b>	<b>32,522</b>	<b>32,729</b>
Depreciation & amortisation	6,083	6,328	6,422
Tax paid	(2,743)	(2,789)	(2,708)
Other adjustments	(2,123)	(940)	(1,066)
<b>Change in working capital</b>	<b>(11,552)</b>	<b>1,951</b>	<b>(2,354)</b>
<b>Cash flow from operations</b>	<b>26,721</b>	<b>37,072</b>	<b>33,024</b>
Capex	(11,621)	(40,000)	(28,333)
Proceeds from assets sales	49	0	0
Others	(9,985)	0	0
Other non-current assets changes	1,871	0	0
<b>Cash flow from investing activities</b>	<b>(19,686)</b>	<b>(40,000)</b>	<b>(28,333)</b>
New share issuance	11	0	0
Shares buyback	0	0	0
Net borrowings	3,423	(1,075)	911
Other financing cash flow			
Dividends paid	(1,693)	(2,236)	(2,236)
<b>Cash flow from financing activities</b>	<b>1,740</b>	<b>(3,311)</b>	<b>(1,326)</b>
Cash and equivalents at beginning of period	13,696	22,471	16,232
<b>Total cash generated</b>	<b>8,775</b>	<b>(6,239)</b>	<b>3,364</b>
Cash and equivalents at the end of period	22,471	16,232	19,596

**Key ratios**

	12-21A	12-22E	12-23E
<b>Dupont</b>			
Net profit margin	23.0%	18.3%	19.1%
Asset turnover	0.97	0.84	0.71
ROAA	22.3%	15.4%	13.6%
Avg assets/avg equity	2.07	1.84	1.66
ROAE	46.1%	28.4%	22.7%
<b>Efficiency</b>			
Days account receivable	18.7	21.0	21.5
Days inventory	141.6	120.0	125.0
Days creditor	79.8	60.0	62.0
Fixed asset turnover	1.97	1.68	1.25
ROIC	23.3%	16.5%	14.6%
<b>Liquidity</b>			
Current ratio	1.3	1.3	1.7
Quick ratio	0.7	0.7	0.9
Cash ratio	0.6	0.5	0.7
Cash cycle	80.6	81.0	84.5
<b>Growth rate (yoy)</b>			
Revenue growth	66.1%	8.4%	(3.5%)
Operating profit growth	120.0%	(7.6%)	1.7%
Net profit growth	156.3%	(13.9%)	1.0%
EPS growth	156.3%	(13.9%)	1.0%

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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