HOA PHAT GROUP JSC (HPG) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND23,550	VND37,700	2.1%	Add	STEEL

05 September 2022

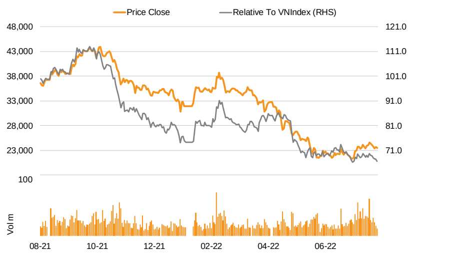
Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add:13 Hold:1 Reduce:0
Target price / Consensus: 4.4%

Key changes in the report

- Revise FY22-24F EPS down 6.3%-20.3%

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	43,897
52w low (VND)	21,250
3m Avg daily value (VNDmn)	584,389
Market cap (VND bn)	137,520
Free float (%)	29
TTM P/E (x)	4.5
Current P/B (x)	1.3

Ownership

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

Source: VNDIRECT RESEARCH

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It's all about gross margin

- 2Q22 net profit (NP) weakened 58.5% yoy following high coking coal prices and FX loss, making 1H22 NP slump 26.6% yoy.
- We lowered FY22-24F EPS by 6.3%-20.3% on higher input material prices.
- Reiterate Add with a lower TP of VND37,700, following a 13.8% average FY22-24F EPS downgrade.

2Q22 results: margin pressure tougher than our expectation

HPG posted a sharp drop of 58.5% yoy in 2Q22 NP due to weak steel demand, squeezing gross margin and FX loss. 1H22 earnings eased 26.6% yoy to VND12,249bn, fulfilling only 41.3% of our full year forecast. Gross margin extended the downtrend from 22.9% in 1Q22 to 17.5% in 2Q22 due to steeper-than-expected coking coal price hike. Meanwhile, 2Q22 hot roll coin (HRC) prices declined 15.3% yoy and 5.8% qoq due to (1) weak demand for steel pipe and galvanised steel as HRC is the key input material for these products and (2) China's steel producers have pushed up their export volume to global markets after the dump of Russian steel into the Chinese market.

We expect gross margin pressure to ease since 4Q22F

As gross margin was only 20.4% in 1H22, we revise down FY22F GM from previous 23.5% to 20.4%, leading to a 20.3% downward revision in FY22F NP. We expect gross margin will gradually improve since 4Q22F thanks to (1) steel prices are forecasted to be more stable in the rest of 2022. We see no further downside risk for steel prices as steel mill's capacity utilisation and inventories in the largest producer - China fell to 1-year low in Aug 2022, and (2) the sharp decline in input material prices (especially coking coal) in the last 2 months will be reflected in 4Q22's gross margin.

The risk/reward profile is attractive for long-term investment

We now forecast HPG's FY23-24F gross margin will pick up to 22.5%-22.2% from 20.4% in FY22 as coking coal prices are forecast will drop to pre-pandemic levels in the next two years and HPG also leverages from larger contribution of its iron ore mine in Australia. Therefore, net profit is expected to bounce back 18.7% yoy in FY23F and 8.3% yoy in FY24F. HPG is now traded at 5.1x P/E 2023, which is historical-low within the past 10 years. For longer-term, Dung Quat Steel Complex 2 (DQSC 2) is expected to come online by the end of 2024, which will make HPG to be the top30 largest steel producer in the world with a capacity of 14.6m tonnes. Thus we believe this current valuation is attractive for long-term accumulation.

Reiterate ADD with lower TP of VND37,700

We lowered FY22-24F EPS by 6.3%-20.3% on higher input material (including iron ore & coking coal) price adjustments. Thus, we revised down our TP by 15.3% to VND37,700. Upside catalyst: new business plans (aluminum 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	154,315	158,858
Revenue growth	41.6%	66.1%	3.1%	2.9%
Gross margin	21.0%	27.5%	20.4%	22.5%
EBITDA margin	24.4%	29.8%	22.6%	24.9%
Net profit (bn)	13,450	34,478	23,657	28,087
Net profit growth	78.7%	156.3%	(31.4%)	18.7%
Recurring profit growth	78.7%	156.3%	(31.4%)	18.7%
Basic EPS	2,313	5,929	4,068	4,830
Adjusted EPS	2,118	5,734	3,865	4,588
BVPS	10,159	15,585	21,483	25,835
ROAE	25.2%	46.1%	22.0%	20.4%

Source: VNDIRECT RESEARCH

IT'S ALL ABOUT GROSS MARGIN

Investment thesis

We like HPG for long-term investment: (1) the leading position in the Southeast Asian steel industry will help HPG to ride on the surge of domestic demand for both civil and transport infrastructure construction; (2) the company's healthy balance sheet with cash-rich will help HPG to grab more market share during the industry downcycle; 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.

We expect HPG's net profit to recover from 4Q22F thanks to (1) steel prices are forecasted to be more stable in the rest of 2022. We see no further downside risk for steel prices as steel mill's capacity utilisation and inventories in the largest producer - China fell to 1-year low in Aug 2022; (2) the fourth quarter of the year is the peak season in the domestic market in terms of sales volume and HPG will benefit from easing lockdowns and boost of infrastructure investment in China; and (3) we believe that the sharp decline in input material prices (especially coking coal prices) in the past 2 months is reflected in 4Q22's gross margin.

Upside catalysts include new business plans (aluminum, real estate and home appliance projects) to upgrade value chain. Downside risk includes slower-than-expected steel demand growth.

Reiterate Add with a lower TP of VND37,700

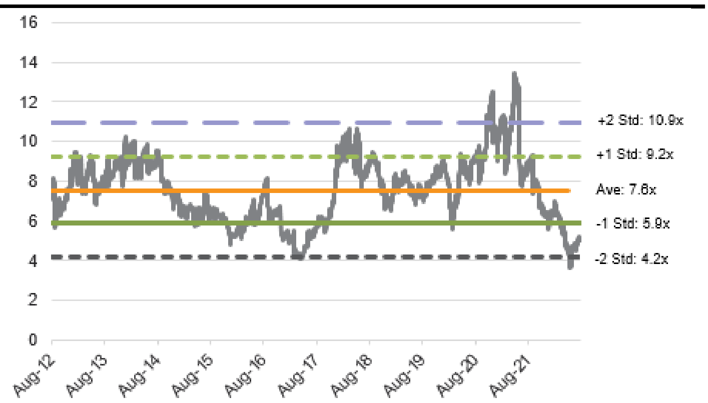
We revised down our TP by 15.3% to VND37,700 to reflect the FY22-24F EPS downgrade. Our valuation is based on an equal weighting of: (1) a target P/E of 8.5x on average FY22-23F EPS, and (2) a DCF valuation over a 10-year projection period. On our new estimates, HPG is traded at 6.1x FY22F P/E, the latter representing a 20% discount (-1.5 Std) to its average of 7.6x (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	39,405	50%	19,702
P/E	35,924	50%	17,962
Target price (VND, rounded)			37,700

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

Average FY22-23F EPS	4,226
Industry median multiple	7.1
Premium	19.7%
Target multiple	8.5
Implied value per share (VND)	35,924

Source: VNDIRECT RESEARCH

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

General assumptions	
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)	133,112
PV of Terminal value	121,427
Enteprise value	254,538
Less: Total Debt	70,018
Plus: Cash and Cash equiv.	44,766
Less: Minority Interest	155
Implied EV	229,132
No. of o/s shares (mn shares)	5,815
Implied value per share (VND)	39,405

Source: VNDIRECT RESEARCH

Figure 5: Peer comparison

Company	Ticker	Price	Mkt cap	P/E (x)		3-year 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	661.4	20,040	15.4	10.8	68.1	2.2	1.9	8.1	6.5	14.9	17.8
Tata Steel	TATA IN	105.5	16,151	6.1	7.3	147.8	1.0	0.9	4.3	4.8	16.7	12.8
Nippon Steel Corp	5401 JP	361.4	11,680	7.7	7.9	63.9	1.0	0.9	5.1	5.1	14.3	12.2
Hindalco Industries	HNDL IN	418.2	5,345	8.8	7.9	na	1.0	0.9	5.2	5.0	12.3	12.0
JFE Holidng Inc	5411 JP	122.0	4,482	7.2	7.8	36.3	1.0	1.0	4.7	4.9	14.9	14.8
Bluescope Steel Ltd	BSL AU	1,896.0	14,965	5.0	5.6	na	0.6	0.5	5.4	5.8	10.8	8.6
NMDC	NMDC IN	1,476.0	6,464	5.2	6.0	na	0.4	0.4	6.2	6.9	7.9	6.6
Jindal Steel & Power Ltd	JSP IN	21.3	5,216	6.6	8.1	120.8	0.7	0.7	3.5	4.0	11.2	8.1
Angang Steel Co Ltd-A	000898 CH	2.9	3,752	6.9	5.3	64.5	0.4	0.4	4.7	3.9	6.1	7.3
Hyundai Steel	004020 KS	32,450.0	3,159	2.6	3.4	na	0.2	0.2	3.4	3.9	8.9	6.4
Average			*9,125*	*7.2*	*7.0*	*83.6*	*0.9*	*0.8*	*5.1*	*5.1*	*11.8*	*10.7*
Median			*5,905*	*6.8*	*7.6*	*66.3*	*0.9*	*0.8*	*4.9*	*5.0*	*11.8*	*10.3*
Hoa Phat Group	**HPG VN**	**23,550**	**5,834**	**6.1**	**5.1**	**68.3**	**1.1**	**0.9**	**6.1**	**5.3**	**22.0**	**20.4**

Source: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 05 Sep 2022

2Q22 results: margin pressure tougher than our expectation

Figure 6: 2Q22 business results

VND bn	2Q22	2Q21	% yoy	6M22	6M21	yoy	vs full year forecast	Comment
Total revenue	**37,422**	**35,118**	***6.6%***	**81,480**	**66,295**	***22.9%***	***50.2%***	
Steel	35,636	32,496	*9.7%*	78,017	61,300	*27.3%*	*51.3%*	2Q22 steel revenue increased modestly by 9.7% yoy thanks to the average selling price of construction steel and HRC climbed by 9.5% yoy/7.6% yoy, respectively.
Agriculture	1,697	2,369	*-28.4%*	3,325	4,617	*-28.0%*	*36.8%*	
Real estates	89	253	*-64.7%*	138	378	*-63.4%*	*8.3%*	
Gross profit	**6,540**	**11,477**	***-43.0%***	**16,648**	**19,660**	***-15.3%***	***43.6%***	
Gross profit margin	*17.5%*	*32.7%*	*-15.2% pts*	*20.4%*	*29.7%*	*-9.2% pts*	*-3.1% pts*	Lower than our forecast due to higher input material cost. Notably, coking coal prices surged to a record high of US$460/tonne, while steel scrap prices jumped to a record high of US$700/tonne in 2Q22.
SG&A expense	856	785	*9.1%*	1,697	1,405	*20.7%*	*50.1%*	
SG&A as % of revenue	*2.3%*	*2.2%*	*0.1% pts*	*2.1%*	*2.1%*	*0.0% pts*	*0.0% pts*	
EBITDA	7,363	12,203	*-39.7%*	18,309	21,220	*-13.7%*	*45.7%*	
EBITDA margin	*19.7%*	*34.7%*	*-15.1% pts*	*22.5%*	*32.0%*	*-9.5% pts*	*-2.2% pts*	
Net financial expense	1,371	375	265.6%	1,713	244	601.0%	147.5%	2Q22 net financial expense jumped by 265.6% yoy mainly because HPG recorded a forex loss of VND1,090bn on the back of the appreciation of USD at the end of 2Q22.
Interest expense	717	600	*19.6%*	1,314	1,221	*7.6%*	*51.9%*	
Pretax profit	4,379	10,349	*-57.7%*	13,301	18,040	*-26.3%*	*40.9%*	
Net profit	**4,031**	**9,721**	***-58.5%***	**12,249**	**16,699**	***-26.6%***	***41.3%***	Lower than our forecast.
Net margin	*10.8%*	*27.7%*	*-16.9% pts*	*15.0%*	*25.2%*	*-10.2% pts*	*-3.3% pts*	
Sales volume (tonne)	**2,041,776**	**2,133,740**	***-4.3%***	**4,537,035**	**4,297,949**	***5.6%***	***50.4%***	
Construction steel	1,031,223	983,086	*4.9%*	2,371,525	1,838,132	*29.0%*	*51.7%*	HPG's construction steel sales volume relatively outperformed other steel segments, which still increased by 4.9% yoy 2Q22 (despite a drop of 23.1% qoq). This is mainly thanks to the efforts of HPG to push export volumes by expanding to new export markets such as Singapore, Hong Kong,…, in addition to traditional markets like Canada, Japan, Cambodia,… On the other hand, domestic sales volume fell significantly by 18.7% yoy to only 622,377 tonnes in 2Q22 (down 35.9% qoq).
Steel billets	115,758	205,641	*-43.7%*	183,618	591,772	*-69.0%*	*41.7%*	
Steel pipe	158,639	191,237	*-17.0%*	376,454	375,249	*0.3%*	*49.8%*	Weak domestic demand was the key reason for the volume drop in steel pipe products.
Galvanised steel	74,162	86,204	*-14.0%*	179,865	159,952	*12.4%*	*41.1%*	Low 2Q22 galvanised steel sales volume as a result of a sharp drop in export demand, especially from the EU and US markets.
HRC	661,994	667,572	*-0.8%*	1,425,573	1,332,844	*7.0%*	*51.3%*	

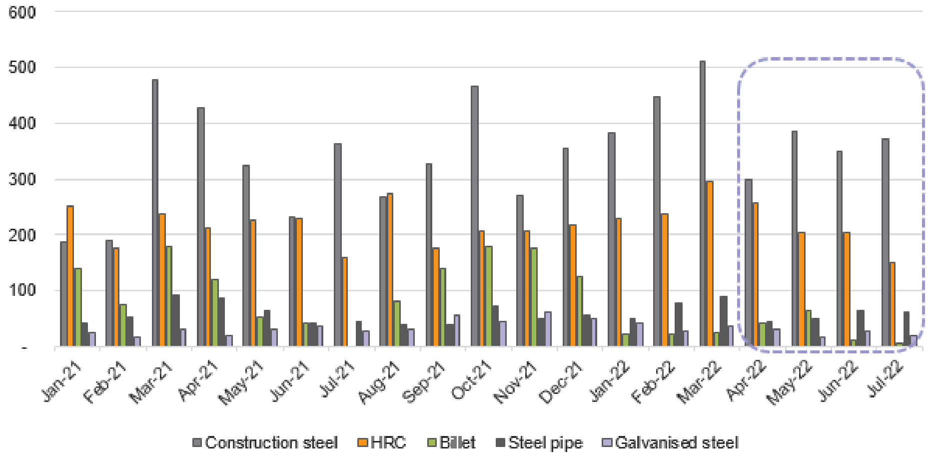
Source: VNDIRECT RESEARCH, COMPANY REPORTS

We expect construction steel demand in both China and Vietnam to recover from 4Q22F

Global steel prices across product categories continued to decline in 2Q22 amid weak global demand on fears of a global economic slowdown and lockdown extensions in China. Following that trend, Vietnam's total steel volume (including construction steel, steel pipes and galvanised steel) dropped significantly by 14% yoy to 4.1m tonnes in 2Q22, according to Vietnam Steel Association (VSA).

HPG reported 2Q22 total steel sales volume dropped 4.3% yoy and 17.8% qoq.

Figure 7: HPG's total steel sales volume has slowed down since Apr 2022 (Unit: thousand tonnes)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

However, we see some signals to herald a recovery of steel demand in both China and Vietnam.

With China's year-on-year GDP growth below 5% for four consecutive quarters (to 2Q22), as well as the recent COVID-19 outbreaks, the government is still expected to act to substantially boost infrastructure-related construction activity — which typically represents around 20-25% of the country's total consumption of steel — further in 4Q22. Infrastructure investment has already seen a significant ramp up this year, with the Chinese government front loading issuance of around US$200bn in local government special purpose bonds for project construction by the end of March. The government plans to issue around US$550bn in special purpose bonds for the full year 2022, which will be further bolstered by carryover of unallocated bonds from last year. In early June, the Beijing also instructed state-owned policy banks to increase the credit line by another US$120bn to provide financial support for infrastructure building.

For Vietnam, HPG announced decent construction steel sales volume of 372,731 tonnes (+2.4% yoy) in Jul, bringing 7M22 sales volume to 2.7m (+24.6% yoy). Meanwhile, HRC volume was reported at record lows since its commercial production in Dec-20. This level is 40% off vs. its typical sales volume, and 49.4% off the peak volume seen in Mar-22. We believe steel demand will remain weak until the end of 3Q22F due to (1) seasonal factors in the domestic market as rainy season and inauspicious Jul lunar month steel volumes are typically low for all categories, (2) domestic construction steel prices have dropped 8 times in the past 2 months after 7 consecutive previous cuts, and (3) export sales volume declines as fears over a global economic slowdown in growth.

However, it seems that the worst will be over by 4Q22F as demand returns and margins improve, in our view. We believe that steel prices have corrected to more affordable levels (dropping from the peak of 19%/36% for construction steel/HRC, respectively), which means the risk of further steel price decline is low. In addition, 4Q22 is the peak season in the domestic market in terms of sales volume and will benefit from easing lockdowns and boost of infrastructure investment in China.

We revised down HPG's gross margin forecast in FY22-23F due to sudden high coking coal input prices in 8M22

HPG cut its construction steel prices for the 15th consecutive time since May 2022

Since May 2022, HPG has adjusted its construction steel selling price 15 times, with a total decrease of 19.3% (-VND3,600/kg).

In 8M22, HPG's construction steel ASP reached VND17,150/kg (+11% yoy), 10% higher than our full-year forecast. Thus, we increase HPG's construction steel ASP by 3% in FY22F from our previous forecast of VND15,600/kg to VND16,100/kg. We still maintain the view that the selling price of construction steel will gradually decrease to the long-term average level, however, high input material prices will make this price cut process longer than expected. Therefore, we forecast that HPG's construction steel ASP will reach VND14,500/kg in FY23F, up 4% from the previous forecast. In FY24-25F, construction steel ASP will decrease to VND13,500-12,800/kg, down 7%-5% yoy, respectively, in our view.

Regarding HRC prices, HPG's latest HRC price was USD600/ tonne for the Sep/Oct-22 shipment. This was 35.1% off from the high of US$925/tonne for the Jun/Jul shipment. This price drop is in-line with global prices. Thus, we forecast that HPG's HRC ASP will reach US$750/tonne in FY22F, down 7% from the previous forecast.

Source: HPG

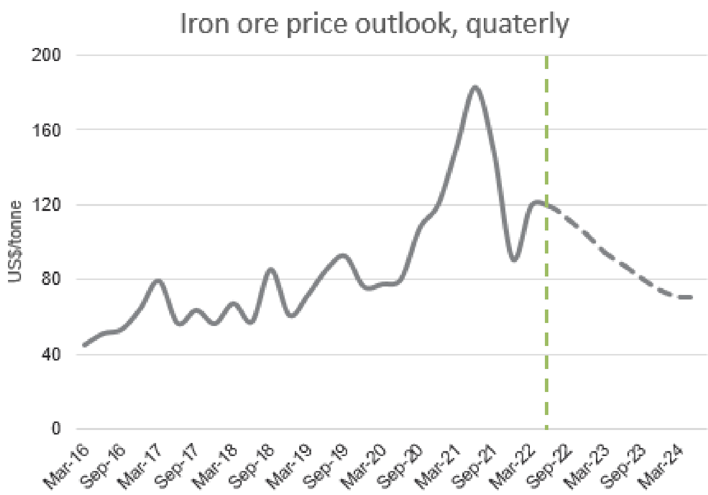
Weaker demand and more supply to push iron ore prices lower to 2024

Since the Mar 2022, the iron ore price has made modest further gains from the Nov 2021 cycle low, but is still well below mid-2021 levels. Up to end Aug, the monthly averages have been about US$110-120/ tonne. The rebound in prices in 2022 follows a partial improvement in monthly steel output in China, as well as the expectation of a substantial boost in infrastructure-related construction activity this year.

The boost in new infrastructure investment and easier credit conditions in China this year, is expected to provide some support to prices for the rest of 2022. However, this is likely to be offset by further weakness in China's residential property sector, with new housing starts and home sales continuing to fall by double digits yoy in May. The mixed demand picture comes alongside new supply which continues to come online from major producers in Australia, as well as an expected recovery in Brazilian supply for the rest of this year following recent weakness.

Over the rest of the outlook period to 2024, iron ore prices are forecast to decline to lower long-run levels. This follows 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 will also take place alongside growing supply from Australia and Brazil.

According to Australian Department of Industry, Science, Energy and Resources (DISR) estimates, the FY22F average iron ore price is forecasted to reach US$115/tonne (-26.3% yoy), the benchmark iron ore price is projected to average US$85/tonne in FY23F and around US$70/tonne in FY24F.



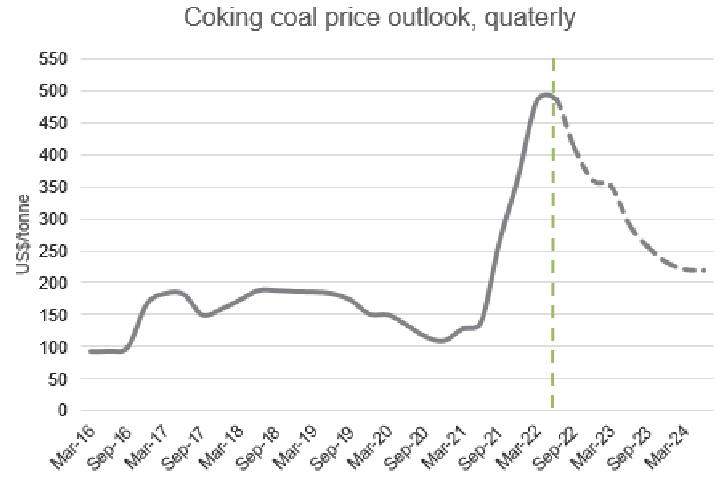
Source: DISR FORECASTS

Coking coal prices are expected to ease gradually

In Mar 2022, coking coal prices have risen by around US$120/tonne (to more than US$520/tonne) in the wake of the Russia- Ukraine conflict. In addition, renewed flooding in May and June is affecting Australian coal output again. Price pressures softened in Jul, as disruptive weather conditions in Australia eased momentarily, allowing some extra supply to enter markets.

Prices are expected to ease over the forecast period, with volatility also expected to decline. However, price and volatility are both likely to remain above typical levels through the outlook period. A range of factors (weather events, potential Covid disruptions, import bans from China and Europe, and the conflict in Ukraine) will all play out in unpredictable ways over the next two years. Risks remain mostly on the supply side, with low inventories likely to exacerbate the impact of any further supply disruptions in 2022.

DISR forecasts coking coal to ease from an average US$420/tonne in FY22F, but is expected to fall by almost half as supply conditions normalise. Prices are ultimately expected to reach around US$220/ tonne by FY24F.

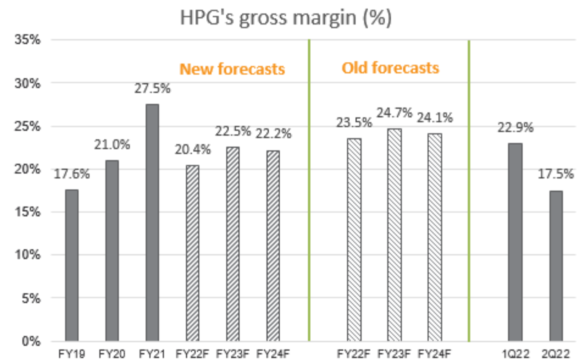


Source: DISR FORECASTS

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

HPG's construction steel selling price continuously decreased in July-August and high inventory at the end of 2Q22 makes 3Q22 gross margin will continue to be low, in our view. However, we expect gross margin is expected to recover from 4Q22 as cheaper input costs will materialise.

We forecast HPG's gross margin will reach 20.4%/22.5%/22.2% in FY22-23-24F, lower than our previous forecast of 23.5%/24.7%/ 24.1% due to (1) 1.9% increase iron ore prices in FY22F; (2) 22.2%/28.2%/22.2% increase coking coal prices in FY22-23-24F. We assume iron ore and coke prices to be lower than DISR's latest forecast (made at the end of Jun 2022) to reflect that the prices of these inputs have cooled down in Jul-Aug 2022 (details in Figure 8).



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$/tonne	98.8	6.8%	-24.9%	-30.1%	110	100	85	114	84	65
Hard Coking Coal	US$/tonne	245.0	-0.5%	-52.5%	9.2%	390	305	160	420	293	150

Source: VNDIRECT RESEARCH, BLOOMBERG, DISR

Changes to our FY22-24F forecasts

We revise down our FY22-23-24F net profit by 20.3%/6.3%/14.6% to reflect (1) 22.2%/28.2%/22.2% increase coking coal prices and (2) 7.3%/3.5%/3.5% decrease HRC prices.

Figure 9: Earnings revision for FY22-24F (VNDbn)

VND bn	Old forecasts			New forecasts			The difference between new and old forecasts			Comments
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	
Total revenue	**162,841**	**157,193**	**191,128**	**154,315**	**158,858**	**170,383**	**-5.2%**	**1.1%**	**-10.9%**	
Steel	152,137	146,192	178,050	144,606	148,616	157,852	-5.0%	1.7%	-11.3%	
Agriculture	9,040	9,702	11,090	8,640	9,452	11,090	-4.4%	-2.6%	0.0%	
Real estate	1,664	1,299	1,988	1,564	1,299	1,988	-6.0%	0.0%	0.0%	
Gross profit	38,175	38,664	45,886	31,451	35,682	37,752	-17.6%	-7.7%	-17.7%	
Gross profit margin	*23.4%*	*24.6%*	*24.0%*	*20.4%*	*22.5%*	*22.2%*	*-3.1% pts*	*-2.1% pts*	*-1.9% pts*	
SG&A expense	3,384	3,267	3,972	3,217	3,312	3,552	-4.9%	1.4%	-10.6%	
SG&A as % of revenue	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*	*0.0% pts*	*0.0% pts*	*0.0% pts*	
EBITDA	40,087	40,692	49,826	33,547	37,616	42,089	-16.3%	-7.6%	-15.5%	
EBITDA margin	*24.6%*	*25.9%*	*26.1%*	*21.7%*	*23.7%*	*24.7%*	*-2.9% pts*	*-2.2% pts*	*-1.4% pts*	
Interest expense	2,530	2,506	2,087	2,604	2,477	2,121	2.9%	-1.1%	1.6%	
Pretax profit	32,522	32,729	39,363	25,917	30,688	33,396	-20.3%	-6.2%	-15.2%	
Net profit	**29,686**	**29,970**	**35,639**	**23,657**	**28,087**	**30,420**	**-20.3%**	**-6.3%**	**-14.6%**	
Net margin	*18.2%*	*19.1%*	*18.6%*	*15.3%*	*17.7%*	*17.9%*	*-2.9% pts*	*-1.4% pts*	*-0.8% pts*	
Sale volume ('000 tonne)	**8,998**	**9,028**	**11,208**	**8,575**	**9,056**	**9,734**	**-4.7%**	**0.3%**	**-13.1%**	
Construction steel	4,587	5,055	5,055	4,593	5,055	5,055	0.1%	0.0%	0.0%	
Steel billet	440	228	224	304	228	224	-31.0%	0.0%	0.0%	We revised down our steel billet sales volume in FY22F. HPG's key market for billet is China. However, the weak demand in China over the past several months has seen demand for rebar and wire-rod products soften; billet volumes have also remained weak.
Steel pipe	756	794	834	756	794	834	0.0%	0.0%	0.0%	
Galvanised steel	437	446	455	343	377	385	-21.6%	-15.4%	-15.4%	We revised down our galvanised steel sales volume in FY22-23-24F due to weak demand for galvanized steel in export markets.
HRC	2,778	2,505	4,640	2,578	2,602	3,236	-7.2%	3.9%	-30.3%	We revised down our HRC sales volume in FY24F due to slower progress in construction of DQSC 2 than previously expected.

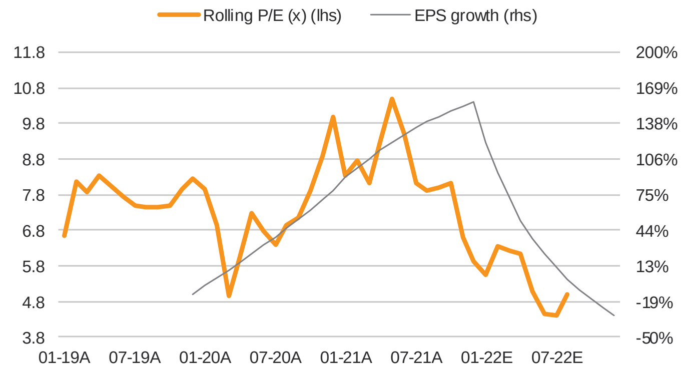
Source: VNDIRECT RESEARCH

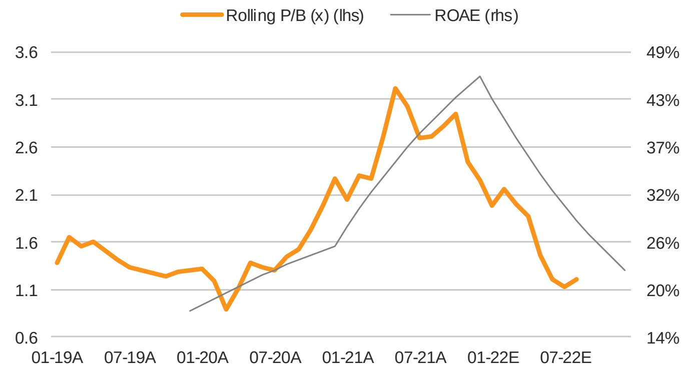
Figure 10: Forecast summary

	FY21	FY22F	FY23F	FY24F
Total revenue	**150,160**	**154,315**	**158,858**	**170,383**
Steel	140,555	144,606	148,616	157,852
Gross profit	41,108	31,451	35,682	37,752
Gross profit margin	27.4%	20.4%	22.5%	22.2%
SG&A expense	3,444	3,217	3,312	3,552
SG&A as % of revenue	2.3%	2.1%	2.1%	2.1%
EBITDA	41,424	33,547	37,616	41,389
EBITDA margin	27.6%	21.7%	23.7%	24.3%
Interest expense	2,526	2,604	2,477	2,137
Pretax profit	37,057	25,917	30,688	33,380
NPAT	34,521	23,704	28,139	30,463
Net profit	**34,478**	**23,657**	**28,087**	**30,406**
Net margin	23.0%	15.3%	17.7%	17.8%
Revenue growth	66.1%	2.8%	2.9%	7.3%
Net profit growth	156.3%	-31.4%	18.7%	8.3%
Sales volume ('000 tonne)	**8,848**	**8,878**	**9,284**	**9,958**
Construction steel	3,890	4,897	5,283	5,279
Steel billet	1,283	304	228	224
Steel pipe	675	756	794	834
Galvanised steel	429	343	377	385
HRC	2,570	2,578	2,602	3,236

Source: VNDIRECT RESEARCH

Valuation





Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	149,680	154,315	158,858
Cost of sales	(108,571)	(122,864)	(123,176)
Gen & admin expenses	(2,120)	(1,852)	(1,906)
Selling expenses	(1,324)	(1,365)	(1,405)
Operating profit	**37,664**	**28,234**	**32,370**
Operating EBITDA	42,637	34,536	38,766
Depreciation and amortisation	**(4,973)**	**(6,302)**	**(6,396)**
Operating EBIT	**37,664**	**28,234**	**32,370**
Interest income	3,071	2,498	2,568
Financial expense	(4,480)	(5,591)	(5,208)
Net other income	797	772	953
Income from associates & JVs	4	4	4
Pre-tax profit	**37,057**	**25,917**	**30,688**
Tax expense	(2,536)	(2,213)	(2,549)
Minority interest	(43)	(47)	(52)
Net profit	**34,478**	**23,657**	**28,087**
Adj. net profit to ordinary	34,478	23,657	28,087
Ordinary dividends	(1,693)	(2,907)	(2,907)
Retained earnings	**32,785**	**20,750**	**25,179**

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	22,471	20,061	19,063
Short term investments	18,236	23,707	23,707
Accounts receivables	7,663	13,529	13,492
Inventories	42,134	55,541	53,995
Other current assets	3,650	3,763	3,874
Total current assets	**94,155**	**116,602**	**114,131**
Fixed assets	79,528	108,451	131,112
Total investments	7	7	7
Other long-term assets	4,547	4,688	4,826
Total assets	**178,236**	**229,747**	**250,076**
Short-term debt	43,748	52,901	32,311
Accounts payable	23,729	26,929	26,997
Other current liabilities	5,983	5,401	6,502
Total current liabilities	**73,459**	**85,231**	**65,810**
Total long-term debt	13,465	18,844	33,221
Other liabilities	532	548	564
Share capital	44,729	58,148	58,148
Retained earnings reserve	41,763	62,513	87,692
Shareholders' equity	**90,626**	**124,922**	**150,227**
Minority interest	155	202	254
Total liabilities & equity	**178,236**	**229,747**	**250,076**

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	**37,057**	**25,917**	**30,688**
Depreciation & amortisation	6,083	6,294	6,389
Tax paid	(2,743)	(2,213)	(2,549)
Other adjustments	(2,123)	(940)	(1,066)
Change in working capital	**(11,552)**	**(14,357)**	**3,640**
Cash flow from operations	**26,721**	**14,701**	**37,101**
Capex	(11,621)	(35,000)	(28,333)
Proceeds from assets sales	49	0	0
Others	(9,985)	(5,471)	0
Other non-current assets changes	1,871	0	0
Cash flow from investing activities	**(19,686)**	**(40,471)**	**(28,333)**
New share issuance	11	0	0
Shares buyback	0	0	0
Net borrowings	3,423	26,267	(6,858)
Other financing cash flow			
Dividends paid	(1,693)	(2,907)	(2,907)
Cash flow from financing activities	**1,740**	**23,360**	**(9,765)**
Cash and equivalents at beginning of period	13,696	22,471	20,061
Total cash generated	**8,775**	**(2,410)**	**(998)**
Cash and equivalents at the end of period	22,471	20,061	19,063

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	23.0%	15.3%	17.7%
Asset turnover	0.97	0.76	0.66
ROAA	22.3%	11.6%	11.7%
Avg assets/avg equity	2.07	1.89	1.74
ROAE	46.1%	22.0%	20.4%
Efficiency			
Days account receivable	18.7	32.0	31.0
Days inventory	141.6	165.0	160.0
Days creditor	79.8	80.0	80.0
Fixed asset turnover	1.97	1.64	1.33
ROIC	23.3%	12.0%	13.0%
Liquidity			
Current ratio	1.3	1.4	1.7
Quick ratio	0.7	0.7	0.9
Cash ratio	0.6	0.5	0.6
Cash cycle	80.6	117.0	111.0
Growth rate (yoy)			
Revenue growth	66.1%	3.1%	2.9%
Operating profit growth	120.0%	(25.0%)	14.6%
Net profit growth	156.3%	(31.4%)	18.7%
EPS growth	156.3%	(31.4%)	18.7%

Source: VND RESEARCH

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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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