HOA PHAT GROUP JSC (HPG) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND12,100	VND20,900	4.13%	Add	STEEL

10 November 2022

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

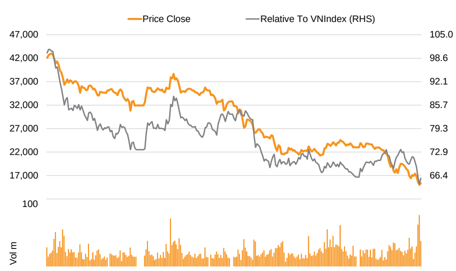
Consensus*: Add:13 Hold:1 Reduce:0

Target price / Consensus: -37.5%

Key changes in the report

- Revise FY22-24F EPS down 45.3%-52.6%.
- Revise TP down by 44.6%.

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	41,853
52w low (VND)	12,100
3m Avg daily value (VNDmn)	527,355
Market cap (VND bn)	70,359
Free float (%)	29
TTM P/E (x)	3.9
Current P/B (x)	0.7

Ownership

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

Source: VNDIRECT RESEARCH

Analyst(s):

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Sharp earnings downgrade

- HPG posted negative 3Q22 earnings due to weak steel demand, squeezing gross margin (GM) and FX loss, making 9M22 net profit slump 61.3% yoy.
- We made a big earnings downgrade 45.3%-52.6% for FY22-24F EPS on higher input material prices and lower steel selling prices.
- Reiterate Add with a lower TP of VND20,900.

3Q22 results have disappointed us

HPG recorded a loss of VND1,776bn in 3Q22 due to revenue decline of 11.8% yoy, a thin GM and a loss of VND1,013bn in FX revaluation. For 9M22, revenue increased 10.1% yoy while NP dipped 61.3% yoy to VND10,475bn, fulfilling only 44.3% of our full-year forecast. 3Q22 GM was only 2.9% which is a steep drop from 17.5% in 2Q22 due to a large inventory of high coking coal prices from 2Q22. Meanwhile, 3Q22 HRC prices declined 27.4% yoy due to weak demand for steel pipe and galvanised steel as HRC is the key input material for these products.

Times is getting harder for domestic steel makers

Domestic steel industry is currently hit by multi-headwinds: stagnant property market, high input (including coking coal and steel scrap) prices, rising interest rates and weakening VND. Top steel makers, including HPG, POM and VN-Steel have closed or partially closed their production lines. According to Vietnam Steel Association (VSA), country's steel production volume dropped 7% yoy in 3Q22. Per our estimate, inventory of listed steel makers decreased 22.5% qoq by end-3Q22, making average inventory days drop to 101 days from 126 days in 2Q22.

When will the wind change direction?

We see a few signals that could be frontal passages for wind change: (1) coking coal prices are forecasted to ease from an average US$420/tonne in FY22F to US$258-220/tonne in FY23-24F as supply conditions normalise, (2) the re-openings of Chinese economy will reboot the global steel demand, and (3) the acceleration in Vietnam's infrastructure development will drive up the demand, partially offset the stagnant residential property market.

FY22-24F earnings forecasts were revised down by 45.3%- 52.6%

The sharp downgrade was based on the weaker-than-expected 3Q22 results, 4.5% lower-than-previous forecasts sales volume and softer GM over FY22-24F.

We cut down 1-year TP by 44.6%, maintain ADD

HPG is traded at FY22-23F P/E of 6.6x/5.3x, not very attractive for short-term investment amid downtrend market. However, we believe largest market share and the most efficient operator are HPG's key differentiators compared to its peers which will help earnings to recover faster once the winds change. Upside catalyst: new business plans (aluminum and home appliance projects). Downside risks: higher-than-expected interest rates, weaker-than-expected sales volume.

Financial summary (VND)	12-21A	12-22E	12-23E	12-24E
Net revenue (bn)	149,680	143,541	145,880	160,144
Revenue growth	66.1%	(4.1%)	1.6%	9.8%
Gross margin	27.5%	14.0%	14.6%	15.8%
EBITDA margin	29.8%	15.1%	17.0%	18.6%
Net profit (bn)	34,478	11,213	13,869	16,619
Net profit growth	156.3%	(67.5%)	23.7%	19.8%
Recurring profit growth	156.3%	(67.5%)	23.7%	19.8%
Basic EPS	5,929	1,928	2,385	2,858
Adjusted EPS	5,734	1,832	2,265	2,702
BVPS	15,585	16,985	18,881	21,307
ROAE	46.1%	11.8%	13.3%	14.2%

Source: VNDIRECT RESEARCH

SHARP EARNINGS DOWNGRADE

3Q22 results: margin pressure tougher than our expectation

Figure 1: 3Q22 business results

VND bn	3Q22	3Q21	% yoy	9M22	9M21	yoy	vs full year forecast	Comment
Total revenue	**34,103**	**38,674**	***-11.8%***	**115,584**	**104,969**	***10.1%***	***74.9%***	
Steel	32,256	36,497	*-11.6%*	110,273	97,796	*12.8%*	*76.3%*	3Q22 steel revenue decreased by 11.6% yoy due to the average selling price of construction steel and HRC plummeting by 2.5% yoy/27.4% yoy, respectively.
Agriculture	1,743	1,568	*11.2%*	5,068	6,185	*-18.1%*	*58.7%*	
Real estates	104	609	*-82.9%*	243	988	*-75.4%*	*15.5%*	
Gross profit	**1,001**	**11,861**	***-91.6%***	**17,649**	**31,521**	***-44.0%***	***56.1%***	
Gross profit margin	*2.9%*	*30.7%*	*-27.7% pts*	*15.3%*	*30.0%*	*-14.8% pts*	*-5.1% pts*	HPG posted a record-low gross margin of just 2.9% in 3Q22 mainly due to the high cost of input materials. We note that HPG had a huge inventory valued at VND57.6tr at the end of 2Q22. Thus, we believe the company was trying to reduce its inventory levels of input materials (much of it high priced), and this also was reflected in high cost of good sold in 3Q22.
SG&A expense	929	819	*13.5%*	2,626	2,224	*18.1%*	*81.6%*	
SG&A as % of revenue	*2.7%*	*2.1%*	*0.6% pts*	*2.3%*	*2.1%*	*0.2% pts*	*0.2% pts*	Higher than our forecast as HPG boosted construction steel exports in 3Q22 with high transportation costs.
EBITDA	1,808	12,600	*-85.6%*	20,114	33,817	*-40.5%*	*60.0%*	
EBITDA margin	*5.3%*	*32.6%*	*-27.3% pts*	*17.4%*	*32.2%*	*-14.8% pts*	*-4.3% pts*	
Net financial expense	1,423	89	1501.1%	3,136	333	841.0%	148.5%	3Q22 net financial expense jumped by 15-fold yoy mainly because HPG recorded a net FX loss of VND1,013bn on the back of the appreciation of USD at the end of 3Q22.
Interest expense	837	675	*23.9%*	2,151	1,896	*13.4%*	*82.6%*	Higher than our forecast due to higher interest rates in 3Q22.
Pretax profit	(1,300)	10,979	*NA*	12,001	29,018	*-58.6%*	*46.3%*	
Net profit	**(1,774)**	**10,352**	***NA***	**10,475**	**27,051**	***-61.3%***	***44.3%***	Lower than our forecast.
Net margin	*-5.2%*	*26.8%*	*-32.0% pts*	*9.1%*	*25.8%*	*-16.7% pts*	*-6.3% pts*	
Sales volume (tonne)	**1,980,219**	**2,015,748**	***-1.8%***	**6,517,530**	**6,313,697**	***3.2%***	***76.0%***	
Construction steel	1,077,151	959,447	*12.3%*	3,448,574	2,797,579	*23.3%*	*75.1%*	In line with our forecast.
Steel billets	22,650	212,217	*-89.3%*	206,696	803,989	*-74.3%*	*68.1%*	Steel billets sales volume plunged in 9M22 due to (1) HPG focused on producing finished steel products and (2) HPG's main steel billets import market - China was under lockdown, hampering demand.
Steel pipe	200,092	122,667	*63.1%*	577,063	497,916	*15.9%*	*76.3%*	The strong growth of steel pipe sales volume in 3Q22 thanks to the low base effect and a strong rebound in domestic demand.
Galvanised steel	68,692	113,123	*-39.3%*	248,557	273,075	*-9.0%*	*72.4%*	Low 3Q22 galvanised steel sales volume as a result of a sharp drop in export demand, especially from the E.U and U.S. markets.
HRC	611,634	608,294	*0.5%*	2,036,640	1,941,138	*4.9%*	*79.0%*	

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Stagnant residential property will drag down domestic steel demand

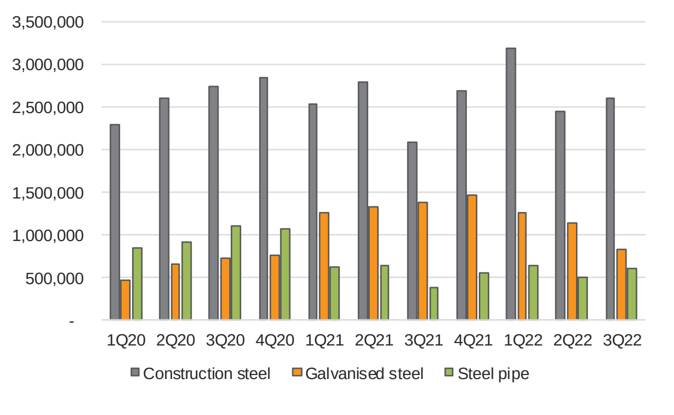
Global steel prices across product categories continued to decline in 3Q22 amid weak global demand on fears of a global economic slowdown and lockdown extension in China. In Vietnam, total steel volume (including construction steel, steel pipes and galvanised steel) still increased by 5% yoy to 4.05m tonnes in 3Q22 from low base 3Q21, according to Vietnam Steel Association (VSA). We note that in 3Q21, Vietnam applied strict lockdown measures which massively impacted domestic steel demand. Compared to the same period in 2020, Vietnam's total steel sales volume in 3Q22 decreased by 11%.

Vietnam's residential property market has cooled down since 2Q22 following some tycoon arrests due to corporate bonds issuance violations, limited credit room for property and rising lending rates to dent the housing demand. Domestic steel industry is also been hit by other headwinds: (1) high input (including coking coal and steel scrap) prices and (2) persistent inflationary pressures had financial conditions tighten across a number of major economies, casting a shadow for global growth prospects. As a result, global steel demand declined, causing difficulties for the export activities of Vietnamese steel companies. Although public investment disbursement is expected to accelerate in the coming quarters, we forecast total domestic steel demand to grow in negative single digits in 2023F.

Since late-Sep, several production cuts have been announced: (1) Pomina Steel Corporation (POM VN, HOSE) has announced the closure of its BOF (blast furnace) - POM 2 factory since 25 Sep 2022; (2) Southern Steel Company Limited has reduced the workload and production output during 4Q22, (3) other galvanised steel makers have partially halted their production and (4) HPG plans to close two BFs (out of three) in its Hai Duong factory and two BFs (out of four) at Dung Quat Steel Complex (DQSC) in Nov 2022. If demand continues to fall further towards the end of the year, HPG would consider shutting down one more (the fifth BF) in Dec 2022.

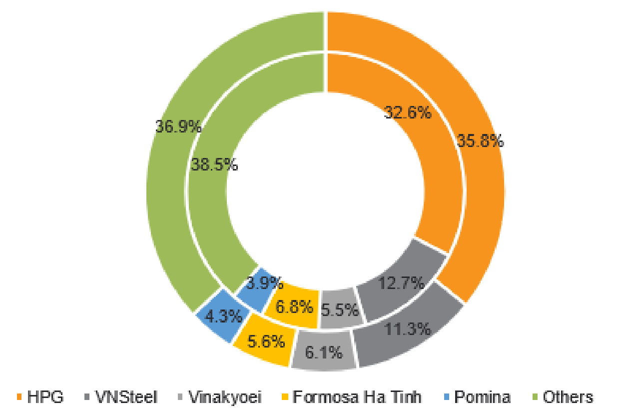
With massive shutdown plans for five out of seven BFs at two steel complexes, this sends a very negative message regarding HPG management's view on steel demand in the short-term (maybe till the end of 2022 and 1Q23).

Figure 2: Vietnam's steel sales volume by quarter (tonnes)



Source: VNDIRECT RESEARCH, VSA

Figure 3: Vietnam's construction steel market share in FY21-9M22



Inner circle: 2021; Outer circle: 9M22

Source: VNDIRECT RESEARCH, VSA

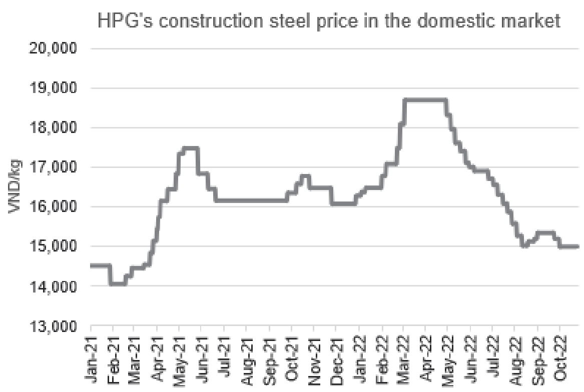
In 9M22, HPG maintains its leading position, holding a 35.8% market share from 32.6% in 2021. Notably, the gap between HPG and the 2nd largest player has expanded to 24.5% from the 19.9% seen in 2022. We revise down our forecast for HPG's construction steel sales volume in 2023-24F, but still will grow positively compared to 2022. We believe HPG is a beneficiary of the industry consolidation caused by the challenging environment. This is mainly thanks to its effective distribution networks and competitive pricing strategy.

We revised down HPG's gross margin forecast in FY22-24F reflecting record low 3Q22 gross margin

HPG's construction steel price in the domestic market has fluctuated around VND15,000/kg since Aug 2022

In 10M22, HPG's construction steel ASP in the domestic market reached VND16,700/kg (+6.7% yoy), 3.7% higher than our full-year forecast. With the expectation that steel prices will decrease in the upcoming months due to weak demand, we maintain our forecast of HPG's construction steel ASP of VND16,100/kg (+2% yoy). However, we forecast that HPG's construction steel ASP will reach VND14,200-13.200/kg in FY23-24F, down 4%-3% from the previous forecast.

Regarding HRC prices, HPG's latest HRC price was US$545/ tonne for the Dec 22 shipment. This was 41.1% 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$685-615/tonne in FY22-23F, respectively, down 9% from the previous forecast.



Source: HPG

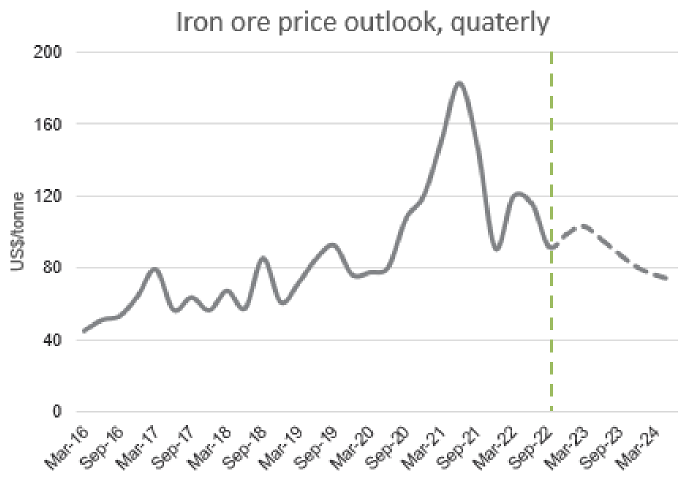
Weaker demand and more supply to push iron ore prices lower to FY24F

Iron ore prices have fallen by around 45% to US$80/tonne from the peak in Apr 2022. Combined with growing global recessionary fears, new COVID-19 outbreaks and weakness in China's housing sector, have dampened world steel and iron ore demand in recent months.

The boost in new infrastructure investment and looser credit conditions in China in recent months are expected to provide some support to iron ore demand (and prices) over the outlook period. However, until now these policies have been unable to fully counteract the ongoing weakness seen in China's residential property sector. New residential housing starts and new home sales continued to fall at a double-digit rate yoy in the year-to-Aug. Property construction is China's biggest consumer of steel, and real estate more generally accounts (directly and indirectly) for as much as 30% of the country's GDP. Without stabilisation and recovery of this sector in coming months, the rebound in China's demand for steel is likely to be muted.

Over the rest of the outlook period, iron ore prices are projected to decline toward (lower) longer-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. Slower growth in blast furnace steelmaking capacity will also take place alongside growing supply from Australia and Brazil. Growing global recessionary fears present further downside risks to iron ore prices over this period.

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), the benchmark iron ore price is projected to average US$90/tonne in FY23F and around US$70/tonne in FY24F.

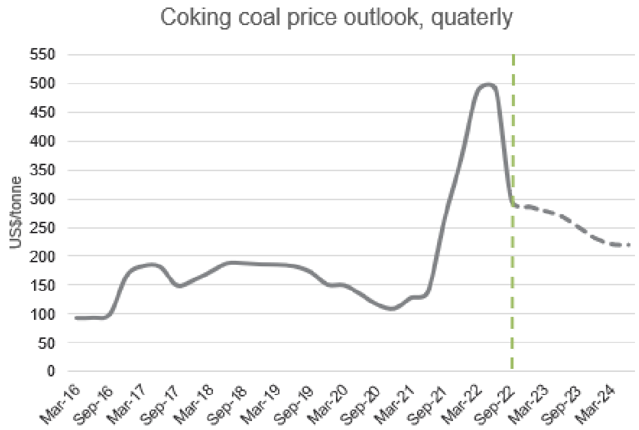


Source: DISR FORECASTS

Coking coal prices are expected to ease gradually

Coking coal prices fell sharply between late May and early July, before recovering slightly. Supply continues to face disruptions from floods in Australia and other weather events, but the fall in demand has allowed market tightness to ease nonetheless. High global energy prices are likely to act as an ongoing curb on steelmaking, especially in China and Europe — where gas shortages are likely to force some moderation in overall energy use over the winter.

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.

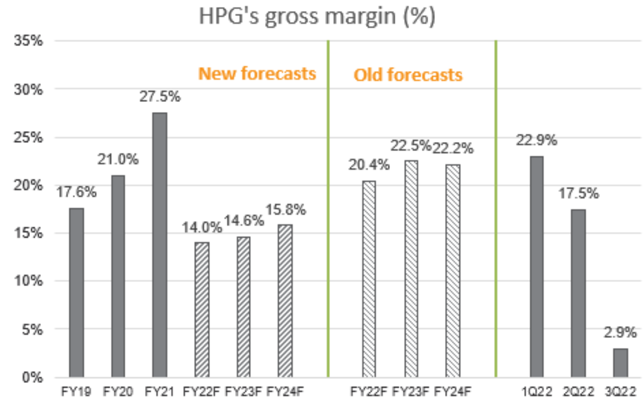


Source: DISR FORECASTS

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

Despite HPG's HRC steel selling price continuously decreased in Oct-Nov, we expect gross margin is expected to recover from 4Q22 as cheaper input costs will materialise. Spot prices of input materials also have returned to more normal levels. Thus, we believe that earnings will bottom out soon for HPG. Yet, the speed of recovery is quite slow at the moment due to weak demand.

We forecast HPG's gross margin will reach 14.0%/14.6%/15.8% in FY22-23-24F, lower than our previous forecast due to (1) 1.6%/2.7%/2.8% steel ASP decrease in FY22-23-24F; (2) 9.1%/28.0%/13.6% coking coal prices increase in FY22-23-24F.



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 4: Prices of iron ore and coking coal

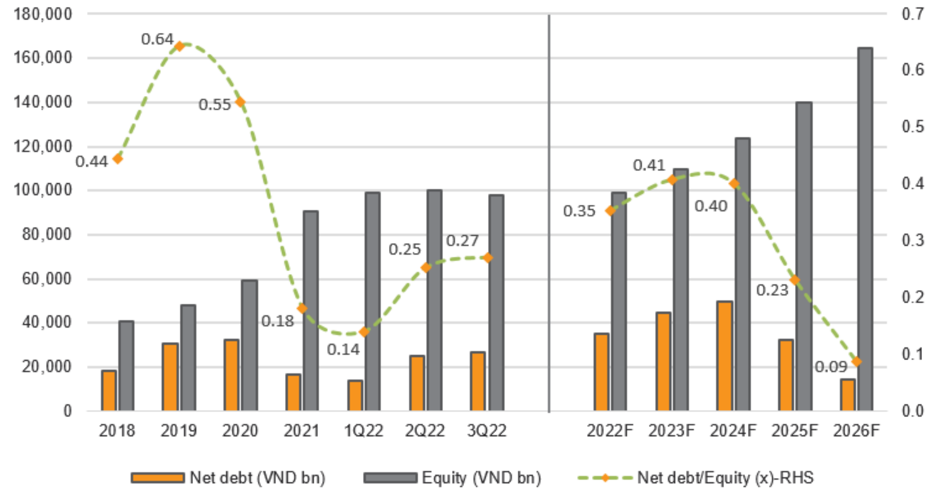
Commodity prices		Spot price	Commodity price performance			VNDS assumption			DISR estimate		
			Last month	Last quarter	Last year	2022	2023	Long term	2022	2023	Long term
Iron Ore 62% Fe Fines	US$/tonne	79.8	-16.5%	-22.5%	-20.8%	110	100	85	107	89	65
Hard Coking Coal	US$/tonne	312.0	14.5%	46.5%	-17.0%	420	320	150	420	258	150

Source: VNDIRECT RESEARCH, BLOOMBERG, DISR

Financial health has deteriorated but is still manageable

At end-Sep 2022, net debt position widened 91.6% ytd to VND26,589bn, bringing leverage to 0.27x from 0.18x at end-FY21. 80% of HPG's total debt is short-term debt thus the sharp increase in net debts was due to financing working capital demands and construct DQSC 2, current leverage ratio is still manageable and healthier than FY18-20 period when HPG developed the DQSC 1 with an investment cost of VND52,000bn.

Figure 5: We forecast D/E will pick up to 0.4x level in FY23-24F regarding the development of DQSC2



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We expect HPG's net debt at end-FY22F will expand by 31.2% from the current level following the disbursement plan for DQSC 2 development. For FY23/24F, the company's net debt will continue to increase 28.4% yoy/11.1% yoy to VND 44,808bn/VND49,787bn, respectively. We expect that after DQSC 2 go into full commercial operation in FY26F, net debt/equity is expected to fall to very low and healthy levels of 0.09x.

We estimate HPG's 3Q22 cost of debt at 4.94%. With a net debt position, HPG's pre-tax profit will be affected in the current high interest rate environment. Thus, we adjusted the company's interest expense in FY22-23F by 19.0%-28.9% to VND3,099bn/VND3,192bn, respectively. We estimate FY22F HPG's pre-tax profit will decrease by 1% if cost of debt increases by 20 bps.

As a net importer of input materials, HPG has exposure to exchange rates, mostly in US$. In general, an appreciation of the USD will negatively impact the company's earnings due to (1) higher input material costs, and (2) higher FX losses and interest rate for US$-dominated loans.

According to HPG's management, the company is trying to reduce its US$-dominated short-term bank loans by cutting the inventory of input materials. As of end-2Q22, total short-term debt was VND56,576bn, including US$-dominated debt of VND27,477bn, equivalent to 49% of total short-term debt. The interest rate for these US$-dominated debts was in the range of 1.6-3.4%. VND depreciated by 9% ytd, so the US$-dominated debt will hurt HPG's bottom line materially, especially in 4Q22.

As to long-term debt, HPG has a US$-dominated loan with BNP Paribas and Woori Vietnam valued at US$129.5m. However, HPG bought a currency swap contract (covering US$90m) to protect itself against a weakening VND. Therefore, the impact of VND depreciation is much less for long-term debt, in our view.

In terms of cash flow forecasts, we now assume that FY22F net cash flow will fall to negative VND16,730bn to VND5,752bn due to huge capex disbursements for DQSC2. Meanwhile, FY23F net cash flow will turn positive again thanks to improved earnings growth at that time.

Changes to our FY22-24F forecasts

Figure 6: Earnings revision for FY22-24F (VND bn)

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	**154,315**	**158,858**	**170,383**	**143,541**	**145,880**	**160,144**	**-7.0%**	**-8.2%**	**-6.0%**	
Steel	144,606	148,616	157,852	135,021	136,817	148,757	-6.6%	-7.9%	-5.8%	
Agriculture	8,640	9,452	11,090	6,955	7,764	9,399	-19.5%	-17.9%	-15.3%	
Real estate	1,564	1,299	1,988	1,564	1,299	1,988	0.0%	0.0%	0.0%	
Gross profit	31,451	35,682	37,752	20,030	21,331	25,287	-36.3%	-40.2%	-33.0%	
Gross profit margin	*20.4%*	*22.5%*	*22.2%*	*14.0%*	*14.6%*	*15.8%*	*-6.4% pts*	*-7.8% pts*	*-6.4% pts*	
SG&A expense	3,217	3,312	3,552	3,423	3,333	3,659	6.4%	0.6%	3.0%	
SG&A as % of revenue	*2.1%*	*2.1%*	*2.1%*	*2.4%*	*2.3%*	*2.3%*	*0.3% pts*	*0.2% pts*	*0.2% pts*	We revised up our FY22F SG&A as % of revenue forecast to reflect higher shipping costs in 9M22. We assume that SG&A expenses as a % of sales will gradually decrease to 2.3% in FY23-24F as logistics costs are decreasing on lower fuel costs and lower freight fees for export activities.
EBITDA	33,547	37,616	41,389	18,959	22,423	27,346	-43.5%	-40.4%	-33.9%	
EBITDA margin	*21.7%*	*23.7%*	*24.3%*	*13.2%*	*15.4%*	*17.1%*	*-8.5% pts*	*-8.3% pts*	*-7.2% pts*	
Interest expense	2,604	2,477	2,137	3,099	3,192	3,115	19.0%	28.9%	45.8%	We revised up our interest expense forecast due to rising interest rates and higher net debt positions.
Pretax profit	25,917	30,688	33,380	12,386	15,260	18,353	-52.2%	-50.3%	-45.0%	
Net profit	**23,657**	**28,087**	**30,406**	**11,213**	**13,869**	**16,619**	**-52.6%**	**-50.6%**	**-45.3%**	
Net margin	*15.3%*	*17.7%*	*17.8%*	*7.8%*	*9.5%*	*10.4%*	*-7.5% pts*	*-8.2% pts*	*-7.5% pts*	
Sale volume ('000 tonne)	**8,575**	**9,056**	**9,734**	**8,134**	**8,563**	**9,437**	**-5.1%**	**-5.4%**	**-3.1%**	
Construction steel	4,593	5,055	5,055	4,134	4,704	4,821	-10.0%	-6.9%	-4.6%	We revised down our construction steel sales volume forecast due to weak domestic property demand.
Steel billet	304	228	224	242	189	198	-20.1%	-17.1%	-11.6%	We revised down our steel billet sales volume forecast. 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	343	377	385	322	354	361	-6.3%	-6.3%	-6.3%	We revised down our galvanised steel sales volume forecast due to weak demand for galvanised steel in export markets.
HRC	2,578	2,602	3,236	2,679	2,522	3,223	3.9%	-3.0%	-0.4%	

Source: VNDIRECT RESEARCH

Investment thesis

HPG is traded at 6.6x FY22F P/E and 5.3x FY23F P/E, not very attractive for short-term investment amid sector downtrend. We have no idea about the inflection point of steel manufacturing segment however **we still favor 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.

Upside catalyst includes new business plans (aluminum, real estate and home appliance projects) to upgrade value chain. Downside risks include (1) tight monetary policy in Vietnam makes interest rates higher than expected and (2) US$ appreciates stronger than expected.

We cut down our TP by 44.6% to VND20,900

Our valuation is based on equal weighting combination of 10-year DCF valuation and P/B multiple.

In DCF valuation, we roll forward our valuation to FY23F and raise risk-free rate assumption to 4.0% from 3.0% previously to reflect the rising interest rate environment globally. As a result, DCF valuation decreased 41.7% compared to our previous model following FY23-24F EPS downgrade. Given the current difficulties of the steel industry as mentioned above, we use P/B valuation to value HPG to replace the previous P/E valuation to better reflect the asset quality of cyclical industry companies. We apply a target P/B of 1.0x on FY23F book value, equivalent to the P/B level of regional peers with corresponding profitability.

The gap between the two approaches of about 18% as we take into account the contribution of DQSC2 in DCF valuation since FY24F, hence the P/B multiple valuation is lower.

Figure 7: DCF model - key assumptions & input, based on our estimates

General assumptions	
Risk free rate (10-year VGB yield)	4.0%
Equity risk premium	11.0%
Beta (source: BB, 1-y adj. beta)	1.2
Cost of equity	17.2%
Long-term growth rate	1.0%
Cost of Debt	6.0%
WACC	13.4%
(in VND bn, otherwise noted)	
PV of DCF (10 years)	103,831
PV of Terminal value	64,907
Enteprise value	168,739
Less: Total Debt	65,254
Plus: Cash and Cash equiv.	30,360
Less: Minority Interest	155
Implied EV	133,690
No. of o/s shares (mn shares)	5,815
Implied value per share (VND)	22,991

Source: VNDIRECT RESEARCH

Figure 8: P/B method assumptions

Book value 2023	18,881
Industry median multiple	0.8
Premium	25.0%
Target multiple	1.0
Implied value per share (VND)	18,881

Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 9: Blended target price, based on our estimates

Method	Implied value per share (VND)	Weight (%)	Weighted price (VND)
DCF	22,991	50%	11,496
P/B	18,881	50%	9,440
Target price (VND, rounded)			20,900

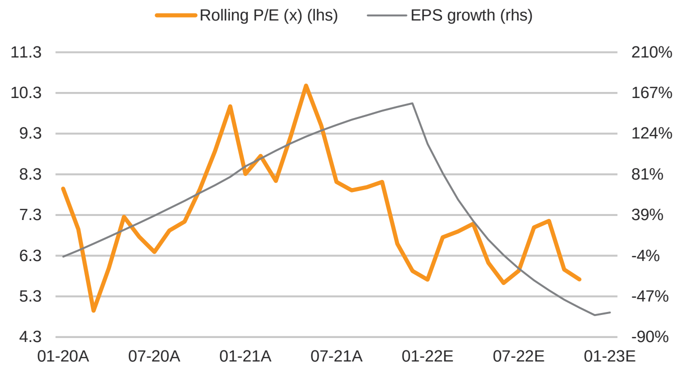
Source: VNDIRECT RESEARCH

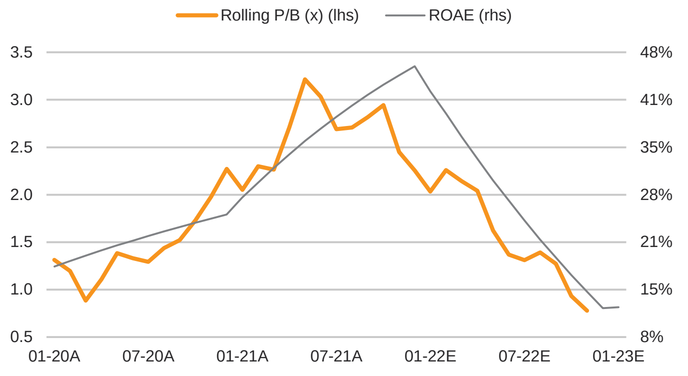
Figure 10: Peer comparison

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	701	20,729	23.7	12.1	68.1	2.4	2.0	10.8	7.4	10.5	17.9
Tata Steel	TATA IN	105	15,642	6.8	7.4	147.8	1.0	0.9	5.1	5.4	15.0	12.4
Nippon Steel Corp	5401 JP	361	11,410	7.8	8.1	63.9	1.0	0.9	5.2	5.3	14.1	12.2
Hindalco Industries	HNDL IN	475	5,925	10.0	8.7	na	1.2	1.0	5.8	5.5	12.4	12.5
JFE Holidng Inc	5411 JP	113	4,040	6.7	6.8	36.3	1.1	1.0	4.5	4.5	16.2	18.7
Bluescope Steel Ltd	BSL AU	1,896	14,099	4.1	5.4	na	0.5	0.5	4.6	5.5	14.9	9.4
NMDC	NMDC IN	1,478	6,197	5.6	6.2	na	0.4	0.4	6.2	6.9	7.6	6.3
Jindal Steel & Power Ltd	JSP IN	21	4,703	6.7	7.7	120.8	0.7	0.7	3.4	3.8	11.1	9.0
Angang Steel Co Ltd-A	000898 CH	3	3,252	8.6	6.3	64.5	0.4	0.4	5.3	4.1	4.7	6.0
Hyundai Steel	004020 KS	30,900	2,989	2.8	3.7	na	0.2	0.2	3.6	4.1	8.1	5.7
Average			*8,899*	*8.3*	*7.2*	*83.6*	*0.9*	*0.8*	*5.5*	*5.3*	*11.5*	*11.0*
Median			*6,061*	*6.8*	*7.1*	*66.3*	*0.9*	*0.8*	*5.2*	*5.4*	*11.8*	*10.8*
Hoa Phat Group	**HPG VN**	**12,100**	**2,830**	**6.6**	**5.3**	**68.3**	**0.7**	**0.6**	**7.4**	**6.7**	**11.8**	**13.3**

Source: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 10 Nov 2022

Valuation





Income statement

(VNDbn)	12-22E	12-23E	12-24E
Net revenue	143,541	145,880	160,144
Cost of sales	(123,511)	(124,549)	(134,857)
Gen & admin expenses	(2,153)	(2,042)	(2,242)
Selling expenses	(1,270)	(1,291)	(1,417)
Operating profit	**16,607**	**17,998**	**21,628**
Operating EBITDA	22,842	24,327	29,919
Depreciation and amortisation	**(6,235)**	**(6,330)**	**(8,291)**
Operating EBIT	**16,607**	**17,998**	**21,628**
Interest income	2,678	2,273	2,285
Financial expense	(7,692)	(5,818)	(7,107)
Net other income	789	802	1,542
Income from associates & JVs	4	4	4
Pre-tax profit	**12,386**	**15,260**	**18,353**
Tax expense	(1,126)	(1,340)	(1,677)
Minority interest	(47)	(52)	(57)
Net profit	**11,213**	**13,869**	**16,619**
Adj. net profit to ordinary	11,213	13,869	16,619
Ordinary dividends	(2,907)	(2,907)	(2,907)
Retained earnings	**8,306**	**10,962**	**13,712**

Balance sheet

(VNDbn)	12-22E	12-23E	12-24E
Cash and equivalents	5,742	5,835	6,406
Short term investments	24,619	24,619	24,619
Accounts receivables	11,011	11,191	10,923
Inventories	37,222	38,218	40,642
Other current assets	3,500	3,558	3,905
Total current assets	**82,095**	**83,420**	**86,494**
Fixed assets	98,517	120,996	142,063
Total investments	7	7	7
Other long-term assets	4,361	4,432	4,865
Total assets	**184,979**	**208,854**	**233,429**
Short-term debt	46,462	52,034	49,629
Accounts payable	15,227	17,061	21,311
Other current liabilities	5,024	5,971	6,533
Total current liabilities	**66,713**	**75,066**	**77,473**
Total long-term debt	18,792	23,228	31,183
Other liabilities	510	518	569
Share capital	58,148	58,148	58,148
Retained earnings reserve	36,650	47,612	61,324
Shareholders' equity	**98,762**	**109,788**	**123,894**
Minority interest	202	254	311
Total liabilities & equity	**184,979**	**208,854**	**233,429**

Cash flow statement

(VNDbn)	12-22E	12-23E	12-24E
Pretax profit	**12,386**	**15,260**	**18,353**
Depreciation & amortisation	6,228	6,322	8,283
Tax paid	(1,126)	(1,340)	(1,677)
Other adjustments	(940)	(1,066)	(1,205)
Change in working capital	**8,982**	**1,455**	**1,738**
Cash flow from operations	**25,530**	**20,632**	**25,491**
Capex	(25,000)	(28,333)	(28,333)
Proceeds from assets sales	0	0	0
Others	(6,383)	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	**(31,383)**	**(28,333)**	**(28,333)**
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(7,970)	10,702	6,320
Other financing cash flow			
Dividends paid	(2,907)	(2,907)	(2,907)
Cash flow from financing activities	**(10,877)**	**7,795**	**3,413**
Cash and equivalents at beginning of period	22,471	5,742	5,835
Total cash generated	**(16,730)**	**94**	**571**
Cash and equivalents at the end of period	5,742	5,835	6,406

Key ratios

	12-22E	12-23E	12-24E
Dupont			
Net profit margin	7.8%	9.5%	10.4%
Asset turnover	0.79	0.74	0.72
ROAA	6.2%	7.0%	7.5%
Avg assets/avg equity	1.92	1.89	1.89
ROAE	11.8%	13.3%	14.2%
Efficiency			
Days account receivable	28.0	28.0	25.0
Days inventory	110.0	112.0	110.3
Days creditor	45.0	50.0	57.8
Fixed asset turnover	1.61	1.33	1.22
ROIC	6.8%	7.5%	8.1%
Liquidity			
Current ratio	1.2	1.1	1.1
Quick ratio	0.7	0.6	0.6
Cash ratio	0.5	0.4	0.4
Cash cycle	93.0	90.0	77.4
Growth rate (yoy)			
Revenue growth	(4.1%)	1.6%	9.8%
Operating profit growth	(55.9%)	8.4%	20.2%
Net profit growth	(67.5%)	23.7%	19.8%
EPS growth	(67.5%)	23.7%	19.8%

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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