

HOA PHAT GROUP JSC (HPG)
ADD (Maintained)
BASIC MATERIALS

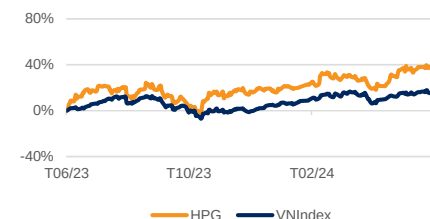
Current Price	VND28,700
52Wk High/Low	VND29,600/20,727
Target Price	VND44,000
Previous TP	VND41,000
TP vs Consensus	34.7%
Upside	53%
Dividend Yield	3%
Total stock return	57%

Growth rating	Positive
Value rating	Positive
ST Technical Analysis	Buy

Market Cap	USD7,211.4mn
3m Avg daily value	USD26.8mn
Avail Foreign Room	USD1,752.0mn
Outstanding Shares	6,396.3mn
Fully diluted O/S	6,396.3mn

	HPG	Peers	VNI
P/E TTM	20.2x	22.4x	14.5x
P/B Current	1.8x	1.4x	1.8x
ROA	2.9%	3.0%	2.1%
ROE	9.2%	7.0%	12.0%

*as of 6/21/2024

Share Price performance


Share price (%)	1M	3M	12M
Ordinary share	2.3%	9.3%	37.9%
Relative to index	0.5%	2.9%	14.7%

Ownership

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

Business Description

HPG is the largest and only fully-integrated steel producer in Vietnam, well-known for a high-quality steel range including construction steel, HRC, and steel pipe, leveraging its economies of scale and near-port location in Dung Quat. Besides steel, HPG also operates in the real estate and agriculture sectors, which enjoy promising growth prospects.

Analyst(s):

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From top in Southeast Asia to top-30 global

- We maintain an ADD rating for HPG with 53% upside and a 3% dividend yield. We increased our TP by 7% to VND44,000 while the share price has increased 5% since our last report.
- The increase to our TP comes mainly because we raised 24F NPAT-MI by 70% to VND19.2tn (USD780mn) as coking coal plummets over sticky ASP and higher steel sales volume.
- With FY24/25 ROE of 17%/18% and a widening valuation gap vs peers, HPG should trade at a target P/B of 2.0x, instead of a 1.5x 25F P/B.

Financial Highlights

- 1Q24 revenue increased 16% YoY to VND31tn (USD1.3bn) thanks to a 31% rise in sales volume and a resilient ASP trend.
- 1Q24 net profit jumped 7x YoY to VND2.87tn (USD120mn), completing 23% of our full-year forecast.
- We estimate that HPG continued to gain construction market share at 48% at the end of April 2024. Other segments saw minimal changes.

Investment Thesis
DQ2 launches HPG into global top-30 steel producers and improves margins

The launch of the Dung Quat 2 steel complex will drive FY25-27 HRC growth by adding 2.8 million tonnes in 2025 to current HRC capacity of 6 million tonnes, which includes both HRC and construction steel from Dung Quat 1. Moreover, operational efficiencies at Dung Quat 2 will reduce input costs for coking coal and labor.

Exports will thrive on resilient global demand and expanding production

Global steel consumption could grow by 1.4% in 2024, with infrastructure spending and industrial production growth supporting continued consumption. Demand recovery is expected in advanced economies in 2025 and 2026.

Domestic demand will recover thanks to rebound in property market

We remain optimistic that the property market will warm, particularly by 2025, amid a more favorable lending rate environment, which will stimulate housing demand, and the implementation of the Land Law.

Input price drop will bolster margins

Coking coal prices should drop due to increasing export volume as mines in New South Wales and Queensland ramp up production. We expect gross margin to rise from 11% in 2023 to 19% in 2024.

Potential new government regulations for steel industry

An upside catalyst is potential measures from the Government amid the recent surge in Chinese steel exports to Vietnam. Among these measures is a potential MoIT investigation of galvanized steel imports to decide whether to impose an anti-dumping tax on some Chinese and South Korean galvanized steel.

Financial ratios	2023A	2024E	2025F	2026F
Revenue growth	-16%	14%	22%	26%
Gross margin	11%	19%	20%	21%
Net profit (VND)	6,835	19,201	23,534	33,399
Net profit growth	-19%	181%	23%	42%
Net profit margin	6%	14%	14%	16%
P/E	25.1	8.9	7.3	5.1
P/B	1.7	1.4	1.2	1.0
ROAE	7%	17%	18%	22%
Net D/E	0.5	0.4	0.4	0.3

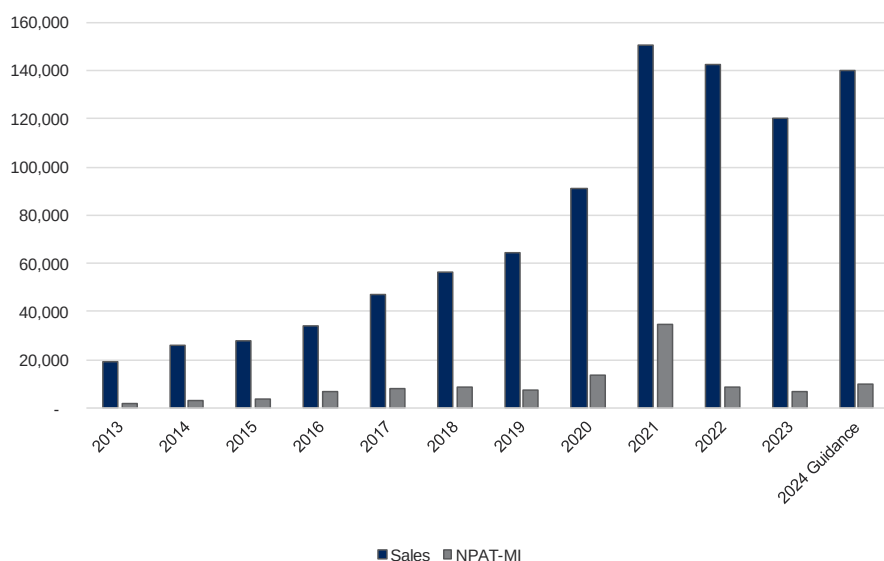
Source: VNDIRECT RESEARCH

Company Profile

Hoa Phat is a leading industrial manufacturer in Vietnam. Currently, Hoa Phat Group runs its operations in five sectors: Iron and Steel (construction steel, hot-rolled coil), Steel Products (steel pipe, galvanized steel sheets, wire rod, container shell and pre-stressed bar), Agriculture, Real Estate and Home Appliances.

Steel production is the core, accounting for 90% of the Group's revenue and profit. With a capacity of over 8.5 million tons of crude steel per year, Hoa Phat is the largest steelmaker in Southeast Asia. The Group holds the top market share in Vietnam for construction steel and steel pipes. Hoa Phat is also among Vietnam's five largest galvanized steel sheet manufacturers.

Figure 1: HPG sales and NPAT-MI (VNDbn)



Source: VNDIRECT Research

Hoa Phat operates two feed factories in Hung Yen and Dong Nai with a total capacity of nearly 600,000 tons/year. It has invested in developing a variety of products for livestock and poultry and has a wide customer network throughout Vietnam.

Hoa Phat owns and operates three industrial parks, including: Pho Noi A IP at 688 ha (Hung Yen), Hoa Mac IP at 131 ha (Ha Nam) and Yen My II IP at 313 ha (Hung Yen). The total IP land fund that Hoa Phat has approved for planning is 1,133 ha.

Figure 2: Investment status of key projects

Segment	Main projects	Location	Investment	Progress
Steel	Dung Quat Steel Integrated Complex No. 2	Quang Ngai	VND85tn (USD3.5bn)	Starting in 2022, expected operation in 2025
Container	Container factory	Ba Ria - Vung Tau	VND3tn (USD124mn)	Trial run
Real estate	North Pho Noi Urban Area project (262ha)	Hung Yen	VND6.5tn (USD269mn)	Legal pending
Mixed	Steel, Port, Industrial Parks	Phu Yen	VND120tn (USD5bn)	signed a MOU on studying investment

Source: VNDIRECT Research

1Q24 results recap: Well-controlled input cost with rising sales volume

Figure 3: 1Q24 Earnings Recap

(VNDbn)	1Q24	1Q23	YOY	FY24F	1Q24/FY24F
Revenue	31,093	26,865	16%	135,776	22.9%
_ Steel	28,841	24,814	16%	126,242	22.8%
_ Agriculture	1,553	1,625	-4%	6,753	23.0%
_ Real estate	699	427	64%	800	87.4%
Gross profit	4,154	1,676	148%	26,255	15.8%
SG&A expenses	-958	-757	26%	-4,072	23.5%
Net financial income	-309	-427	-28%	-1,055	29.3%
PBT	3,261	532	513%	21,128	15.4%
NPAT-MI	2,871	397	622%	19,201	15.0%
GPM	13.4%	6.2%	7.1% pts	19.3%	
NPM	9.2%	1.5%	7.8% pts	14.1%	

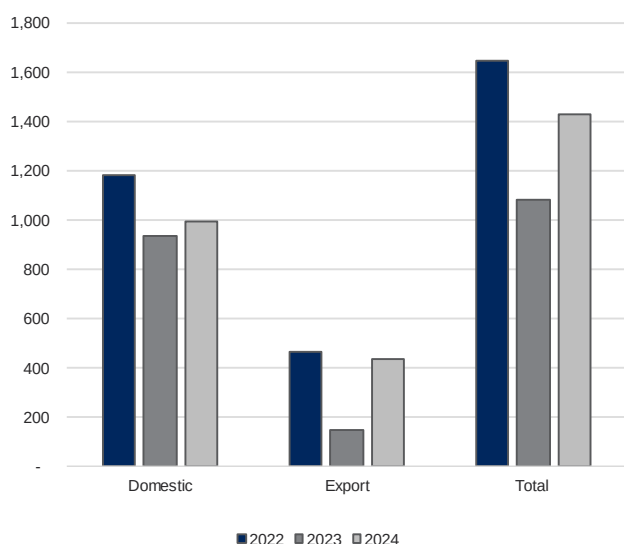
Source: VNDIRECT Research

Exports drive remarkable 31% YoY 1Q24 sales volume increase

1Q24 sales volume soared 31% YoY to more than 2 million tonnes with a 10% YoY rise in construction steel to 956,000 tonnes and 68% increase in HRC to 806,000 tonnes. HRC continued to grow in both domestic and export markets by 12%/497% YoY, respectively, while exports had to support total construction steel volume growth, which is still hindered by the sluggish domestic property market.

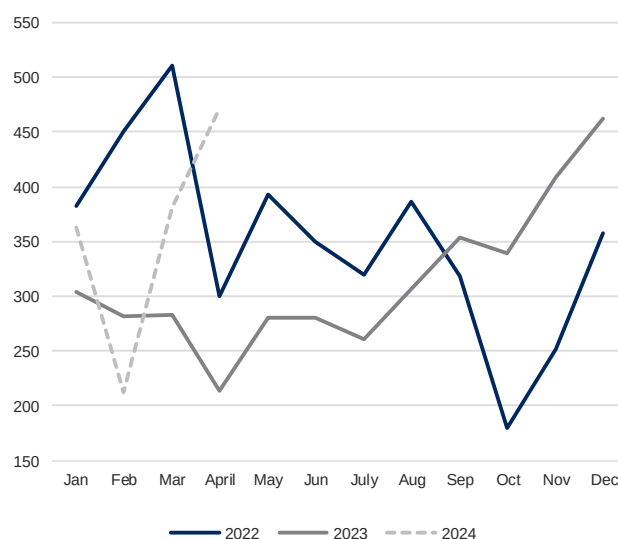
4M24 total construction steel sales volume rose 32% YoY, led by a 193% increase in exports. Compared to 4M22, demand dropped 13% as both exports and domestic sales plummeted 6% and 16%, respectively.

Figure 4: 4M construction steel volume (thousand tonnes)



Source: Fiigroup

Figure 5: Monthly construction steel volume (thousand tonnes)

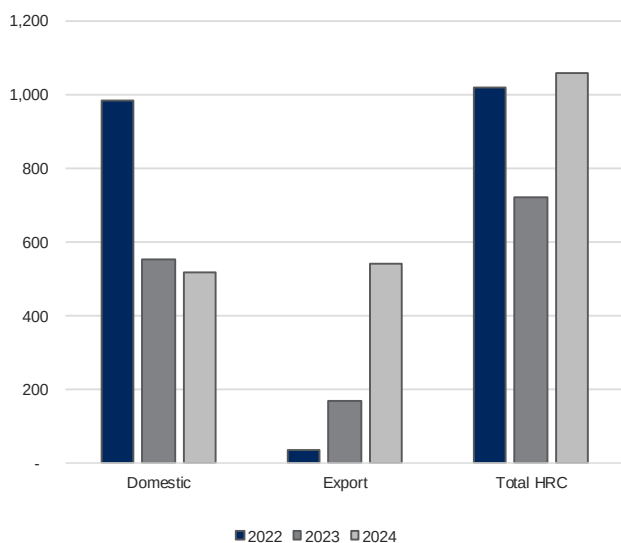


Source: Fiigroup

4M24 HRC sales volume surged 47% YoY from early 2023 when demand hit bottom. However, compared to 4M22, HRC rose 4%, thanks to exports. This emphasizes our thesis that HRC is undersupplied both globally and domestically due to its various applications. In April 2024, HPG also benefited from less

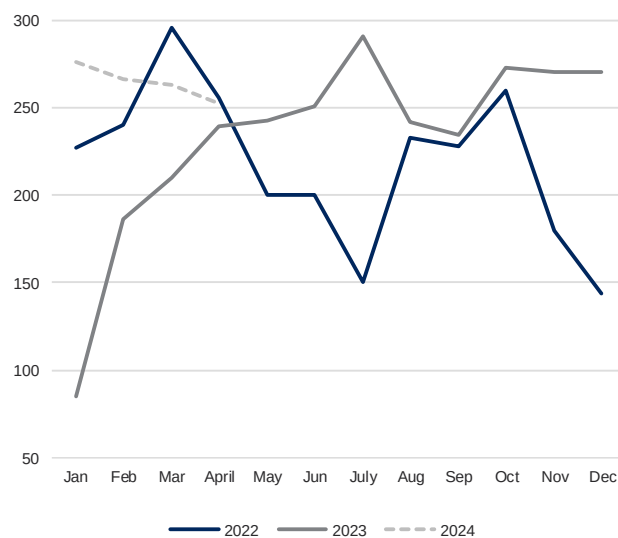
competition due to a factory closure of Formosa, the other HRC producer in Vietnam, for maintenance.

Figure 6: 4M HRC volume (thousand tonnes)



Source: Fiingroup

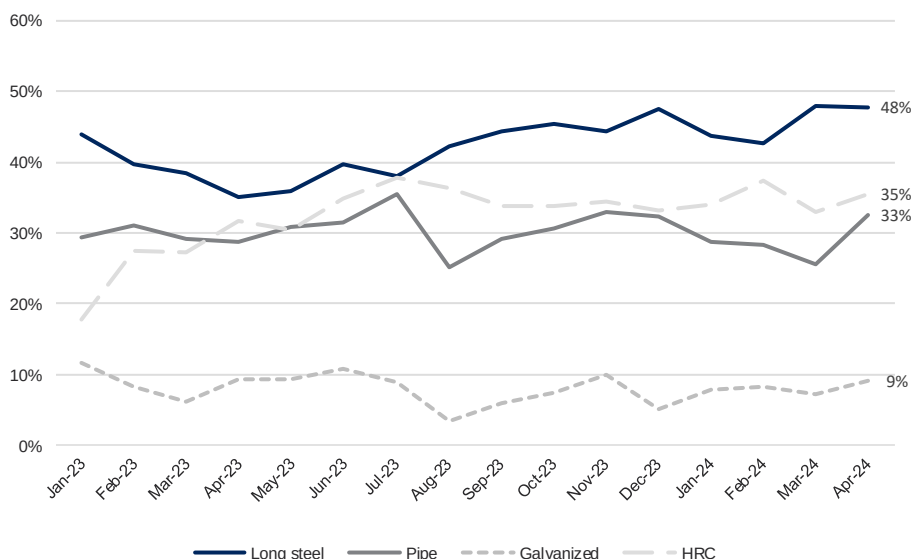
Figure 7: Monthly HRC volume (thousand tonnes)



Source: Fiingroup

Regarding market share, HPG continued to gain more of the construction market, reaching 48% at the end of April 2024, per our estimate. Other segments saw minimal changes.

Figure 8: HPG's market share (%) rose in construction segment



Source: VNDIRECT Research, Fiingroup

Well-controlled input costs expand 1Q24 margins

Margins are still enjoying a positive trend with 1Q24 EBITDA margin increasing from 16% to 17.2% QoQ. Net and gross margin increased slightly from 8.6% to 9.3% and from 13% to 13.5% QoQ, respectively. This was due to the downward trend of the coal price, strictly managed raw material inventory plus the full operation of the blast furnace last quarter, which reduced the burden of

depreciation costs. From 4Q23, the Dung Quat complex has achieved electricity self-sufficiency, significantly reducing energy costs of steel products.

Financial expenses reduced thanks to lower interest rates

Although the loan balance increased significantly compared to the end of 2023 due to material procurement and disbursement for the Dung Quat 2 Complex project, interest expenses have dropped to the lowest level over the past two years to VND636bn (USD26mn).

Figure 9: Balance Sheet: HPG continued to disburse capital for Dung Quat 2 complex

VNDbn	1Q23	2Q23	3Q23	4Q23	1Q24
Cash + Short term investment	35,289	36,101	29,654	34,429	34,700
A/R Days	35	44	44	35	33
Inventory Days	109	109	116	117	131
A/P Days	40	45	43	40	46
Capex	(2,819)	(2,799)	(4,361)	(7,374)	(14,798)
Long-term incomplete assets	14,405	16,615	16,465	26,083	30,175
Depreciation	1,648	1,662	1,722	1,741	1,722
Fixed Assets	69,945	68,934	72,782	72,014	71,016
Net Debt / Equity	0.26	0.25	0.28	0.30	0.41

Source: VNDIRECT Research

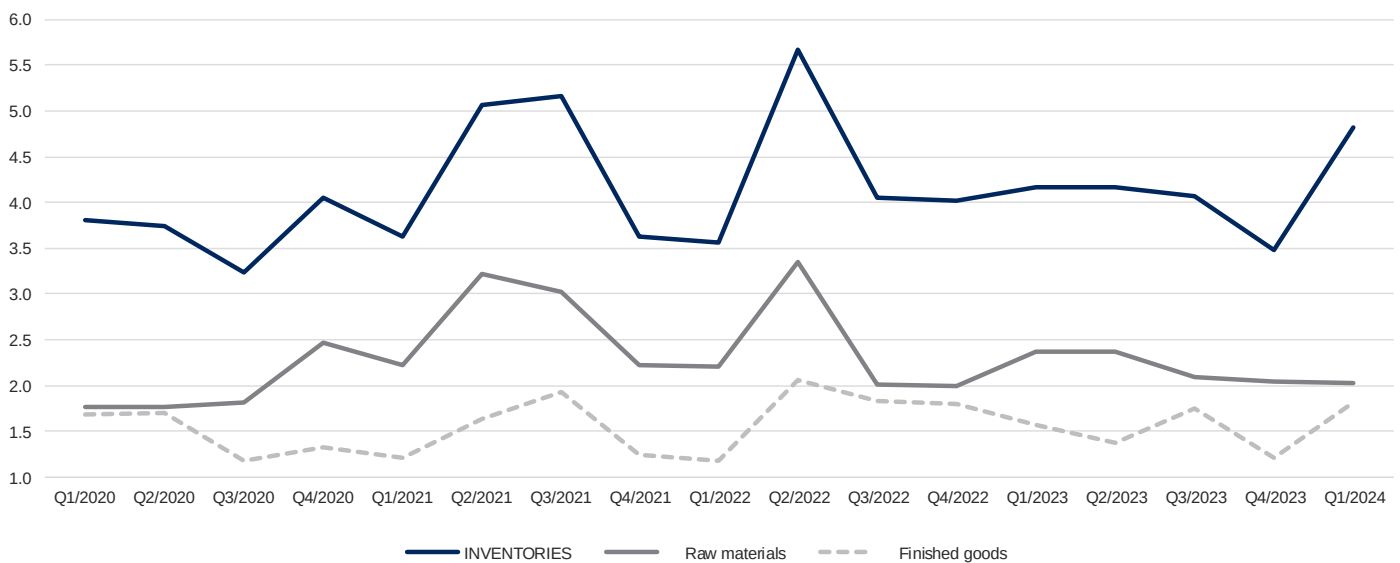
Dung Quat 2 Complex has had good construction progress

At the end of 1Q24, HPG had disbursed VND27tn (USD1.1bn) of capex for Dung Quat 2 Complex and it will be fully launched in September 2026, per management.

Inventories rising but still well controlled

HPG continued to strictly control inventory levels in 1Q24 as adjusted raw material inventory (excluding some work-in-progress expenses for Dung Quat 2) stayed at two months and finished goods slightly rose to 1.8 months mostly due to high construction steel inventories (not as HPG raised finished good level on purpose).

Figure 10: HPG months of inventory (month)



Source: VNDIRECT Research, Fiingroup

FY24-26F: Becoming a top 30 steelmaker globally

Figure 11: FY24-26F earnings outlook

VNDbn	FY24F			FY25F			FY26F			Comment
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Total revenue	139,000	135,776	-2.3%	175,000	165,199	-5.6%	242,740	208,372	-14.2%	Although we revise up sales volume (see beblow), we revise down slightly the top line as we expect that ASP would stay flat mainly due to the weakening China steel demand.
% yoy	17%	14%		26%	22%		39%	26%		
Steel	131,000	127,124	-3.0%	167,500	155,999	-6.9%	235,140	199,172	-15.3%	
Agriculture	6,800	6,753	-0.7%	6,800	6,800	0.0%	6,800	6,800	0.0%	
Real estate	800	1,899	137.4%	800	2,400	200.0%	800	2,400	200.0%	
Gross profit	18,300	26,255	43.5%	32,800	32,244	-1.7%	52,937	44,166	-16.6%	
% yoy	41%	103%		79%	23%		61%	37%		
GPM	13.2%	19.3%	6.2% pts	18.7%	19.5%	0.8% pts	21.8%	21.2%	-0.6% pts	Our biggest up-ward adjustment is 24F EBITDA margin, from 15.5% to 22%. We expect that iron ore and coking coal will drop 13%/15% in 24F while the ASP will hold steady.
SG&A expense	-4,177	-4,072	-2.5%	-4,902	-4,956	1.1%	-6,554	-5,626	-14.2%	
SG&A as % of revenue	-3.0%	-3.0%	0.0% pts	-2.8%	-3.0%	-0.2% pts	-2.7%	-2.7%	0.0% pts	
EBITDA	21,548	30,113	39.7%	37,650	37,552	-0.3%	57,274	51,136	-10.7%	
EBITDA margin	15.5%	22.2%	6.7% pts	21.5%	22.7%	1.2% pts	23.6%	24.5%	0.9% pts	
Interest expense	-3,753	-2,612	-30.4%	-3,084	-3,069	-0.5%	-3,585	-3,585	0.0%	We revise up interest expense in FY24 mainly due to the lower-than-expected interest rate that HPG is paying. Although the debt balance will rise at the end of this year but 80% of it is to finance working capital.
Pretax profit	12,236	21,128	72.7%	26,670	25,838	-3.1%	44,630	36,573	-18.1%	
NPAT-MI	11,168	19,201	71.9%	24,432	23,534	-3.7%	40,929	33,399	-18.4%	We revise up NPAT-MI to grow 181% YoY.
% yoy	63%	181%		119%	23%		68%	42%		
Net margin	8.0%	14.1%	6.1% pts	14.0%	14.2%	0.3% pts	16.9%	16.0%	-0.8% pts	
Steel volume (tn tonnes)	8,605	8,836	2.7%	9,955	10,701	7.5%	13,105	12,170	-7.1%	We revise up construction steel sales volume in FY24-25F by 2.7%/ 7.5% respectively due to higher-than-expected demand recovery in 2Q24. In 25-26F, the new capacity of Dung Quat 2 coming online is projected to be 2.8 million tonnes/year of HRC (vs our last projection of 1.5/3 million tonnes. HPG said 2 millions from the new batch will be sold in 25F while we expect a more conservative amount of 1.7 million tonnes sold in 25F.
% yoy	12%	15%		16%	21%		32%	14%		
Construction steel	4,235	4,447	5.0%	4,300	4,475	4.1%	4,450	4,400	-1.1%	
% yoy Construction steel	12%	18%		2%	1%		3%	-2%		
Steel pipe	682	692	1.4%	750	750	0.0%	750	750	0.0%	
Galvanised steel	406	433	6.7%	420	420	0.0%	420	420	0.0%	
HRC	3,242	3,147	-2.9%	4,485	4,816	7.4%	7,485	6,600	-11.8%	
% yoy HRC	16%	13%		38%	53%		67%	37%		

Source: VNDIRECT Research

Figure 12: Steel EBITDA margin and key assumptions

	2022	2023	% YoY	2024F	% YoY	2025F	% YoY	2026F	% YoY
Sales volume - thousand tonnes	7,942	7,670	-3%	8,836	15%	10,701	21%	12,170	14%
Construction steel	4,200	3,774	-10%	4,447	18%	4,475	1%	4,400	-2%
HRC	2,614	2,794	7%	3,147	13%	4815.8	53%	6,600	37%
Total capacity - thousand tonnes	8,800	8,800	0%	8,800	0%	11,600	32%	14,400	24%
Utilization (%)	90%	87%		100%		92%		85%	
ASP									
Construction steel - VNDtn/tonne	16,592	14,921	-10%	14,700	-1%	15,397	5%	16,000	4%
HRC - USD/ton	748	631	-16%	622	-1%	635	2%	635	0%
Input - USD/ton									
Iron ore	94	112	19%	97	-13%	108	11%	108	0%
Coking coal	410	311	-24%	263	-15%	255	-3%	245	-4%
Scrap	455	412	-9%	385	-7%	403	5%	403	0%
Steel EBITDA margin	15%	14%	-1.3% pts	22%	8.0% pts	23%	0.8% pts	25%	1.8% pts
FX & interest rates impact	negative	less negative		neutral		neutral to positive		neutral to positive	

Source: VNDIRECT Research

DQ2 makes HPG a top 30 steelmaker and improves margins

Monthly construction steel sales volume is set to be around 380,000 tonnes for the remainder of 2024 and into 2025, and we expect HRC volume will rise 13%/53% YoY. HRC growth in 25-27F will be bolstered by the launch of Dung Quat 2 steel complex, which will add 2.8 million tonnes of HRC in 2025 to current capacity of 6 million tonnes, which includes both HRC and construction steel in Dung Quat 1. In 2026, HPG expects to run Dung Quat 2 at full capacity with total added capacity of 5.6 million tonnes of HRC.

As of Q1 2024, HPG has achieved significant milestones: 90% completion of raw material-related facilities, 60-75% completion of steelmaking and HRC rolling factories, and key machinery chains are 30-45% established.

The upcoming Dung Quat 2 steel complex represents a significant advancement for HPG, allowing it to focus more on the production of HRC tailored for various industries including automobiles, shipbuilding, mechanical engineering, steel anchoring structures, and electronic appliances:

Technological Advancements: Dung Quat 2 incorporates state-of-the-art technology designed to enhance steel quality and efficiency. Its advanced capabilities enable precise manufacturing for specialized applications in high-demand sectors.

Environmental Impact: The complex features two blast furnaces 2.3 times larger than those at Dung Quat 1. This upgrade reduces carbon emissions and enhances overall steel quality. Lower emissions contribute to environmental sustainability while meeting stringent regulatory standards.

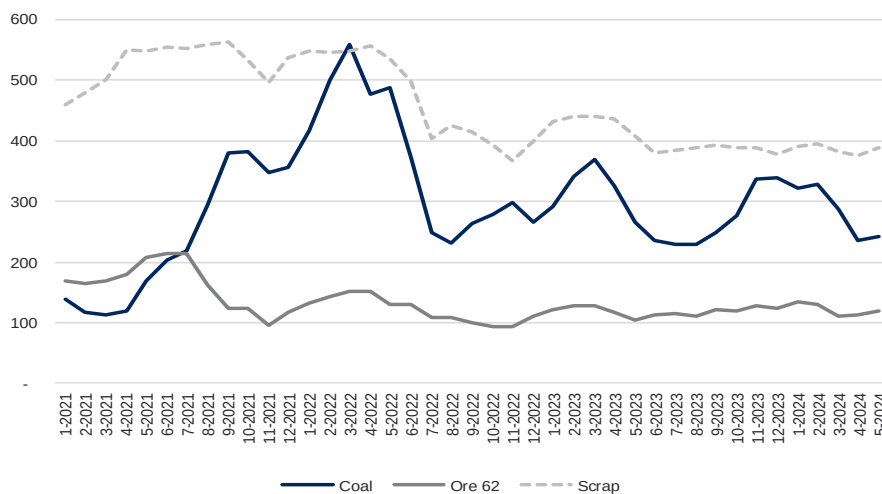
Cost Efficiency: Operational efficiencies at Dung Quat 2 translate into reduced input costs. The steelmaking process here will require only 320 kg of coking coal per tonne of steel, down from 360 kg previously at Dung Quat 1. This efficiency improvement lowers production costs and enhances competitiveness.

Economies of Scale: The larger scale of Dung Quat 2 allows for improved productivity metrics. It achieves a lower headcount per tonne of steel produced compared to Dung Quat 1, requiring approximately 6,000 additional workers instead of 11,000. This scalability optimizes operational efficiency and resource allocation.

Dung Quat 2's steel batch, with its advanced technology, will exclusively produce HRC applied for automobiles, shipbuilding, mechanical engineering, steel anchoring structure and electronic appliances. Dung Quat 2 will have two blast furnaces 2.3x larger than those of Dung Quat 1, resulting in less carbon emission and higher steel quality. This will help to lower input cost, mostly in coking coal and labor, as a steel tonne will need only 320 kg of coking coal vs 360 kg previously. Economies of scale also help HPG to improve headcount per produced steel tonne as Dung Quat 2 will only add 6,000 workers compared to 11,000 needed for Dung Quat 1.

Input price drop will bolster margins

Figure 13: Key input prices dropped recently (USD/tonne)



Source: Bloomberg

In early 2024, spot iron ore prices strengthened, driven by positive sentiment due to policy stimulus in the Chinese economy. However, prices fell to seven-month lows in March amid concerns about a rapid build-up of Chinese iron ore inventories and sluggish growth in steel output.

Globally, iron ore demand is expected to soften due to modest falls in Chinese steel output and a shift in China's economy towards consumption-led growth. However, rising steel demand in emerging Asia and the Middle East will partly offset this decline.

On the supply side, Australia's major iron ore producers, such as Rio Tinto, BHP, and Fortescue, are expected to increase export volumes over the outlook period, contributing to global iron ore trade growth.

Overall, while iron ore prices may face long-term downward pressure due to easing demand and rising supply, we expect high volatility in the short to medium term amid short-lived positive sentiment toward Chinese policy stimulus.

According to the Australian Department of Industry, Science and Resources, coking coal prices are anticipated to gradually decrease from USD277/tonne in 2024 to USD185/tonne by 2029, mainly due to increasing export volume as mines in New South Wales and Queensland ramp up production.

Exports to thrive amid resilient demand and expanding production

HRC exports currently focus on Southeast Asia, Mexico, and the EU, with plans to expand into new territories such as the Middle East, the US, and Africa. While pursuing international growth, HPG will also prioritize the domestic market due to current supply shortages.

According to the Australian Department of Industry, Science and Resources, global steel production remained flat in 2023 but is expected to grow nearly 2% annually in 2024 and 2025. By 2029, production is projected to reach 2.1 billion tonnes, supported by new capacity across various regions. Global steel consumption is expected to grow by 1.4% in 2024, with infrastructure spending

and industrial production growth supporting continued consumption. Demand recovery is expected in advanced economies in 2025 and 2026.

Regional outlook is mostly favourable for Vietnam exports

India and Southeast Asia expect impressive growth in steel output driven by the construction and manufacturing sectors.

The US expects positive steel demand in 2024, supported by potential rate cuts and infrastructure investments.

China faces challenges due to a property sector downturn, but expects support from infrastructure spending.

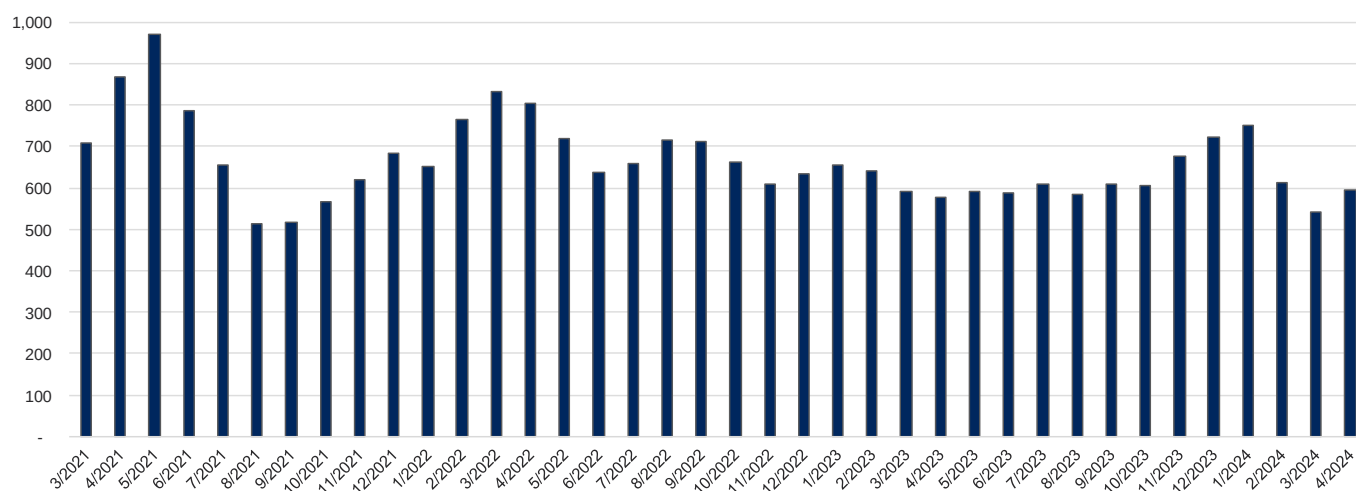
Europe's outlook is uncertain, with steel production and consumption falling sharply in 2023, influenced by high energy costs and monetary policy tightening.

Amid overall resilient global demand, we expect that construction steel export volume will rise 30%/3% YoY at HPG at full capacity while HRC export volume will grow 31%/53% YoY in 24-25.

Domestic demand will recover thanks to warming property market

The demand for construction steel serves as a reliable indicator of improvement in the real estate sector, particularly in housing construction activities. Despite some intermittent demand increases observed toward late 2023 and January 2024, these gains were not sustained in the subsequent three months, resulting in only modest year-on-year improvement.

Figure 14: Monthly industrial construction steel demand (thousand tonnes - 3M average smoothed out)



Source: VNDIRECT Research, Fiingroup

However, there remains optimism that the property market will see a warming trend, particularly by 2025.

This anticipated improvement is attributed to several factors, including: 1) a more favorable lending rate environment, which is expected to stimulate housing demand; and 2) increasing housing supply, facilitated by the gradual implementation of the Land Law, aimed at resolving existing supply constraints.

As a result, we expect that construction steel domestic volume will rise 17% YoY in 2024 while HRC domestic volume will stay flat this year and grow 56% YoY next year when Dung Quat 2 starts to operate.

Potential new regulations will support domestic steel industry

On June 15, 2024, the Vietnamese Government convened a conference focused on advancing the development of construction materials industries, particularly steel and cement. Key outcomes of this conference include:

Vietnam Steel Industry Development Strategy 2030-2050:

The Ministry of Transport (MoIT) will present the Vietnam Steel Industry Development Strategy 2030-2050 to the Prime Minister. This strategic plan aims to position the steel industry as a crucial national sector, safeguarding the domestic market while bolstering exports.

Law on Key Industrial Development:

Concurrently, efforts are underway to draft the Law on Key Industrial Development. This legislation is designed to elevate Vietnam's steel industry to a pivotal role in the national economy, emphasizing market defence capabilities and export acceleration.

These initiatives underscore Vietnam's proactive stance in fortifying its steel industry against external challenges while positioning it for sustainable growth and competitiveness in the global market.

In addition, the recent surge in Chinese steel exports to Vietnam (mentioned in the last report) has garnered significant attention from the Vietnamese Government:

1. The MoIT said it may investigate galvanized steel to decide whether to impose an anti-dumping tax on some Chinese and South Korean galvanized steel. If this materializes, all galvanized steel producers will be the beneficiary, including HSG, NKG, HPG and GDA, but the timing would be in 2025-2026.
2. The MoIT confirmed that it has all the necessary information to decide whether to start investigating HRC imported from some Chinese firms. The decision will be released in early August 2024.

In addition, in early May 2024, the US Department of Commerce held a hearing on whether to recognize Vietnam as a market economy. Such a recognition would help expand business opportunities for Vietnamese firms and pave the way for Vietnamese exports to this market.

Global superstar in growth and operating ratios

HPG has demonstrated exceptional business performance compared to prominent global steel producers over the past decade. For instance, HPG achieved impressive revenue growth with a CAGR of 22%. In contrast, global peers averaged a much lower CAGR of 2%. HPG's EBITDA margin has consistently outperformed global peers, with a median margin of 14% compared to a peer median of 9%. This superior profitability metric is notable considering HPG's need to export key input resources, demonstrating effective cost management and operational efficiency. HPG has excelled in generating CFO, achieving a robust CAGR of 16% over the past decade. In contrast, global peers averaged a significantly lower CAGR of only 1%. The net gearing ratio stood at

30% for HPG at the end of 2023. In comparison, global peers reported a higher net gearing ratio averaging 56%.

Figure 15: Global peer comparison

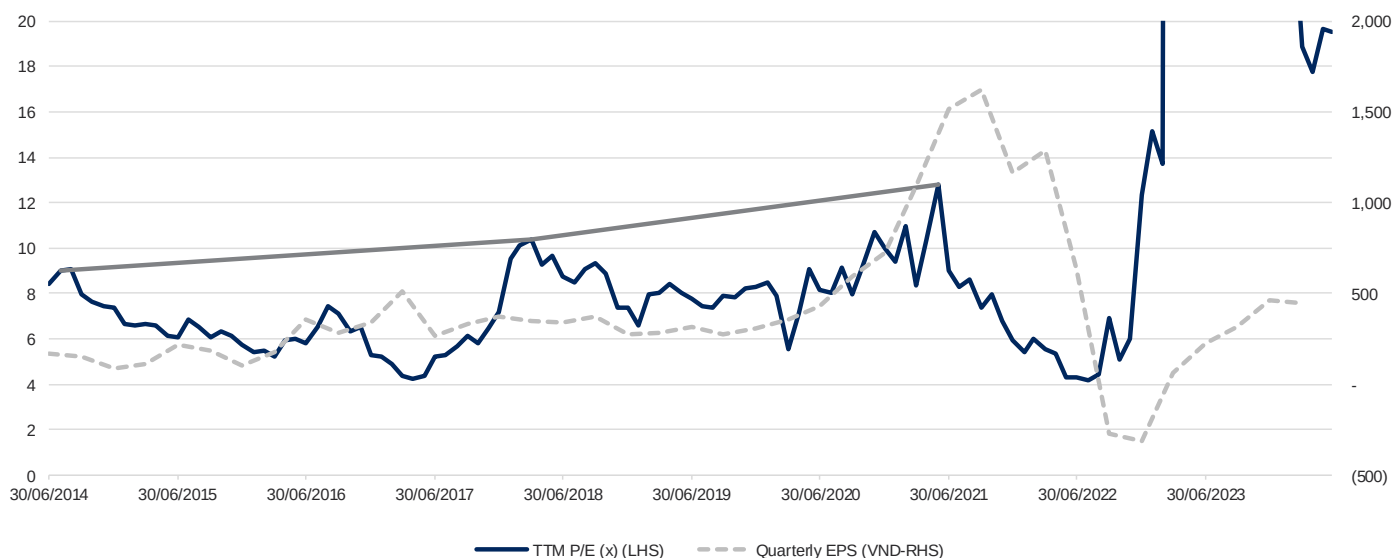
Firm	Country	Mkt Cap (USDmn)	FY23 Revenue (USDmn)	FY23 Net profit (USDmn)	Net Debt/Equity (%)	Revenue growth 10Y CAGR	EBITDA margin 10Y median	CFO growth 10Y CAGR
Nippon Steel Corp	JAPAN	19,947	61,594	3,816	42	1%	10%	6%
POSCO Holdings Inc	SOUTH KOREA	22,471	58,606	1,290	15	0%	11%	-3%
Baoshan Iron & Steel Co Ltd	CHINA	19,998	48,354	1,675	5	5%	12%	1%
JFE Holdings Inc	JAPAN	9,092	35,941	1,371	63	-1%	9%	-2%
Hunan Valin Steel Co Ltd	CHINA	4,304	23,060	712	57	10%	9%	2%
Hyundai Steel Co	SOUTH KOREA	2,761	19,692	350	35	4%	14%	-1%
Kobe Steel Ltd	JAPAN	4,812	17,663	761	52	-1%	8%	10%
Hesteel Co Ltd	CHINA	2,906	17,210	152	182	0%	12%	12%
Maanshan Iron & Steel Co Ltd	CHINA	2,030	13,872	(186)	78	2%	8%	-10%
Shandong Iron and Steel Co Ltd	CHINA	1,784	12,686	(56)	56	1%	5%	10%
China Steel Corp	TAIWAN	11,360	11,580	54	67	0%	16%	-5%
Liuzhou Iron & Steel Co Ltd	CHINA	940	11,170	(142)	129	7%	5%	31%
Nanjing Iron & Steel Co Ltd	CHINA	4,231	10,171	298	81	7%	9%	0%
Xinyu Iron & Steel Co Ltd	CHINA	1,552	9,975	70	39	6%	6%	10%
Inner Mongolia BaoTou Steel Un	CHINA	8,948	9,894	72	77	5%	12%	-20%
Anyang Iron & Steel Inc	CHINA	625	5,910	(218)	196	6%	9%	10%
Pangang Group Vanadium Titaniu	CHINA	3,459	2,016	148	(11)	-2%	11%	-13%
Guangzhou Guangri Stock Co Ltd	CHINA	1,413	1,035	107	(44)	4%	2%	8%
Shoucheng Holdings Ltd	HONG KONG	1,253	112	51	(18)	-25%	20%	-4%
Median		3,459	12,686	148	56	2%	9%	1%
HPG	VIETNAM	7,388	4,956	285	30	22%	14%	16%

Source: VNDIRECT Research, Bloomberg

Valuation: Maintain ADD with a higher TP of VND44,000

In the last steel industry cycle, P/E peaked at 12-14x before falling on tumbling EPS growth to a bottom of 3.x in mid-2022. Currently, HPG's valuation looks attractive with a 1Y forward P/E of 8.6x with decent EPS growth prospects of 11%/26% in FY25-26F, so we expect that P/E will be rerate to 14.x as our target multiple. Also, we are confident that P/E will not peak any time soon: it will be at least until 2027-2028 assuming that at that time the Dung Quat 2 project will fully translate into earnings.

Figure 16: 10Y historical TTM P/E (x) with EPS (VND)



Source: VNDIRECT Research

HPG should trade at the target P/B of 2.0x, instead of the 1.5x 25F BVPS due to: 1) ROE of 17-18% in FY24-25 and a comparatively healthy balance sheet; 2) impressive operating ratios compared to global steelmakers; 3) our thesis on a widening valuation gap to at least a 0.7 premium vs the average of HSG and NKG valuation as Dung Quat 2 gains more visibility (we mentioned this in our previous report in March 2024).

We also expect that in FY25-26, HPG will pay a cash dividend of VND1000/share, equivalent to a 3.4% dividend yield at the current market price as Dung Quat 2 starts to generate cash.

Figure 17: Target price

Method	Target Multiple (x)	Implied share price	Weight	Weighted target price
P/E	14.0	48,584	30%	14,575
P/B	2.0	42,700	30%	12,810
EV/EBITDA	9.0	44,200	30%	13,260
DCF		37,000	10%	3,700
Target Price				44,000

Source: VNDIRECT Research

Figure 18: Cost of Equity and WACC

Risk free rate	2.6%
Risk premium	9.0%
Beta	1.3
Cost of equity	14.3%
Cost of debt (post tax)	2.8%
E	189,010
D	30,199
E/(D+E)	0.86
D/(D+E)	0.14
WACC	12.7%
Perpetual growth rate	4.0%

Source: VNDIRECT Research

Figure 19: DCF valuation

FCFE (VNDbn, otherwise noted)	2024F	2025F	2026F	2027F	2028F
CFO	23,410	26,394	45,970	45,000	49,000
- Capex	-14,944	-26,000	-39,302	-24,000	-20,000
+ Net Borrowings	-7,330	402	814	3,000	3,000
FCFE	1,136	796	7,482	24,000	32,000
Terminal Value					391,064
FCFE + Terminal Value	1,136	796	7,482	24,000	423,064
	0	0	0	0	391,064
NPV of (FCFE+ Terminal value)	256,534				
% of Terminal value	85%				
- MI	0				
Implied equity value	256,534				
Equity Value per share (VND)	38,000				

Source: VNDIRECT Research

Figure 20: P/E valuation

P/E	TTM @ 2Q25F
Group NPATMI (VNDbn)	21,692
EPS (VND)	3,470
Target Multiple (x)	14
Weighted average outstanding shares (Mn)	6,251
Target price (VND)	48,584

Source: VNDIRECT Research

Figure 21: P/B valuation

P/B	TTM @ 2Q25F
Book Value (VNDbn)	133,277
Target Multiple (x)	2
Weighted average outstanding shares (Mn)	6,251
BVPS (VND)	21,321
Target price (VND)	42,700

Source: VNDIRECT Research

Figure 22: EV/EBITDA valuation

EV/EBITDA	TTM @ 2Q25F
EBITDA (VNDbn)	34,033
Multiple (x)	9.0
EV (VNDbn)	306,297
Weighted average outstanding shares (Mn)	6,251
Target price (VND)	44,200

Source: VNDIRECT Research

Figure 23: Peer comparison

Ticker	Name	Country	Mkt Cap (USDmn)	Net Debt/Equity (%)	ROE TTM (%)	EPS growth (%)	P/B current (x)	P/E TTM (x)	EV/EBITDA TTM (x)
HSG VN EQUITY	Hoa Sen Group	VIETNAM	609	21	8.1	25.0	1.4	17.7	10.8
NKG VN EQUITY	Nam Kim Steel JSC	VIETNAM	275	68	5.8	(38.0)	1.3	22.1	11.7
VGS VN EQUITY	Vietnam Germany Steel Pipe JSC	VIETNAM	80	72	6.0	3.3	2.0	36.1	19.1
GDA VN EQUITY	Ton Dong A Corp	VIETNAM	154	69	8.0	(40.0)	1.1	13.8	8.3
Average			279	58	7.0	(12.4)	1.4	22.4	12.5
000932 CH Equity	Hunan Valin Steel Co Ltd	CHINA	4,304	57	9.2	9.5	0.6	6.5	NA
600010 CH Equity	Inner Mongolia BaoTou Steel Union Co Ltd	CHINA	8,948	77	0.6	84.6	1.3	225.4	NA
5411 JP Equity	JFE Holdings Inc	JAPAN	9,092	63	8.6	8.2	0.6	6.9	6.7
5406 JP Equity	Kobe Steel Ltd	JAPAN	4,812	52	11.1	(4.5)	0.7	6.9	4.8
600282 CH Equity	Nanjing Iron & Steel Co Ltd	CHINA	4,231	81	8.7	18.4	1.2	13.4	NA
000629 CH Equity	Pangang Group Vanadium Titanium & Resources Co Ltd	CHINA	3,459	(11)	7.5	4.0	2.1	29.6	NA
Average			5,808	53	7.6	20.0	1.1	48.1	5.7
HPG VN EQUITY	Hoa Phat Group JSC	VIETNAM	7,388	30	9.2	622.0	1.8	20.2	11.6

Source: VNDIRECT Research, Bloomberg

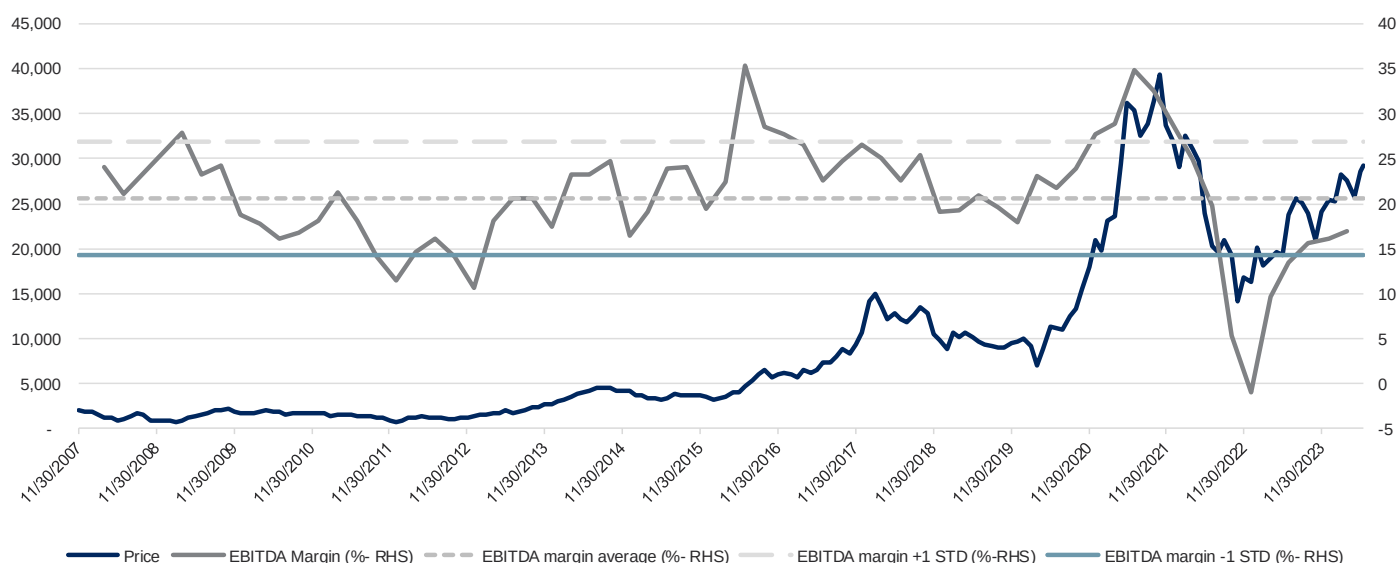
Downside risks:

Lower-than-expected steel demand due to prolonged slow property market recovery. Delays in launching Dung Quat 2's new steel batch.

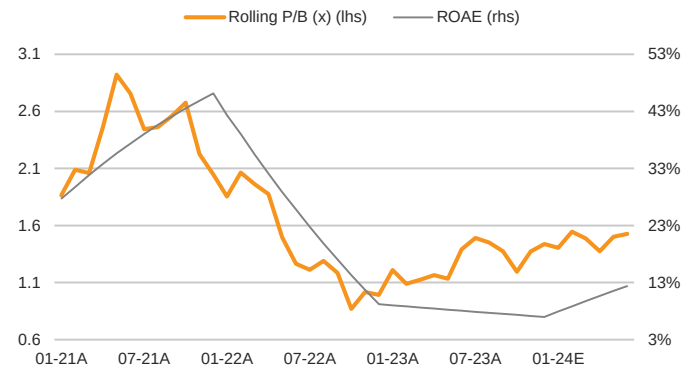
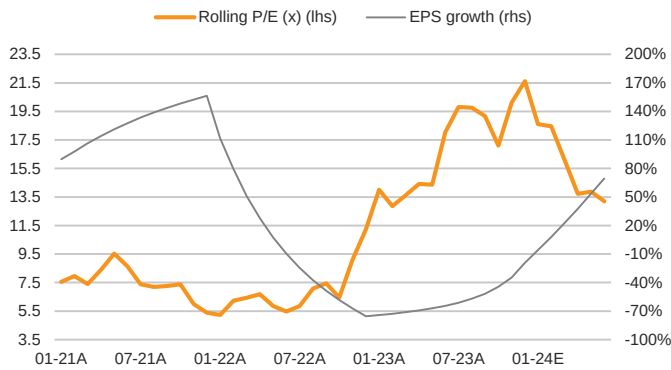
Higher-than-expected input cost due to escalating global tensions.

EBITDA margin bodes well for our ADD call on HPG

EBITDA margin is a good proxy to monitor HPG's positioning within the steel industry cycle. Historically, HPG has experienced EBITDA margins that are typically equal to or above one standard deviation, ranging from 25% to 30%, for approximately four quarters during favorable market conditions. This period has historically signalled an opportune time to reduce HPG holdings, as share prices have tended to decline thereafter. Conversely, periods when HPG's EBITDA margin falls below the 15-year average of 21%, have often presented opportunities to accumulate HPG shares, anticipating potential future increases in profitability. As a result, a 17% EBITDA margin at the end of 1Q24 still indicates a good investment decision.

Figure 24: EBITDA margin (%-RHS) vs HPG stock price (VND/share-LHS)


Source: VNDIRECT Research, Bloomberg

Valuation

Income statement

(VNDbn)	12-23A	12-24E	12-25E
Net revenue	118,953	135,776	165,199
Cost of sales	(106,015)	(109,521)	(132,954)
Gen & admin expenses	(1,961)	(2,850)	(3,469)
Selling expenses	(1,307)	(1,222)	(1,487)
Operating profit	9,669	22,183	27,289
Operating EBITDA	16,443	30,113	37,552
Depreciation and amortisation	(6,773)	(7,930)	(10,264)
Operating EBIT	9,669	22,183	27,289
Interest income	3,173	2,408	1,618
Financial expense	(5,192)	(3,462)	(3,069)
Net other income	142	0	0
Income from associates & JVs	0	0	0
Pre-tax profit	7,793	21,128	25,838
Tax expense	(992)	(1,928)	(2,305)
Minority interest	35	0	0
Net profit	6,835	19,201	23,534
Adj. net profit to ordinary	6,835	19,201	23,534
Ordinary dividends	(8)	0	(7,036)
Retained earnings	6,827	19,201	16,498

Balance sheet

(VNDbn)	12-23A	12-24E	12-25E
Cash and equivalents	12,267	13,404	14,200
Short term investments	22,162	22,162	22,162
Accounts receivables	10,702	7,989	9,720
Inventories	34,504	43,809	53,182
Other current assets	3,081	3,042	3,451
Total current assets	82,716	90,406	102,714
Fixed assets	98,097	105,121	120,857
Total investments	1,921	1,882	1,882
Other long-term assets	5,048	5,048	5,048
Total assets	187,783	202,456	230,501
Short-term debt	54,982	49,585	57,023
Accounts payable	12,387	14,152	17,553
Other current liabilities	4,174	5,212	5,921
Total current liabilities	71,544	68,949	80,497
Total long-term debt	10,399	8,466	8,466
Other liabilities	3,034	3,034	3,034
Share capital	58,148	63,963	70,359
Retained earnings reserve	40,593	53,979	64,080
Shareholders' equity	102,806	122,007	138,505
Minority interest	0	0	0
Total liabilities & equity	187,783	202,456	230,501

Cash flow statement

(VNDbn)	12-23A	12-24E	12-25E
Pretax profit	7,793	21,128	25,838
Depreciation & amortisation	6,773	7,930	10,264
Tax paid			
Other adjustments	0	0	0
Change in working capital	(3,038)	(5,678)	(9,708)
Cash flow from operations	11,528	23,380	26,394
Capex	(17,353)	(14,954)	(26,000)
Proceeds from assets sales	0	0	0
Others	0	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	(17,353)	(14,954)	(26,000)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	127,142	(7,330)	7,438
Other financing cash flow			
Dividends paid	(8)	0	(7,036)
Cash flow from financing activities	127,134	(7,330)	402
Cash and equivalents at beginning of period	8,325	12,267	13,404
Total cash generated	121,309	1,097	796
Cash and equivalents at the end of period	129,634	13,365	14,200

Key ratios

	12-23A	12-24E	12-25E
Dupont			
Net profit margin	5.7%	14.1%	14.2%
Asset turnover	0.66	0.70	0.76
ROAA	3.8%	9.8%	10.9%
Avg assets/avg equity	1.80	1.74	1.66
ROAE	6.9%	17.1%	18.1%
Efficiency			
Days account receivable	32.8	21.5	21.5
Days inventory	118.8	146.4	146.0
Days creditor	42.6	47.3	48.2
Fixed asset turnover	1.30	1.34	1.46
ROIC	4.1%	10.7%	11.5%
Liquidity			
Current ratio	1.2	1.3	1.3
Quick ratio	0.7	0.7	0.6
Cash ratio	0.5	0.5	0.5
Cash cycle	109.0	120.6	119.3
Growth rate (yoy)			
Revenue growth	(15.9%)	14.1%	21.7%
Operating profit growth	(26.1%)	129.4%	23.0%
Net profit growth	(19.4%)	180.9%	22.6%
EPS growth	(19.4%)	180.9%	22.6%

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.

Growth Ratings Definition:

Positive	We forecast the company to have stronger earnings growth than peers over the investment horizon.
Neutral	We forecast the company's earnings growth to be in line with peers over the investment horizon.
Negative	We forecast the company to have weaker earnings growth than peers over the investment horizon.

Value Ratings Definition:

Positive	The current share price is lower than peers on the basis of historical P/E, P/B or another ratio specified.
Neutral	The current share price is in-line with peers on the basis of historical P/E, P/B or another ratio specified.
Negative	The current share price is higher than peers on the basis of historical P/E, P/B or another ratio specified.

Sector Ratings Definition:

Overweight	Stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	Stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	Stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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