

# Steel

## Domestic consumption returned

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June 28, 2024

## Positive maintain

### Recommendations

<b>HPG</b>	<b>BUY</b>
Price target	VND34,300

<b>HSG</b>	<b>BUY</b>
Price target	VND27,400

<b>NKG</b>	<b>BUY</b>
Price target	VND31,000

### 1Q24 revenue increased 3% YoY, and GPM continued to improve

1Q24 sales output gained 1.5% YoY, mostly supported by the export output of galvanized steel and HRC (up 74% and 21% YoY respectively). GPM of the entire sector continued to improve in the quarter, recording a three-quarter increase in the steel trading group. This helped domestic consumption rebound after a period of GPM being affected by high priced inventory.

### Domestic consumption should rebound more strongly in 2H24

KBSV expects domestic consumption to gain more strongly in the second half of 2024 thanks to the recovery of the domestic real estate industry, with the number of newly licensed projects increasing and the revised real estate law starting to take effect from August 1, 2024. In addition, the value of raw material inventory of listed steel enterprises tended to increase from 3Q23, showing confidence in the prospect of consumption output in the coming time.

### Domestic steel prices may post modest gains in 2H24 from domestic demand

Chinese steel prices have dropped since the beginning of the year due to low consumption prospects and pressure from the gloomy real estate market. Meanwhile, we believe that recovering demand will help balance and slightly raise domestic steel prices in 2H24. Besides, reduced input costs will help steel businesses improve GPM.

### Coated steel manufacturing enterprises will benefit if AD19 is applied

By the end of May 2024, the proportion of galvanized steel from China and Korea accounted for 80% of total imports into Vietnam. KBSV believes that Hoa Sen Group (HSG), Ton Dong A Corporation (GDA), and Nam Kim Steel (NKG) will benefit the most in case AD19 is applied thanks to the largest market share of galvanized steel in the industry, reaching 28%, 18%, and 17% at the end of 2023.

### Valuation is in line with prospects

The three steel businesses that we cover are trading with an average P/B close to the 5-year average P/B. We believe that the current valuation has reflected the industry's recovery prospects in 2024, and the growth prospects of the industry in the period 2025–2027 will be POSITIVE, based on (1) domestic demand recovering from 2H24, (2) new steel mills coming into operation, and (3) the start of a new steel price cycle when the Chinese real estate market slowly recovers from 2025. Our top picks include HPG, HSG, and NKG.

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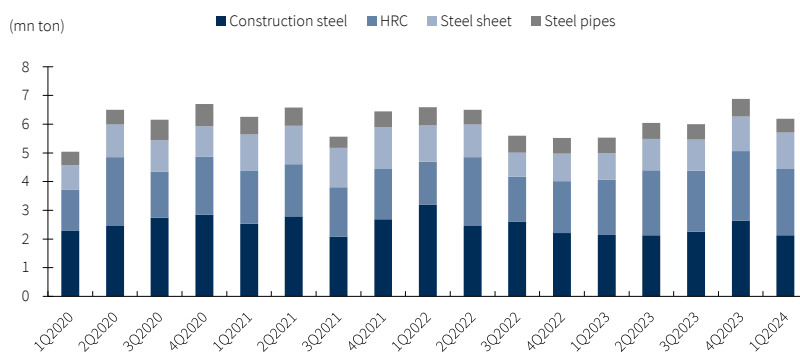
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## I. Business performance in 1H24

**Steel consumption across the industry in 1Q24 increased by 1.5% YoY**

Total steel sales in 1Q24 reached 4 million tons (+1.5% YoY), mostly supported by the export output of galvanized steel and HRC (up 74% and 21% YoY respectively). Besides, the recovery of domestic demand for HRC also helped domestic output during the period reach 1.4 million tons (+6% QoQ, +20% YoY).

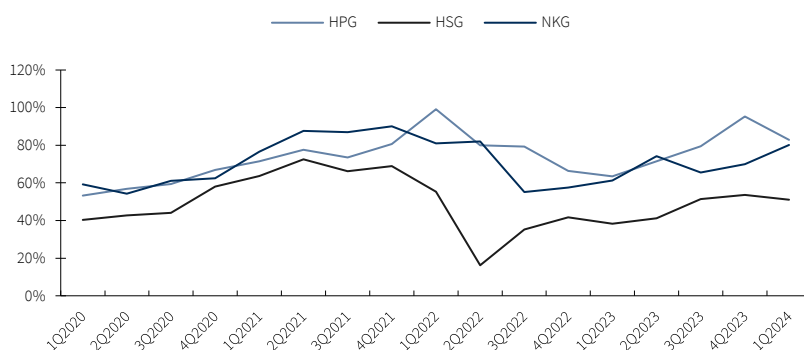
**Fig 1. Vietnam – Total steel sales output (million tons)**



Source: Vietnam Steel Association, FiinProX, KB Securities Vietnam

Manufacturers all recorded capacity recovery in the context of increased domestic and international demand. By 1Q24, we estimate the capacity of HPG, HSG, and NKG to reach 83%/53%/85% respectively compared to 64%/35%/62% in 1Q23.

**Fig 2. HPG, HSG & NKG – Production capacity (%)**

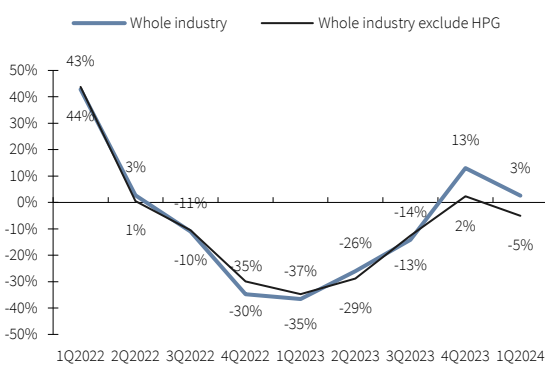


Source: Vietnam Steel Association, FiinProX, KB Securities Vietnam

**Business results met the market expectations**

1Q revenue of the whole sector went up 3% YoY. However, if HPG's revenue is excluded, the revenue average decreased by 5% YoY, reflecting a slower recovery speed in the group of medium-sized enterprises. In 1Q24, GPM of the entire industry continued to improve compared to the low base in the same period last year when business results were still affected by high-priced inventory. Although the average steel price fell in the first quarter of the year, the GPMs of steel traders have been rising for three straight quarters (+76bps QoQ to 2.8% in the period), implying the potential for better core business activities in the near future.

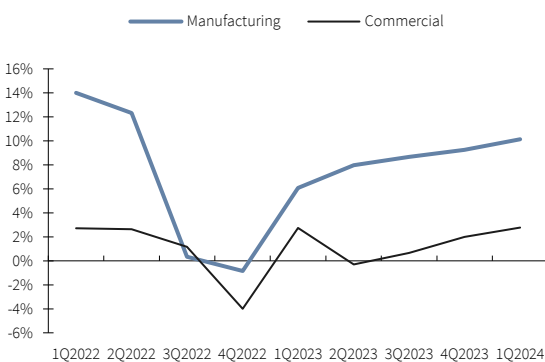
**Fig 3. Vietnam – Revenue growth of steel sector (%)**



Source: FiinProX, KB Securities Vietnam

- Industry-wide revenue increased by 3% YoY, revenue when excluding HPG decreased by 5% YoY.
- According to ICB-5 classification, revenue of steel manufacturing and trading groups increased 6% and decreased 26% YoY, respectively. The negative growth of the steel trading companies reflects the difficulties of businesses when (1) steel prices tended to decrease in 1Q24; and (2) competition between traders when the demand for construction steel and domestic steel pipes fell 8% and 9% YoY respectively (1Q is usually the low season of the year). Meanwhile, the manufacturers can maintain revenue thanks to higher demand from export channels.

**Fig 4. Vietnam – GPMs of steel manufacturers and traders (%)**



Source: FiinProX, KB Securities Vietnam

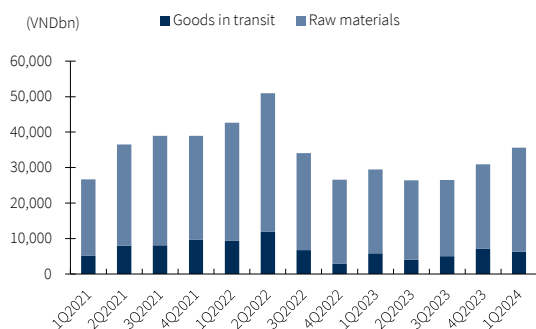
- GPM of the entire industry kept rising thanks to (1) production capacity recovery and (2) high-priced inventory being completely processed in 1H23.
- For businesses in the steel selling group, 1Q GPM hit 2.8% (+76bps QoQ), showing that business conditions have improved significantly. We believe that this will bode well for the industry's consumption prospects in the coming time.

## II. Business outlook for 2H24

**It is expected that consumption output in 2H24 will continue to increase, driven by domestic demand**

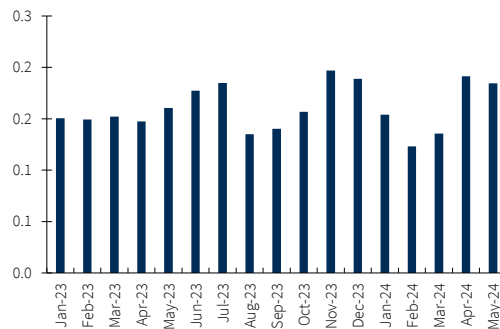
By the end of 1Q24, the total value of raw materials in the entire industry was VND36 trillion (+15% QoQ, +21% YoY after a period of focusing on handling high-priced inventory), showing the confidence of businesses in the bright prospect of consumer demand in 2024. We maintain our view that domestic consumption will begin to recover from 2H24 thanks to the gradual recovery of the residential real estate sector with more projects being granted for construction license. In the medium and long term, the amended real estate law effective from August 1, 2024 (Figure 7) is expected to indirectly stimulate domestic steel consumption. Up to now, the domestic market has witnessed a recovery as steel pipe consumption in April–May 2024 reached 191/184 thousand tons, an increase of 26%/14% YoY (90% of steel pipe output is consumed by the domestic market). KBSV expects that the consumption output of the steel sector in 2024/2025 will increase by 15%/8% YoY.

**Fig 5. Vietnam – Goods in transit & raw material of the steel sector (VNDbn)**



Source: FiiProX, KB Securities Vietnam

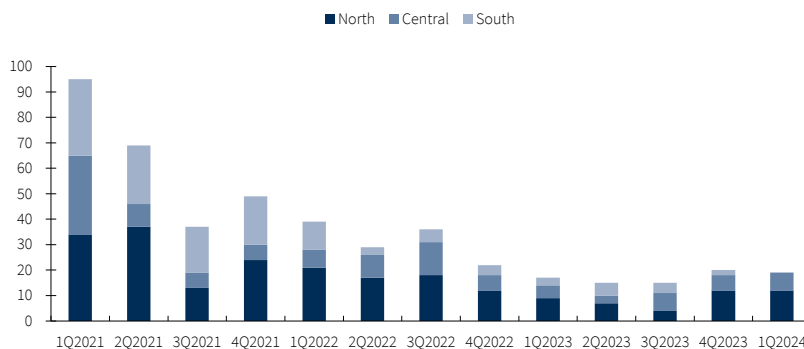
**Fig 6. Vietnam – Steel pipe consumption (million tons)**



Source: FiiProX, KB Securities Vietnam

The Real Estate Law taking effect from August 1, 2024 has main changes including (1) removing the land price frame, (2) identifying four land valuation methods, and (3) allocating land, land use rights through auction and bidding methods. Applying the revised Land Law will help update land prices closer to the market, speed up the site clearance process and increase transparency and publicity, avoiding land waste due to weak contractors and failure to implement projects.

**Fig 7. Vietnam – Number of newly licensed construction projects (unit)**

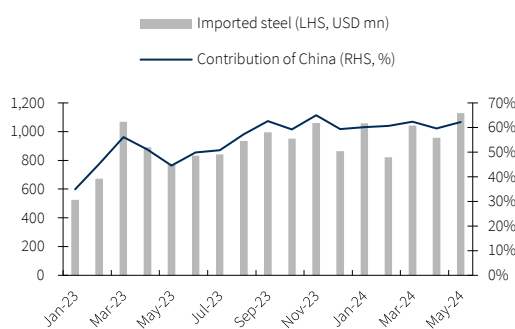


Source: Ministry of Construction, KB Securities Vietnam

**Domestic manufacturers have room to compete with imported steel**

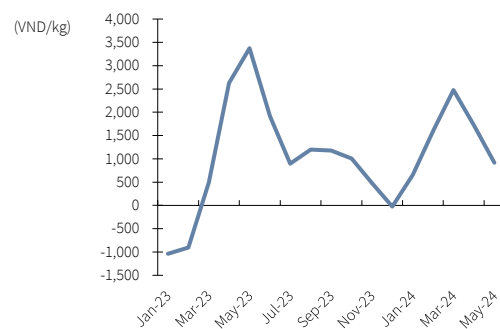
By the end of May 2024, the import turnover of iron and steel of all kinds from China reached more than USD3 billion (+62% YoY). However, we believe that the competitiveness of domestic steel manufacturers will improve over the same period as (1) the difference in selling price of domestic construction steel compared to imported steel has decreased significantly compared to 5M23, and the downward trend continues. In addition, (2) the decline in input costs in 1H24 will give more room for manufacturers to adjust selling prices to ensure consumption output.

**Fig 8. Vietnam – Import turnover of iron and steel of all kinds (USDmn)**



Source: General Statistics Office, KB Securities Vietnam

**Fig 9. Vietnam, China – Construction steel price difference (VND/kg)**

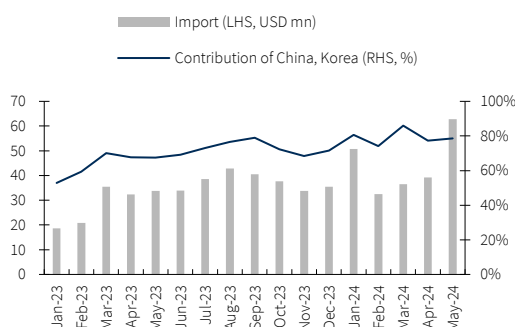


Source: Bloomberg, KB Securities Vietnam

**HSG, GDA, NKG will benefit in case anti-dumping tax on galvanized steel sheets (AD19) is applied**

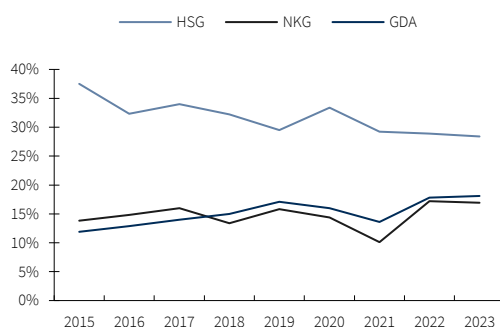
On June 14, 2024, the Ministry of Industry and Trade issued a decision to investigate and apply anti-dumping measures on a number of galvanized steel products imported from China and Korea (AD19). Based on the collected data, we see that the proportion of galvanized steel (according to AD19's HSCode list) imported into Vietnam has spiked since 2023 (by the end of May 2024, the contribution proportion of China and Korea accounted for 80% of total output, compared to only 53% in January 2023). KBSV believes that, in case AD19 is passed, HSG, GDA, and NKG will be the businesses that benefit from a large market share of galvanized steel, reaching 28%/18%/17% by the end of 2023.

**Fig 10. Vietnam – Galvanized steel import value according to AD19's HSCode list (USDmn)**



Source: KB Securities Vietnam

**Fig 11. HSG, NKG, GDA – Market share of galvanized steel (%)**

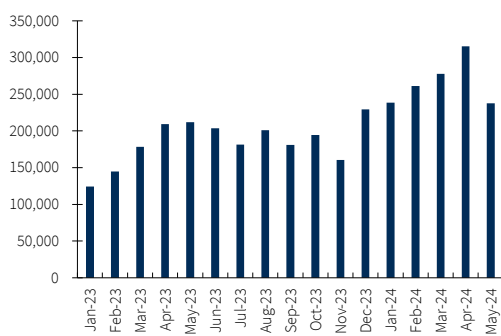


Source: Vietnam Steel Association, KB Securities Vietnam

**Galvanized steel export output should maintain growth thanks to the price differences**

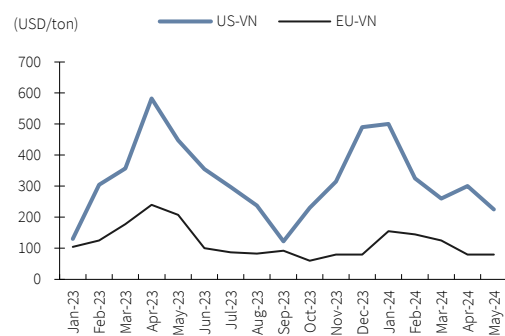
5M24 galvanized steel export output reached 1.3 million tons (+53% YoY), of which, output in May alone gained 12% YoY but decreased by 25% MoM. Despite facing competition with galvanized steel products from China, Vietnam's coated steel export output should maintain growth in 2024 thanks to the price difference between foreign markets and Vietnam. Furthermore, on June 24, 2024, the European Commission passed a decision to extend the validity of trade defense measures on some steel products until the end of June 2026. Accordingly, some countries will be subject to 15% ceiling for HRC output imported into the EU. We think that this will help raise domestic HRC consumption and prices in this market. At that time, the price difference between the EU and Vietnam will remain stable, and galvanized steel exporters (HSG, NKG, and GDA) will benefit.

**Fig 12. Vietnam – Export volume of galvanized steel (ton)**



Source: Bloomberg, KB Securities Vietnam

**Fig 13. Vietnam – HRC price difference with the US & EU (USD/ton)**

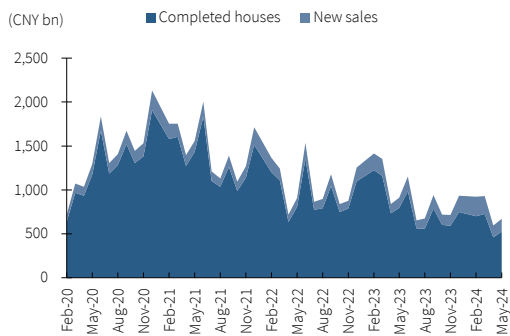


Source: Bloomberg, KB Securities Vietnam

**China's real estate market is gloomy, expected to recover from 2025**

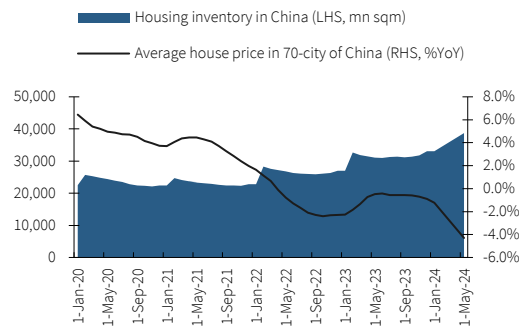
Cumulative home sales in China in the first five months of the year dropped 31% YoY. Sales in May alone decreased by 26% YoY. The average house price continues its downtrend while the residential real estate market in this country is still gloomy. Home inventory at the end of May 2024 reached 38 billion m<sup>2</sup>, an increase of 44%/17% compared to the beginning of 2023/2024. Currently, a number of options to support the recovery of the real estate sector in China are being researched, including (1) lowering home loan interest rates, lowering home purchase deposit rates and (2) launching a CNY300 billion supportive package to finance the acquisition of apartments in inventory and conversion into social housing. However, according to Goldman Sachs research, the total value of property inventory in China is currently at CNY30 trillion, showing that the impact of the relief package on the market is quite limited. We believe that the Chinese real estate market still has many difficulties which need more time to overcome. Compared to the most recent report, KBSV has changed its opinion and expects that the residential real estate sector in China will have a slight improvement from the end of 2024 and will only begin to recover slowly from 2025.

Fig 14. China – Home sales (CNYbn)



Source: NBS, Bloomberg, KB Securities Vietnam

Fig 15. China – Home inventory and prices (million m<sup>2</sup>, %YoY)

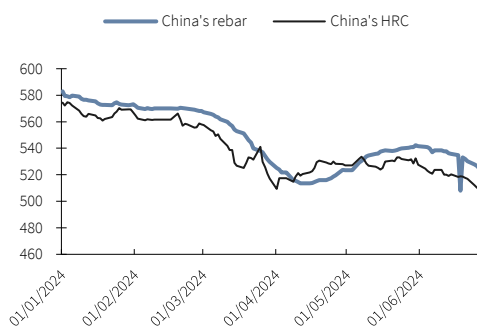


Source: NBS, Bloomberg, KB Securities Vietnam

**Domestic steel prices should improve slightly in 2H24**

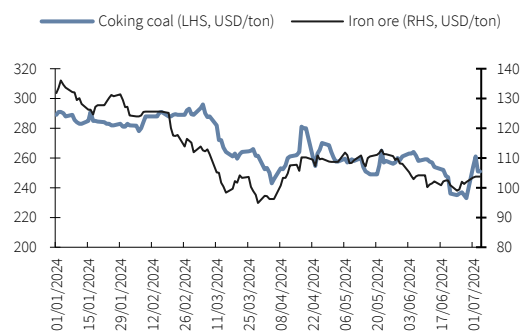
Being affected by the subdued real estate market, Chinese steel prices have been falling since the beginning of the year due to low consumption prospects. We believe that Chinese steel prices will continue to be under downward pressure in 2H22, based on (1) the inventory up to May 2024 increased by 27% YTD; (2) industry-wide capacity tends to improve; and (3) Chinese real estate is gloomy and will recover at slow speed. However, for the domestic market, KBSV believes that steel prices will be supported thanks to increased domestic demand and reduced adjustment pressure and competition with Chinese steel prices. In addition, input raw material costs may decrease from the beginning of next year, which will help the GPM of steel manufacturing enterprises improve in the coming quarters.

Fig 16. China – Steel prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 17. Global – Coke and iron ore prices (USD/ton)



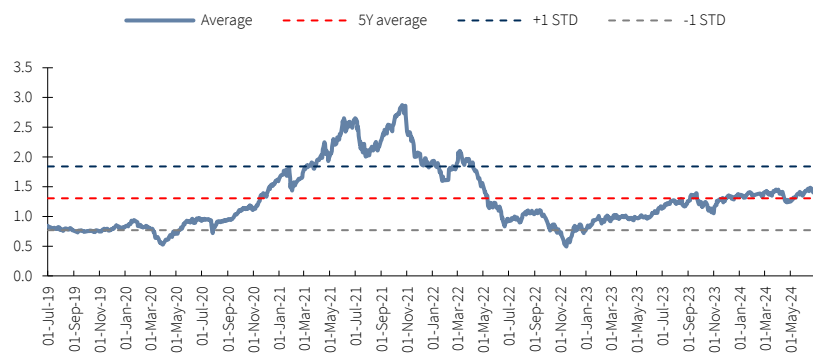
Source: Bloomberg, KB Securities Vietnam



The steel industry has a **POSITIVE** growth prospect with P/B valuation in a reasonable range

The three steel businesses that we cover are trading with an average P/B close to the 5-year average P/B. We believe that the current valuation has reflected the industry's recovery prospects in 2024, and the growth prospects of the industry in the period 2025–2027 will be **POSITIVE**, based on (1) domestic demand recovering from 2H24, (2) new steel mills coming into operation, and (3) the start of a new steel price cycle when the Chinese real estate market slowly recovers from 2025. Our top picks include HPG, HSG, and NKG.

**Fig 28. HPG, HSG, NKG – Average P/B (x)**



Source: FiinProX, KB Securities Vietnam



# Companies

Hoa Phat Group (HPG)

Hoa Sen Group (HSG)

Nam Kim Steel (NKG)

# Hoa Phat Group (HPG)

## Maintained stable growth

June 11, 2024

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**1Q24 NPAT was beyond expectations thanks to high GPM**

In 1Q24, Hoa Phat Group (HPG) recorded VND2,869 billion in NPAT (-3% QoQ, +622% YoY) thanks to (1) sales volume gaining 29% YoY, underpinned by exports and (2) GPM increasing 716bps from the low base of 1Q23 with the company's effective inventory management. The inventory turnover in the quarter was 120 days (compared to 134 days in 1Q last year).

**Domestic demand should rebound stronger from 2H24**

April data shows that domestic demand is recovering as consumption of construction steel and steel pipes increased by 51%/78% MoM respectively. We expect this to be the main driver of HPG's profit growth when the residential real estate sector gradually rebounds from 2H24. Steel sales volume of HPG should gain 18%/12% in 2024/2025.

**Steel prices are expected to return to an uptrend in 2H24**

KBSV believes that the steel industry is in the early stages of a new cycle and steel prices will increase from 2H24, based on (1) domestic demand recovering and (2) Chinese real estate surpassing the most difficult period with rising steel demand.

**Dung Quat 2 should come into operation from 1Q25**

The current construction progress of Dung Quat 2 (DQ2) is still on schedule, and the complex should start operating from 1Q25. The first blast furnace should come into operation with a designed capacity of 2.3 million tons/year.

**Valuation: BUY rating – Target price VND34,300**

We maintain our BUY rating for HPG, the target price is VND34,300, and 2025 P/B forward is 1.6x (lower than the five-year average). With solid medium and long-term growth prospects, 2024 –2026 NPAT CAGR may reach 21%/year.

**Buy** change

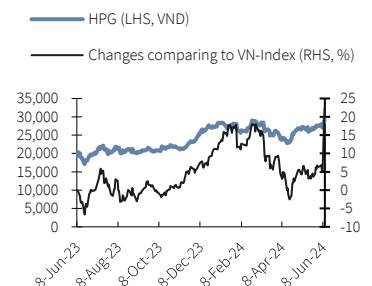
Target price	VND34,300
Upside	17%
Current price (Jun 11, 2024)	VND29,300
Consensus target price	VND34,700
Market cap (VNDtn/USDbn)	525.6/206.8

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	20.3/0.8
Foreign ownership	25.2%
Major shareholder	Chairman Tran Dinh Long (25.8%)

Share price performance				
(%)	1M	3M	6M	12M
<b>Absolute</b>	5.8	6.4	16.4	40.7
<b>Relative</b>	2.2	2.9	1.6	24.2

### Forecast earnings & valuation

FY-end	FY2022	FY2023	FY2024	FY2025
Net revenue (VNDbn)	141,409	118,953	133,374	153,377
Operating income/loss (VNDbn)	9,794	7,651	11,618	16,358
NPAT-MI (VNDbn)	8,484	6,835	10,218	13,904
EPS (VND)	1,459	1,175	1,598	2,174
EPS growth (%)	-81%	-19%	36%	36%
P/E (x)	12.3	25.7	18.3	15.5
P/B (x)	1.1	1.7	1.7	1.6
ROE (%)	9%	7%	10%	12%
Dividend yield (%)	3.9%	0.0%	9.1%	0.0%



Source: Bloomberg, KB Securities Vietnam

# Hoa Sen Group (HSG)

## Benefits from stockpiling low-cost inventory

June 4, 2024

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### Business results continued the recovery trend in 2Q FY24

Hoa Sen Group (HSG) posted VND319 billion in 2Q NPAT (+209% QoQ, +27% YoY) on revenue of VND9,248 billion (+2% QoQ, +32% YoY) thanks to (1) sales volume rising 52% YoY and (2) recording VND124 billion in exchange gain (+126% YoY).

### HSG's stockpiling while the prices of raw materials are low will benefit GPM in the next quarters

In 2Q FY24, the inventory of HSG gained 49% QoQ, of which raw materials spiked 79%. The steel producer has been very active in stockpiling when HRC prices have remained low (USD530–550/ton) for many months. KBSV estimates HSG's GPM to reach 11.6%/12.5% in FY24/FY25.

### Domestic consumption started to rebound

Domestic sales volume is showing signs of recovery when consumption of galvanized steel and steel pipes in April gained 29% and 28% MoM respectively. We expect domestic consumption to rebound stronger in 2H24, supported by the recovery in residential real estate sector and newly implemented projects.

### HSG benefits in case AD02 is applied

We think that HSG will benefit the most in case anti-dumping measures on galvanized steel imported from China and Korea (AD02) are applied thanks to its biggest and second biggest market shares in galvanized steel and steel pipes (28.4% and 12.4% respectively).

### Valuation: BUY rating – price target VND27,400

We gave a BUY recommendation for HSG. The target price is VND27,400/share, corresponding to an expected profit margin of 23% compared to the closing price on June 3, 2024.

## Buy maintain

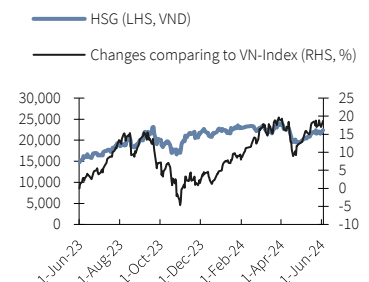
<b>Target price</b>	<b>VND27,400</b>
Upside	23%
Current price (Jun 3, 2024)	VND22,350
Consensus target price	VND24,200
Market cap (VNDtn/USDbn)	1.37/0.54

<b>Trading data</b>	
Free float	82%
3M avg trading value (VNDbn/USDmn)	237.07/9.46
Foreign ownership	43.2%
Major shareholder	Daiwa Securities Group (15.46%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	12.9	-3.0	2.8	48.5
<b>Relative</b>	7.6	-4.8	-13.4	31.2

### Forecast earnings & valuation

FY-end	FY2022	FY2023	FY2024	FY2025
Net revenue (VNDbn)	49,711	31,651	38,917	40,435
Operating income/loss (VNDbn)	331	74	832	1,216
NPAT-MI (VNDbn)	251	25	786	1,034
EPS (VND)	419	40	1,275	1,679
EPS growth (%)	-95%	-90%	3099%	32%
P/E (x)	27.6	571.9	17.5	13.3
P/B (x)	0.6	1.3	1.2	1.1
ROE (%)	2%	0%	7%	9%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%



Source: Bloomberg, KB Securities Vietnam

# Nam Kim Steel (NKG)

## Nam Kim Phu My is a long-term driver

May 28, 2024

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**1Q24 profit completed 45% of the full-year target**

Nam Kim Steel JSC (NKG) recorded VND150 billion in 1Q NPAT (vs a loss worth VND40 billion in 1Q last year) as (1) its steel consumption gained 31% YoY, and exported volume rose 65% YoY and (2) GPM increased 757bps from the low base after selling high-priced inventory out in 2023.

**Consumption is boosted by export channels and rebounding domestic demand**

2Q steel consumption output of NKG may gain 10% QoQ to 280,000 tons. KBSV estimated the steel consumption for the whole year 2024 at 1.03 million tons (equal to 103% of the plan set by NKG), driven by higher export sales and recovering domestic consumption from 2H24.

**Steel prices are about to enter a new increasing cycle**

We expect steel prices to enter a new increasing cycle from 2H24 with the following arguments (1) HRC prices have formed a medium-term bottom around USD530-550/ton; (2) Chinese real estate market is recovering thanks to the government's supportive policies; (3) domestic demand will rise more strongly in 2H24 thanks to higher demand for construction and machinery production.

**Nam Kim Phu My steel mill should start manufacturing from 1Q26**

The construction of Nam Kim Phu My Steel Mill (VND4,500 billion in investment capital) should start from April this year and make products from 1Q26. The management expected the steelworks to operate at 100% capacity and reach a total capacity of 2 million tons/year by 2027.

**BUY rating with target price VND31,000/share**

KBSV gave a BUY rating to NKG shares with a target price of VND31,000 apiece, 24% higher than the closing price on May 28, 2024.

**Buy** change

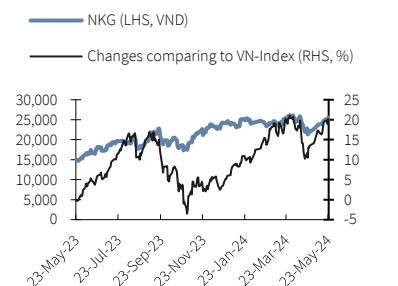
<b>Target price</b>	<b>VND31,000</b>
Upside	24%
Current price (May 28, 2024)	VND25,050
Consensus target price	VND24,700
Market cap (VNDtn/USDbn)	0.67/0.26

<b>Trading data</b>	
Free float	76%
3M avg trading value (VNDbn/USDmn)	213.63/8.55
Foreign ownership	14.8%
Major shareholder	Chairman Ho Minh Quang (14.2%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	20	6	13	73
<b>Relative</b>	11	2	-2	52

### Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	23,071	18,596	22,340	24,200
Operating income/loss (VNDbn)	-46	177	496	547
NPAT-MI (VNDbn)	-67	117	413	465
EPS (VND)	-253	446	917	1,034
EPS growth (%)	-102%	-276%	106%	13%
P/E (x)	-48.3	56.2	27.3	24.2
P/B (x)	0.6	1.3	1.7	1.6
ROE (%)	-1%	2%	7%	7%
Dividend yield (%)	8.4%	0.0%	5.8%	0.0%



Source: Bloomberg, KB Securities Vietnam

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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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