

September 19, 2023

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In 2Q23, revenue and NPATMI was VND29,496 billion and VND1,460 billion, respectively

Rising HRC import volume in Europe in 3Q23 would bolster HPG's steel sales

Domestic consumption remained weak but should recover from 2Q24 on property market rebound

Steel prices may see improvements in 4Q23 and 1Q24

We recommend BUY for HPG with a target price of VND32,600/share

In the April-through-June period, Hoa Phat Group (HPG) saw revenue increase slightly against 1Q23 on improved yet sluggish steel demand. Meanwhile, favorable material price variance led gross profit margin up 5% QoQ to 11%, lifting NPATMI to VND1,460 billion.

HRC blast furnaces are running at their max capacity in 3Q23 in response to increased export orders amid rising import volume across European steelmakers since early July 2023 after suspending production for maintenance work. However, HPG is under competitive pressure from Chinese steel sources.

Domestic consumption remained weak. Besides, HPG had to compete for cheap steel products from Chinese firms in July. Nevertheless, HPG's construction steel sales volume improved in August thanks to rising exports (up 17% MoM).

We expect steel prices to improve on rising demand in the year-end period, supported by property revival and steel production restrictions in the world's second-largest economy.

Based on DCF and P/E valuation methods, we recommend BUY for HPG with a target price of VND32,600/share, 16% higher than the closing price on September 19, 2023.

Buy maintain

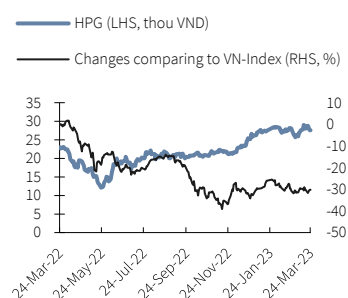
Target price	VND 32,600
Upside	16%
Current price (Sep 19, 2023)	VND 28,150
Consensus target price	VND 28,500
Market cap (VNDtn/USDbn)	16.04/6.58

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	735.44/30.8
Foreign ownership	25.39%
Major shareholder	Tran Dinh Long (26.08%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-2%	18%	35%	20%
Relative	0%	9%	19%	22%

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	149,680	141,409	111,947	121,633
EBIT (VNDbn)	37,008	9,794	6,126	10,545
NPAT of parent company (VNDbn)	34,478	8,484	5,204	8,963
EPS (VND)	7,708	1,459	895	1,541
EPS growth (%)	90%	-81%	-39%	72%
P/E (x)	4.6	12.3	31.5	18.3
P/B (x)	1.8	1.1	1.6	1.5
ROE (%)	46%	9%	5%	8%
Dividend yield (%)	1.1%	2.1%	0.0%	0.0%



Source: Bloomberg, KB Securities Vietnam

Business performance

Table 1. HPG – Sales volume of steel products (tons)

(tons)	2Q2022	2Q2023	+/-%YoY	1H2022	1H2023	+/-%YoY	Comments
Construction steel	1,041,000	784,036	-25%	2,383,754	1,652,036	-31%	
HRC	752,000	733,468	-2%	1,422,118	1,215,468	-15%	
Steel pipes	159,000	164,304	3%	366,000	324,304	-11%	
Galvanized sheets	74,200	105,754	43%	179,827	175,754	-2%	
Billet	117,000	10,000	-91%	194,128	38,000	-80%	
Total	2,143,200	1,797,562	-16%	4,545,827	3,405,562	-25%	

Source:

Table 2. HPG – Output prices of steel products (USD/ton)

(USD/ton)	2Q2022	2Q2023	+/-%YoY	1Q2023	+/-%QoQ	Comments
Construction steel	749	570	-24%	662	-14%	
HRC	808	591	-27%	659	-10%	
Steel pipes	130	107	-17%	117	-8%	
Galvanized sheets	351	223	-37%	333	-33%	
Billet	660	514	-22%	511	0%	

Source:

Table 3. HPG – 1H22-1H23 business results

(VNDbn)	2Q2022	2Q2023	+/-%YoY	1H2022	1H2023	+/-%YoY	Comments
Revenue	37,422	29,496	-21%	81,480	56,085	-31%	2Q23 revenue fell by 21% YoY due to (1) a 25% YoY decrease in average output price and (2) a 16% decrease in sales volume, with construction steel consumption down 25% YoY.
Cost of goods sold	-30,882	-26,301	-15%	-64,832	-51,214	-21%	
Gross profit	6,540	3,195	-51%	16,648	4,871	-71%	
Gross profit margin	17%	11%	-7%	20%	9%	-12%	GPM in 2Q23 decreased by 7% YoY due to a sharp fall in output prices in response to weak demand. Nevertheless, output prices improved by 5% QoQ on cooling input costs.
Financia income	662	740	12%	1,431	1,644	15%	
Financial expense	-2,033	-1,349	-34%	-3,144	-2,679	-15%	
Borrowing cost	-717	-1,029	43%	-1,314	-2,018	54%	Interest expenses increased as interest rates were adjusted up twice in 4Q22. However, lending interest rates are expected to decrease in 2H23.
Shared profits from associates	0	0	-100%	-1	0	-100%	
SG&A	-856	-871	2%	-1,697	-1,629	-4%	
SG&A margin	2%	3%	1%	2%	3%	1%	
EBIT	4,313	1,715	-60%	13,237	2,207	-83%	
Net other income	67	-13	-120%	64	27	-58%	
PBT	4,379	1,702	-61%	13,301	2,234	-83%	
Pre-tax profit margin	12%	6%	-6%	16%	4%	-12%	
Corporate tax	-357	-254	-29%	-1,073	-403	-62%	
NPAT	4,023	1,448	-64%	12,229	1,831	-85%	
Net profit margin	11%	5%	-6%	15%	3%	-12%	
NPATMI	4,032	1,460	-64%	12,249	1,858	-85%	
NPATMI margin	11%	5%	-6%	15%	3%	-12%	

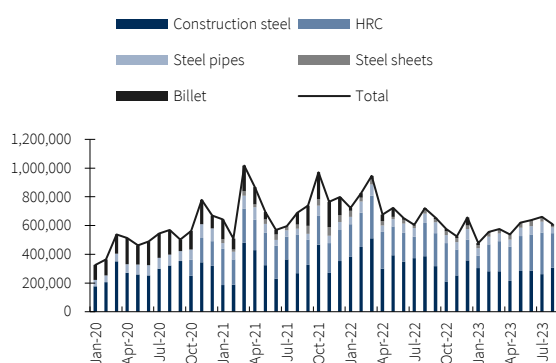
Source: Hoa Phat Group, KB Securities Vietnam

In 3Q23, HRC consumption should improve on rising orders and output price increases

HPG representative shared that HRC blast furnaces are running at their max capacity of 250,000 tons/month in 3Q23 in response to rising orders, especially export orders, amid growing import volume across European steelmakers since early July 2023 after suspending production for maintenance work. HPG's HRC sales volume amounted to 291,000 tons and 241,000 tons in July and August 2023, respectively, with key export markets being Europe and Asia.

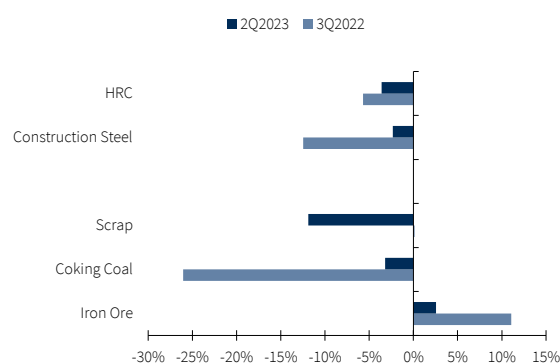
However, we believe the HRC market will drift sideways in 4Q23 compared to 3Q23 before starting to improve in 2Q24 due to (1) the resumption of steel plants in Europe, (2) weak consumption demand in the US and the EU, and (3) competitive pressure from Chinese producers following their low-price strategies to reduce inventories in export markets in early 2H23. This can be reflected by narrowing steel spreads in the US and Europe vs. China and Vietnam in the third quarter. Notably, they shrank by ~50% in August against May 2023.

Fig 4. HPG – Sales volume of steel products (tons)



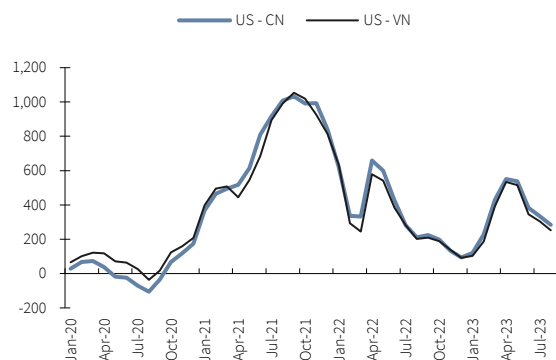
Source: Hoa Phat Group, KB Securities Vietnam

Fig 5. HPG – Input-Output price growth (%)



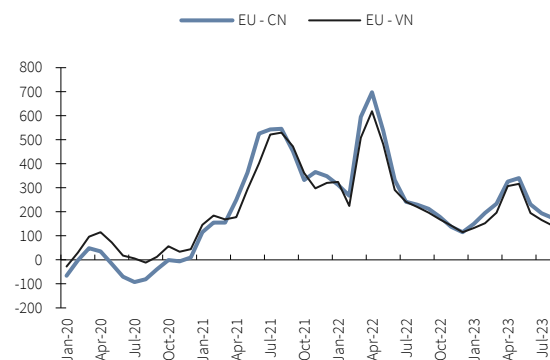
Source: Fiinpro, Bloomberg, KB Securities Vietnam

Fig 6. US-China and US-Vietnam HRC spreads (USD)



Source: Bloomberg, KB Securities Vietnam

Fig 7. EU-China and EU-Vietnam HRC spreads (USD)



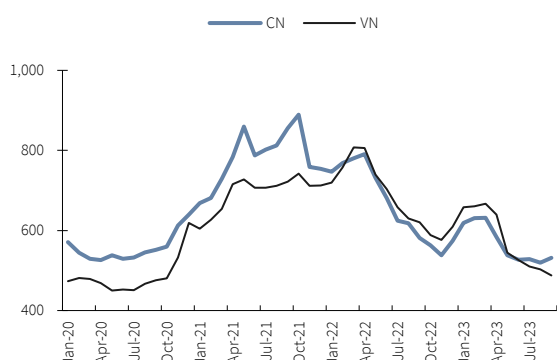
Source: Bloomberg, KB Securities Vietnam

Domestic steel consumption remained soft and should start recovering from 2Q24

Domestic consumption remained fragile in 2Q23 when construction steel sales volume was relatively unchanged from 1Q23, with 15 real estate projects licensed for construction during this period. In 3Q23, the local steel industry is increasing competition when (1) soft domestic consumption and (2) rising steel imports from China in July and August 2023 following a 3-5% QoQ decrease in steel products by Chinese firms to reduce inventories. However, we realized positive signals when HPG's construction steel export volume reached 98,000 tons in August 2023 (doubling the 1H23 median). In the last months of the year, we assess exports will help improve HPG's construction steel consumption.

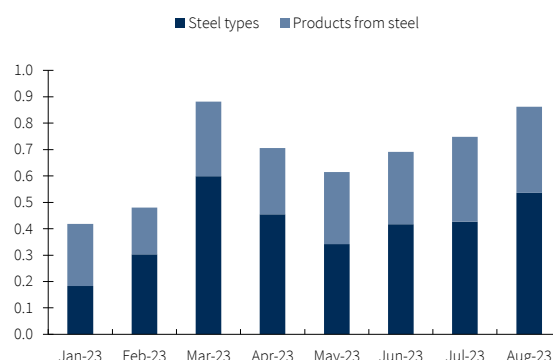
HPG resumed the last blast furnace in early July 2023 and ceased production of unit 3 in Hai Duong early this year for planned maintenance and upgrade (HPG's construction steel capacity during this period is estimated to contract by 100,000 tons/month, and crude steel production capacity should increase by 1.2% after resumption). Amid unfavorable market conditions, HPG planned to optimize and maintain low days sales of inventory (119 days in 2Q23) towards the end of this year to control costs in the production process and mitigate the negative impacts of exchange rate fluctuations.

Fig 8. China, Vietnam – Construction steel prices (USD/ton)



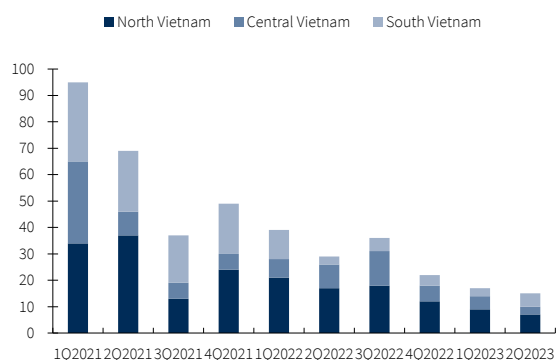
Source: VSA, Fiiipro, KB Securities Vietnam

Fig 9. Vietnam – Chinese steel imports (USDbn)



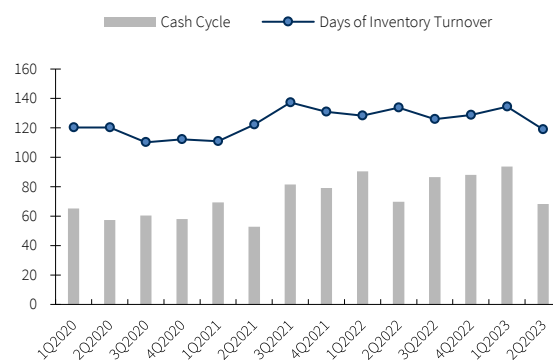
Source: General Statistics Office, KB Securities Vietnam

Fig 10. Vietnam – Number of real estate projects licensed for construction



Source: Construction Ministry, KB Securities Vietnam

Fig 11. HPG – Cash conversion cycle & days sales of inventory (days)



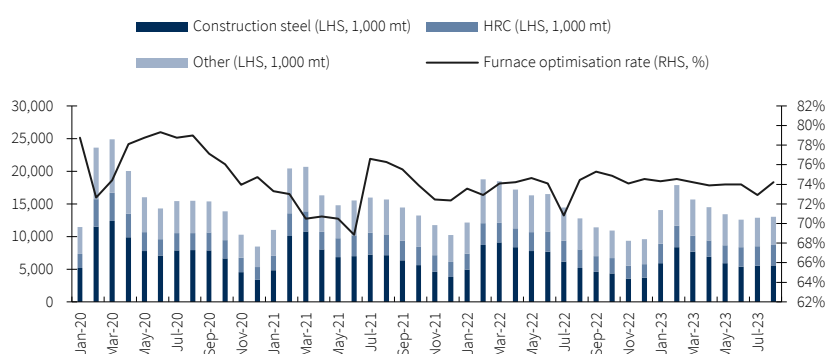
Source: Hoa Phat Group, KB Securities Vietnam

Chinese property rebound and crude steel production cuts would push steel prices in 2H23

We foresee steel prices will improve from 4Q23, underpinned by the property market rebound. Specifically, after steel inventories decreased for four successive months in 1H23, we found that utilization rates at Chinese blast furnaces improved to 74.4% in September 2023 (against 72.9% in July 2023) thanks to the Chinese Government's measures to revive the property market like cutting mortgage rates and down payment, leading new home sales and real estate investment transactions in Shanghai and other big cities to rise in September 2023.

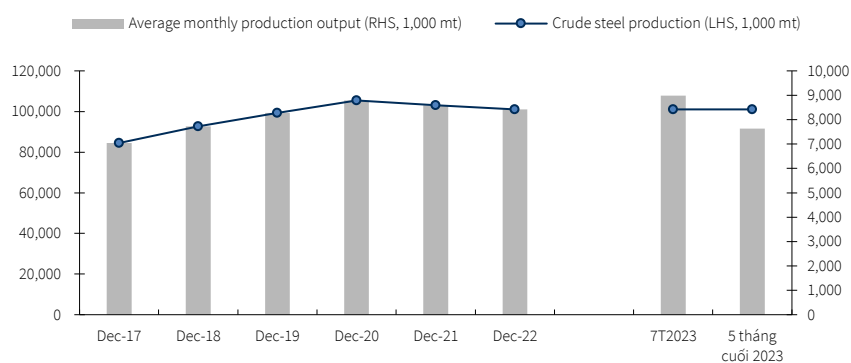
Furthermore, China's steel production restrictions to reduce its environmental footprint will push steel prices up in the year-end period. In the first seven months of 2023, crude steel production output in China was 62.9 million tons or 8.9 million tons/month on average. Assuming 2023 steel production output stays flat, the current monthly average utilization rate is 7% higher than the 2022 median. It will trigger the average utilization rate in the last five months of 2023 down to 7.6 million tons/month (-15% MoM). With the recovery of the property sector, limiting production will open up opportunities for HPG to export steel to China and help steel prices increase at the end of the year.

Fig 12. China – Steel inventories & utilization rates (tons, %)



Source: Bloomberg, KB Securities Vietnam

Fig 13. China – Production output in 2017–2023 (thousand tons)

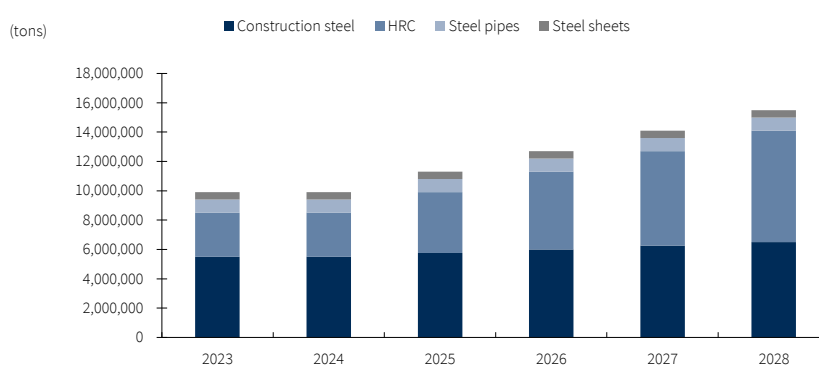


Source: Bloomberg, KB Securities Vietnam

Dung Quat 2's construction progress achieved 35% of the plan by the end of August 2023, and it should start operation in 1Q25

By the end of August 2023, the Dung Quat 2 project had its foundation completed to build BOF furnaces, and site clearance reached 90%. Construction progress is still on schedule, with capital expenditure (CAPEX) equivalent to 30% of the initial plan. HPG expects the Dung Quat 2 project to start manufacturing HRC from 1Q25, with a designed capacity of 1.5 million tons/year for Phase 1. Dung Quat 2 should produce 5.6 million tons/year (including 4.6 million tons of HRC and 1 million tons of special steel). HPG hopes Dung Quat 2 will reach its maximum capacity after three years of operation.

Fig 14. HPG – Production output after the operation of Dung Quat 2 (tons)



Source: Hoa Phat Group, KB Securities Vietnam

Forecast & Valuation

Table 15. HPG – Updates on model assumptions

	Unit	2023	New 2024	2025	2023	Old 2024	2025	2023	% change 2024	2025
Sales volume										
Construction steel	Tons	3,353,900	4,262,500	5,390,600	3,585,167	5,225,000	5,581,250	-6.5%	-18.4%	-3.4%
HRC	Tons	2,741,700	2,850,000	3,942,500	2,649,500	2,850,000	3,942,500	3.5%	0.0%	0.0%
Steel pipes	Tons	664,000	700,000	700,000	640,000	700,000	700,000	3.8%	0.0%	0.0%
Galvanized sheets	Tons	335,700	340,000	360,000	355,000	360,000	360,000	-5.4%	-5.6%	0.0%
Billet	Tons	98,000	160,000	160,000	114,000	160,000	160,000	-14.0%	0.0%	0.0%
Total	Tons	7,193,300	8,312,500	10,553,100	7,343,667	9,295,000	10,743,750	-2.0%	-10.6%	-1.8%
Input prices										
Iron ore	USD/ton	107	96	95	109	100	100	-1.2%	-3.8%	-5.0%
Coking coal	USD/ton	242	195	195	252	240	240	-4.0%	-18.8%	-18.8%
Steel scraps	USD/ton	486	475	480	504	510	510	-3.5%	-6.9%	-5.9%
Output prices										
Construction steel	USD/ton	587	563	552	622	630	625	-5.7%	-10.7%	-11.7%
HRC	USD/ton	598	570	570	584	584	584	2.4%	-2.4%	-2.4%

Source: KB Securities Vietnam

Table 16. HPG – 2022A–2024F business results

(VNDbn)	2022	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Revenue	141,409	111,947	-21%	121,633	9%	Revenue should grow in 2024 on rising construction steel consumption.
Cost of goods sold	-124,646	-101,025	-19%	-105,455	4%	
Gross profit	16,763	10,922	-35%	16,179	48%	Growing demand for construction steel would encourage output prices to increase, thereby improving gross profit margin.
<i>Gross profit margin</i>	12%	10%	-2%	13%	4%	
Financial income	3,744	2,798	-25%	3,041	9%	
Financial expense	-7,027	-3,984	-43%	-5,025	26%	
Borrowing costs	-3,084	-3,984	29%	-5,025	26%	
Shared profits from associates	-1	0	-100%	0	100%	
SG&A	-3,685	-3,610	-2%	-3,649	1%	In 2024, SG&A expenses should be optimized and equal 2023's.
<i>SG&A margin</i>	3%	3%	1%	3%	0%	
EBIT	9,794	6,126	-37%	10,545	72%	
Net other income	129	27	-79%	0	-100%	
PBT	9,923	6,153	-38%	10,545	71%	
<i>Pre-tax margin</i>	7%	5%	-2%	9%	3%	
Corporate tax	-1,479	-923	-38%	-1,582	71%	
NPAT	8,444	5,230	-38%	8,963	71%	
<i>Net profit margin</i>	6%	5%	-1%	7%	3%	
NPATMI	8,484	5,204	-39%	8,963	72%	
<i>NPATMI margin</i>	8%	4%	-3%	7%	3%	

Source: KB Securities Vietnam

We recommend BUY for HPG with a target price of VND32,600/share

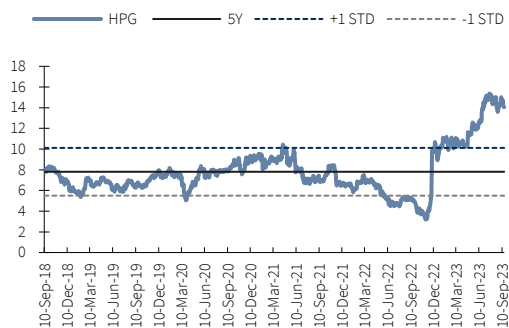
We apply the P/E and DCF valuation methods to value HPG within a 1-year time frame. We recommend BUY for HPG with a target price of VND32,600/share, equivalent to an upside of 16% compared to the closing price on September 19, 2023.

Table 17. HPG – Valuation result

Valuation method	Unit	Weighting	Value
DCF			
Beta	x		1.4
Risk-free rate	%		5.00%
Risk premium	%		7.55%
WACC	%		11%
Enterprise Value (EV)	VNDbn		257,496
Cash & equivalents and short-term investments	VNDbn		36,101
Short and long-term loans	VNDbn		60,627
Equity value	VNDbn		232,970
Outstanding shares	Million		5,815
Value per share	VND/share		40,060
P/E			
2024F EPS	VND		1,541
P/E target	x		10
Value per share	VND/share		15,400
DCF	VND/share	70%	28,000
2024F P/E	VND/share	30%	4,600
Target price	VND/share		32,600

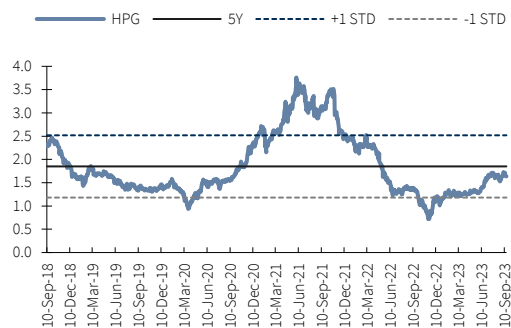
Source: KB Securities Vietnam

Fig 18. HPG – Historical P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 19. HPG – Historical P/B (x)



Source: Bloomberg, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

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

Buy:	Hold:	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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