

November 3, 2021

Power & Construction Materials Analyst
 Nguyen Ngoc Hieu
 hieunn@kbsec.com.vn

HPG earnings and revenue hit record highs

Hoa Phat Group (HPG) posted VND10,350 billion in 3Q earnings (+174% YoY) on revenue of VND38,900 billion (+90% YoY). Sold construction steel reached 958,000 tons (-1.5% YoY) in 3Q, which was still encouraging as the pandemic hit hard on domestic consumption. Sold HRC volume was 606,000 tons (+165% YoY).

China's crude steel output fell for four straight months on carbon-cutting targets and severe power shortage

China's September crude steel output was 73.75 million tons (-21% YoY and -11.4% MoM). The drastic output cut was made in the context that China will host the Olympic Winter 2022 in early February next year, and coking coal used in steel production is now prioritized for power generation amid power shortage.

Public investment is the best choice to stimulate economic development and steel consumption in 4Q21 - 2022

Fiscal policy, especially disbursement of public investment seems to be the most effective and appropriate tool to boost the economy at the moment. The last months of the year are also the construction season, leading to high steel demand. Therefore, HPG will benefit from the demand recovery and raw material sales to key public projects.

Stably high steel prices help maintain high profit margin

After peaking in May, construction steel prices decreased 6% and remained at VND16,140/kg for three consecutive months from June to September. However, HPG raised its construction steel prices for three times in October due to raw material price fluctuation and high demand amid social distancing.

2021F profit grows 184% with a BUY recommendation

We raise our forecast for HPG's 2021 earnings to VND38,385 billion (+184% YoY) and revise the target price up to VND68,200 per share, upside 22.4%.

Buy maintain

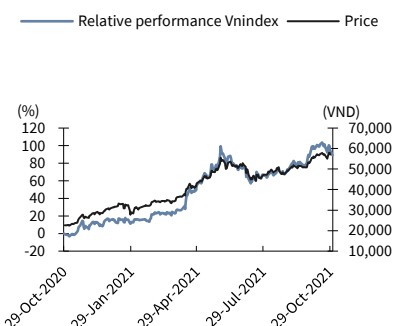
Target price	VND68,200
Upside/downside (%)	22.4
Current price (Nov 1, 2021)	VND55,700
Consensus target price	VND63,900
Market cap (VNDbn)	249/11

Trading data	
Free float (%)	55
3M avg trading value (VNDbn/USDmn)	1425/62
Foreign ownership (%)	24.95

Share price performance				
(%)	1M	3M	6M	12M
Absolute	1	13	20	146
Relative	-6	7	7	89

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Revenue (VNDbn)	63,658	90,119	145,485	152,981
Pre-tax earnings (VNDbn)	9,031	15,289	40,931	38,457
Post-tax earnings (VNDbn)	7,578	13,506	38,385	33,461
EPS (VND)	2,740	4,007	8,580	7,450
EPS growth (%)	-32%	49%	111%	-13%
P/E (x)	20.29	13.67	6.49	7.45
P/B (x)	32.18	31.16	25.97	19.59
ROE (%)	16%	23%	40%	26%
Dividend yield (%)	1.6%	5%	5%	5%



Business activities

HPG's net profit and revenue in 3Q grew by 174% YoY and 90% YoY respectively

HPG's 3Q21 earnings reached VND10,350 billion (+174% YoY), gross profit margin was 30.7%, a slight decrease of 2% compared to 1Q21 and 20.9% higher than that in the same period of 2020.

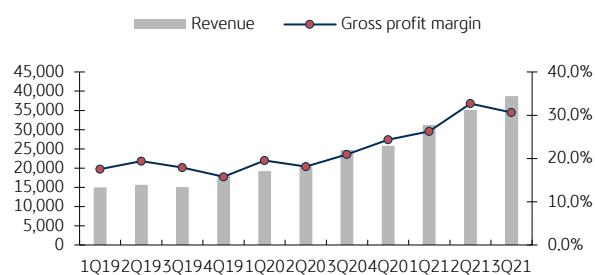
Consumption of construction steel in the whole industry in 3Q reached 2.08 million tons, down 23.7% YoY due to social distancing measures. HPG's 3Q sold construction steel volume was 958,000 tons, down only 1.5% YoY as the company promoted the exportation of finished products, and export volume gained 74.4% YoY to 297,000 tons. Besides, the exportation of galvanized steel products was accelerated to reach 93,000 tons, accounting for 82% of total consumption in the context of low demand.

Table 1. HPG – Business performance

Steel consumption	3Q20	3Q21	Change	Market share
Construction steel (tons)	973,000	958,000	-1.5%	46%
Steel pipe (tons)	221,000	123,000	-44%	37%
Steel coat (tons)	0	113,000		8%
Revenue from steel (VNDbn)	21,127	36,496	73%	
Net profit (VNDbn)	3,785	10,350	174%	

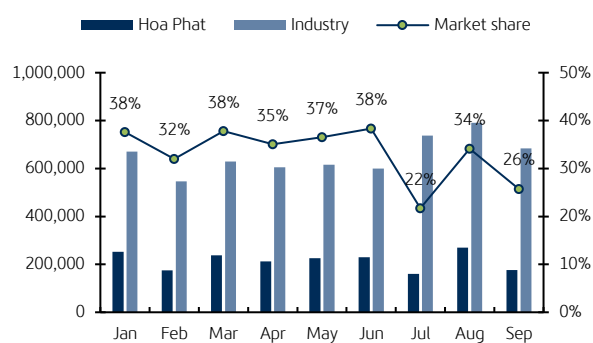
Source: Hoa Phat Group, KB Securities Vietnam

Fig 2. HPG – Revenue & gross profit margin (VNDbn, %)



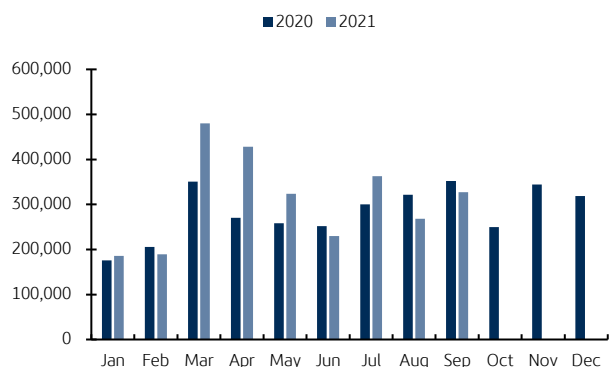
Source: Hoa Phat Group, KB Securities Vietnam

Fig 3. HPG – Sold HRC volume (ton)



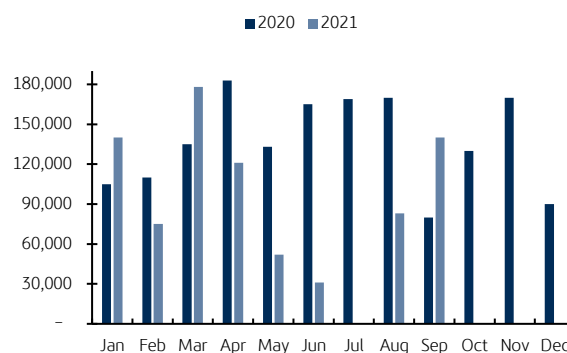
Source: Hoa Phat Group, KB Securities Vietnam

Fig 4. HPG – Sold construction steel volume (tons)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 5. HPG – Sold steel billets (tons)

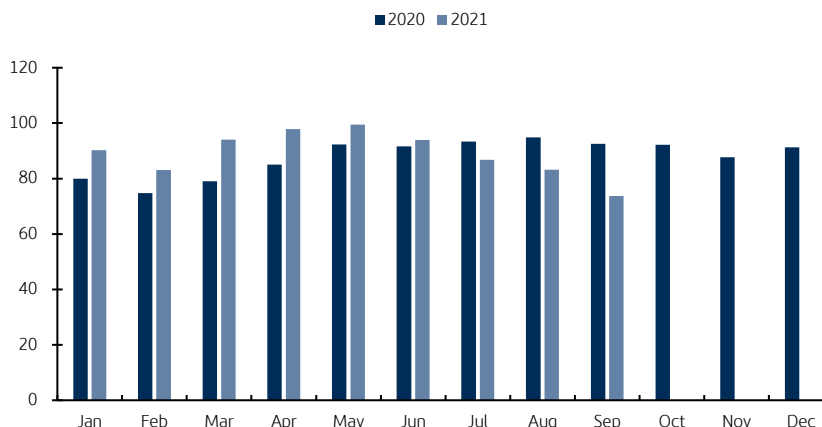


Source: Hoa Phat Group, KB Securities Vietnam

China's crude steel output fell for the fourth consecutive month due to efforts to cut carbon emissions and severe power crunch

In September, China's crude steel production reached 73.75 million tons (-21% YoY, -11.4% MoM). This figure was 802 million tons (+2.4% YoY) in 9M21. Therefore, to ensure that the production is comparable with or below 2020's, the average production of the remaining months should be 84 million tons, equivalent to a reduction of 7%. In addition, the drastic cuts in output in the context that China will host the 2022 Winter Olympics in early February next year together with severe power shortages made coke, which was previously used for steel production, now prioritized for electricity generation.

Fig 6. China – Crude steel production (million tons)

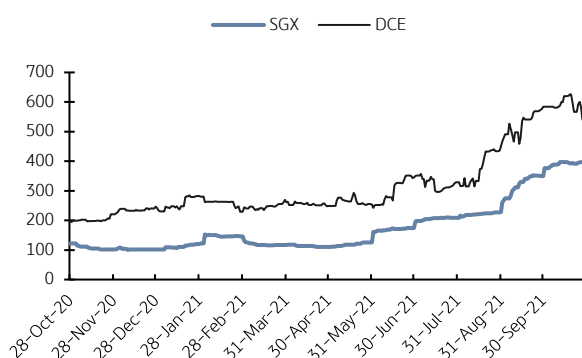


Source: Bloomberg, KB Securities Vietnam

Steel prices surged and remained high as coal prices increased but iron ore prices were lower

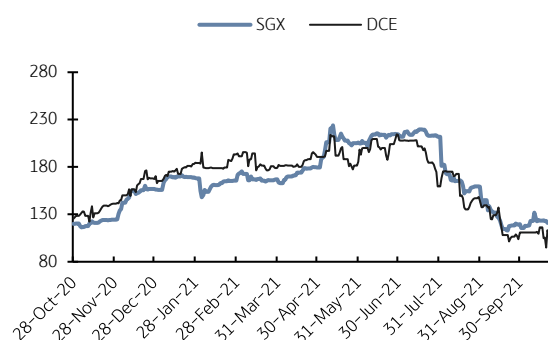
Coke prices on the Singapore Exchange have nearly tripled since the start of the year, reaching the record highest-ever due to a supply shortfall amid growing demand for energy globally. However, the outlook for steel consumption in China is not positive as a result of its production cuts, along with the crisis in the real estate sector, which slowed down demand for iron ore and led to a decrease of 46% in iron ore prices from its peak in May. After peaking in May, construction steel prices fell by 6% and remained at VND16,140/kg for three consecutive months from June to September. However, owing to fluctuations in input material prices and recovering demand after the relaxation of social distancing measures, HPG had three increases in steel prices (Price of coil steel and rebar increased by VND650/kg and VND600/kg respectively). We believe that higher steel prices as coal prices increased but iron ore prices were lower would contribute to improving revenue as well as stabilizing gross profit margin for HPG.

Fig 7. Singapore & Dalian – Contract coke prices (USD)



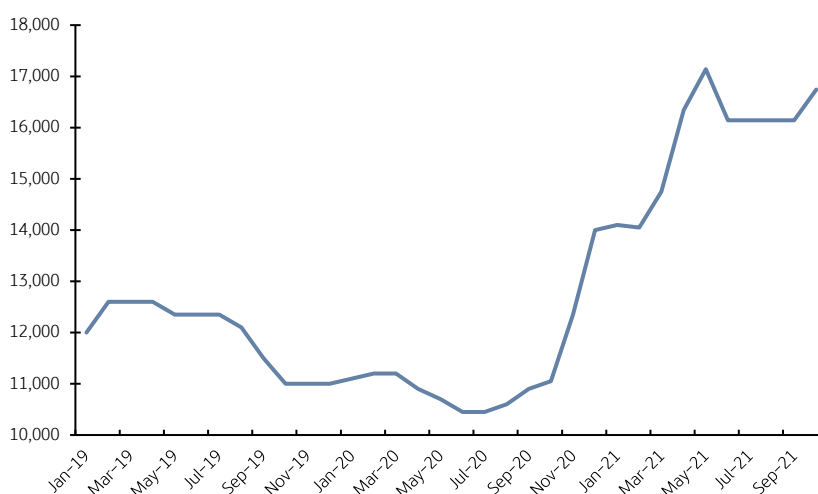
Source: Hoa Phat Group, KB Securities Vietnam

Fig 8. Singapore & Dalian – Contract iron ore prices (USD)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 9. Vietnam – Construction steel prices (VND/kg)



Source: KB Securities Vietnam

Public investment is the driving force to stimulate the economy and boost steel consumption in 4Q21 and 2022

When there is not much room left for monetary policy, fiscal policy like the public investment capital disbursement is the most effective and appropriate instrument in the current context to stimulate the economy. Besides, the last months of the year are also the construction season, leading to higher steel demand. HPG, a supplier of raw materials for key public investment projects, will benefit from this recovering demand.

Instability in China temporarily affected trading sentiment in this country, not Southeast Asian countries amid recovering demand

A series of causes that adversely affected both supply and demand for steel in China consist of tightening steel production, setting three red lines that directly affected the real estate market in this country. In addition, policies to stabilize steel prices and tighten speculation of raw materials such as coke and iron ore caused the prices of these items on the Dalian Exchange to drop sharply. However, those will only affect the trading sentiment on the Chinese market in the short term and will not have a big influence on the Southeast Asian markets. Despite the Chinese government's efforts to reduce raw material prices as well as cool down steel prices, it does not mean that steel products in this country will be exported to Vietnam as the average transportation cost from North China to Vietnam is USD50/ton. It is uncertain whether export prices would continue to fall to the current trading levels in Vietnam since once the price of China's exports is too low, export taxes may be applied.

Valuation and forecast

We raise 2021F PBT to VND38,385 billion and target price to VND76,300/share

HPG will be beneficial from recovering demand, promoted public investment disbursement to revive the economy following the impact of the fourth wave of COVID-19 in Vietnam as well as China's efforts to tighten production in the last months of 2021. Higher steel prices will contribute to expanding HPG's revenue and profit in 4Q21. We raise HPG's 2021F PBT to VND38,385 billion, up 184% YoY and 16.5% compared to previous forecast due to increased gross profit margin and better sales volume for all product lines in 4Q21 in relation to 3Q21 after the lockdown was lifted.

Table 10. HPG – 2019A–2022F financials

VNDbn	2019A	2020A	2021F	2022F
Construction steel output (tons)	2,773,108	3,400,000	3,785,000	4,000,000
HRC output (tons)	0	681,000	2,478,000	2,400,000
Billet output (tons)	0	1,640,000	1,090,000	1,200,000
Net revenue	63,658	90,119	145,485	152,981
Growth (%)	14%	41,6%	61,4%	5,2%
COGS	52,473	71,214	105,604	114,619
Gross profit	11,185	18,905	44,525	38,457
Gross profit margin (%)	17,6%	21%	30,6%	25,1%
Financial expense	1,182	2,824	3,526	3,191
Selling expense	873	1,094	2,019	1,836
General & Administrative expense	569	690	1,152	1,211
Net profit	7,578	13,506	38,385	33,461
Growth (%)	-11,9%	78,2%	184%	-12,8%
Net profit margin (%)	11,9%	15%	26,4%	21,9%

Source: KB Securities Vietnam

We recommend BUYING HPG shares with a target price of VND68,200/share

By combining two methods of valuation with the ratio of 50–50, we recommend BUYING HPG shares with a target price of VND68,200/share, 22.4% lower than the closing price on November 1, 2021:

- Based on the P/E method, we value HPG at a reasonable P/E of 8x, equivalent to the share price of VND65,600/share.
- Based on the discounted cash flow (DCF) method, we value HPG share price at VND67,800/share.

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information technology
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Property
ngaphb@kbsec.com.vn

Le Anh Tung
Senior Analyst – Oil & Gas & Banks
tungla@kbsec.com.vn

Nguyen Ngoc Hieu
Analyst – Power & Construction Materials
hieunn@kbsec.com.vn

Pham Nhat Anh
Analyst – Industrial Real Estate & Logistics
anhpn@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Consumers & Retailing
dunglnt@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy & Mid cap Stocks
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy & Mid cap Stocks
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.