

Hoa Phat Group (HPG)

Sales volume improved further

December 18, 2023

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3Q23 NPAT reached VND2,000 billion (versus a loss of VND1,744 billion in 3Q22) on revenue of VND28,484 billion (-16% YoY)

Sales volume continued its uptrend in 4Q23 on the recovery of exports and construction steel consumption

GPM is expected to diminish in 4Q23 due to surging input costs

Sales volume should maintain its momentum, and output price hikes may be reflected in 1Q24 results

The residential market is expected to gradually recover from 2Q24

We recommend BUY for HPG with a target price of VND32,200/share

Hoa Phat Group (HPG) saw 3Q23 revenue down 3% QoQ and NPAT up 37% QoQ, supported by (1) sales volume up 8% (construction steel consumption up 17% thanks to the export channel) and (2) cooling input prices. As a result, gross profit margin (GPM) expanded by 178 bps QoQ.

HRC production capacity utilization rate is estimated to reach 100% in 4Q23 (~750,000 tons/quarter). Besides, construction steel consumption rose further as steel dealers tended to boost inventory before HPG adjusts the selling prices of finished products.

We expect HPG's GPM to decline in 4Q23 as iron ore and coking coal prices increased by an average of 9% QoQ and 30% QoQ, respectively.

We believe HPG's competitive output prices will continue to push exports to the US and EU markets. At the same time, sales volume will maintain momentum thanks to dealers raising inventory in anticipation of the peak construction season.

The residential market in Vietnam showed signs of recovery in 4Q23 when real estate prices in Tier-2 markets seemed to have bottomed out and land transactions increased. The property market should slowly recover from 2Q24.

We reiterate our BUY recommendation for HPG with a target price of VND32,200 apiece, 21% higher than the closing price on December 18, 2023.

Buy maintain

Target price VND32,200

Upside	21%
Current price (Dec 18, 2023)	VND26,600
Consensus target price	VND29,050
Market cap (VNDtn/USDbn)	15.6/6.4

Forecast earnings & valuation

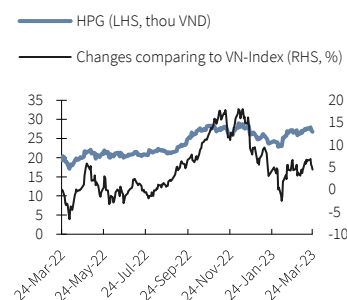
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	149,680	141,409	118,166	133,023
Operating income/loss (VNDbn)	37,008	9,794	6,366	11,919
NPAT-MI (VNDbn)	34,478	8,484	5,436	10,131
EPS (VND)	7,708	1,459	935	1,742
EPS growth (%)	90%	-81%	-36%	86%
P/E (x)	4.6	12.3	28.5	15.3
P/B (x)	1.8	1.1	1.6	1.5
ROE (%)	46%	9%	6%	10%
Dividend yield (%)	3.8%	3.9%	0.0%	0.0%

Trading data

Free float	55%
3M avg trading value (VNDbn/USDmn)	618.9/25.4
Foreign ownership	25.39%
Major shareholder	Mr. Tran Dinh Long (26.08%)

Share price performance

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



Source: Bloomberg, KB Securities Vietnam

Business performance

Table 1. HPG – 9M22–9M23 steel consumption (tons)

(tons)	3Q2022	3Q2023	+/-%YoY	9M2022	9M2023	+/-%YoY	Comments
Construction steel	1,076,000	920,987	-14%	3,459,754	2,573,023	-26%	Domestic consumption fell due to weak demand
HRC	611,000	766,522	25%	2,033,118	1,981,990	-3%	HRC orders reached 102% of production capacity
Steel pipe	200,000	162,648	-19%	566,000	486,952	-14%	
Galvanized sheet	69,173	65,109	-6%	249,000	240,863	-3%	
Billet	22,000	24,000	9%	216,128	62,000	-71%	Fell sharply due to weak demand for construction steel
Total	1,978,173	1,939,266	-2%	6,524,000	5,344,828	-18%	

Source: Hoa Phat Group, KB Securities Vietnam

Table 2. HPG – Input and output prices (USD/ton)

(USD/ton)	3Q2022	3Q2023	+/-%YoY	2Q2023	+/-%QoQ	Comments
Construction steel	638	566	-11%	623	-9%	Weak demand pulled selling prices down
HRC	669	574	-14%	662	-13%	
Iron ore	116	112	-3%	115	-3%	
Coking coal	303	232	-23%	287	-19%	Affected by a depressed Chinese property market
Scrap	423	389	-8%	396	-2%	

Source: Hoa Phat Group, KB Securities Vietnam

Table 3. HPG – 9M22–9M23 business results

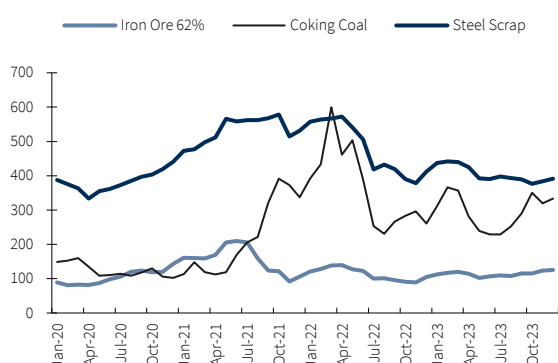
(VNDbn)	3Q2022	3Q2023	+/-%YoY	9M2022	9M2023	+/-%YoY	Comments
Revenue	34,103	28,484	-16%	115,584	84,569	-27%	Revenue dropped by 16% YoY due to soft domestic consumption, of which construction steel and steel pipe sales volume decreased by 14% YoY and 19% YoY, respectively.
Cost of goods sold	-33,103	-24,889	-25%	-97,935	-76,103	-22%	
Gross profit	1,001	3,595	259%	17,649	8,466	-52%	Gross profit jumped by 259% YoY thanks to effective inventory management and continued to increase QoQ on plummeting raw material prices.
Gross profit margin	3%	13%	10%	15%	10%	-5%	
Financial income	886	851	-4%	2,317	2,494	8%	
Financial expenses	-2,309	-1,438	-38%	-5,453	-4,118	-24%	Financial expenses plunged by 38% YoY thanks to reduced inventory, helping to reduce the effect of the USD/VND exchange rate volatility (up 1.9% in 3Q23).
Borrowing costs	-837	-856	2%	-2,151	-2,874	34%	
Shared profits from associates	0	0		-1	0		
SG&A	-929	-879	-5%	-2,626	-2,508	-5%	
SG&A margin	3%	3%	0%	2%	3%	1%	
Operating income/loss	-1,352	2,128	-257%	11,885	4,335	-64%	
Net other income	52	46	-11%	116	73	-37%	
EBIT	-1,300	2,174	-267%	12,001	4,408	-63%	
EBIT margin	-4%	8%	11%	10%	5%	-5%	
Corporate income tax	-486	-174	-64%	-1,558	-577	-63%	
NPAT	-1,786	2,000	-212%	10,443	3,831	-63%	
NPAT margin	-5%	7%	12%	9%	5%	-5%	
NPAT-MI	-1,774	2,005		10,475	3,862	-63%	
NPAT-MI margin	-5%	7%	12%	9%	5%	-4%	

Source: Hoa Phat Group, KB Securities Vietnam

GPM is expected to diminish in 4Q23 due to surging input costs

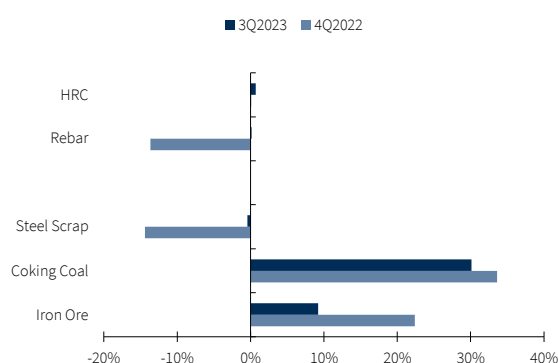
In 4Q23, coke and iron ore prices rose 30% and 9% QoQ due to (1) the shortage of raw materials for automakers after the United Automobile Workers (UAW) ended historic strike, (2) rising steel production and consumption in the short term in China after the country’s government announced economic stimulus packages for the real estate sector, including cutting mortgage rates, reducing property taxes on first and second home purchases, extending the maximum mortgage loan term from 25 years to 30 years, etc. We believe HPG’s GPM will be adversely affected by rising input costs, though the group made adjustments to selling prices in November–December 2023.

Fig 4. HPG – Changes in input prices (USD/ton)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 5. HPG – Changes in output prices (%)

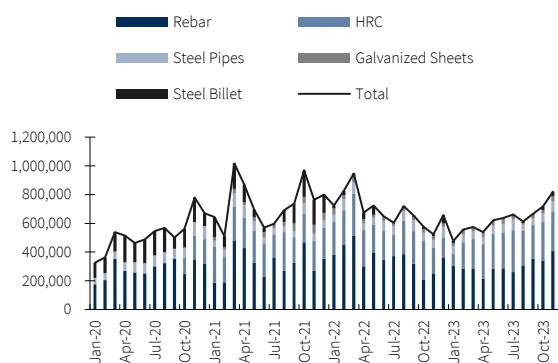


Source: Fiinpro, Bloomberg, KB Securities Vietnam

Sales volume maintained its growth momentum in 4Q23

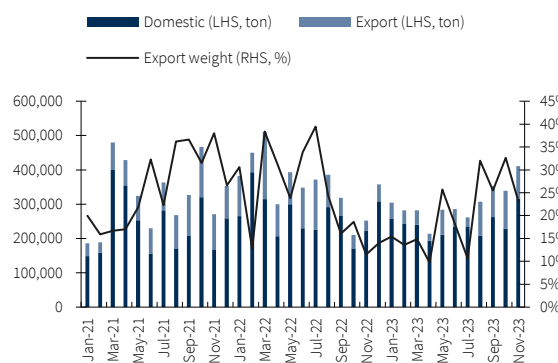
HPG’s sales volume maintained its growth momentum in 4Q23, up 8% MoM in October and 14% MoM in November 2023, of which the export channel contributed 36% and 28% of the total consumption in these two months, respectively. In the domestic market, construction steel consumption in November picked up 21% MoM, helped by (1) dealers accumulating low-priced inventory before HPG raises output prices and (2) rising demand from public projects. We estimate 4Q23 consumption at 2,135,000 tons (+10% QoQ), of which HRC volume should remain high thanks to pre-orders in the quarter reaching 100% of production capacity (~750,000 tons/quarter).

Fig 6. HPG – Sales volume by product (tons)



Source: Hoa Phat Group, Fiinpro, KB Securities Vietnam

Fig 7. HPG – Construction steel sales volume (tons, %)



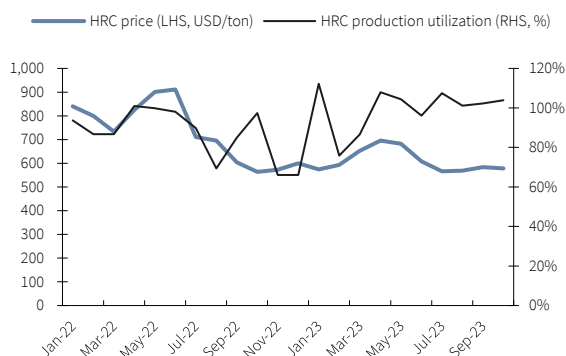
Source: KB Securities Vietnam

Profits should improve in 1Q24 thanks to the recovery of exports and rising output prices

Statistics show that HPG's sales volume improved in the EU market, with export volume to Italy in 10M23 estimated to jump eightfold YoY and HPG expanding to new markets like Belgium, Portugal. In 3Q23, European steelmakers had to temporarily suspend or cut production amid fierce competition with cheap imported steel from China and Asian countries and soft consumer demand. In 4Q23, GMK source revealed that some plants had to maintain low utilization rates to balance market supply and demand and optimize operating income. We expect HPG's steel consumption from the export channel will remain high in 1Q24 thanks to competitive output prices, especially in the EU market, along with the trend to hoard cheap imported inventory.

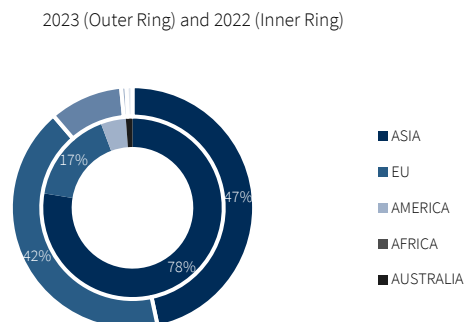
We assume that input prices will stay at current levels in 1Q24 (after increasing by an average of 15–20% in 4Q23) thanks to increased production after production cuts in the 2023-end period and the expected recovery of the Chinese real estate market. In addition, selling prices in export markets such as the US and the EU will remain at the current levels after increasing from the bottom in 3Q23. This will help improve HPG's GPM.

Fig 8. HPG – HRC price, utilization rate (USD/ton, %)



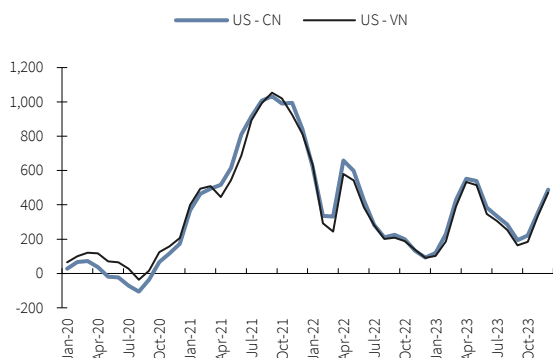
Source: Hoa Phat Group, Finpro, KB Securities Vietnam

Fig 9. HPG – Contribution of export markets (%)



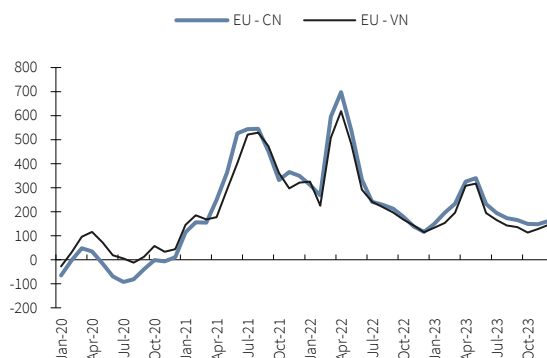
Source: KB Securities Vietnam

Fig 10. US-China, US-Vietnam HRC spreads (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 11. EU-China, EU-Vietnam HRC spreads (USD/ton)

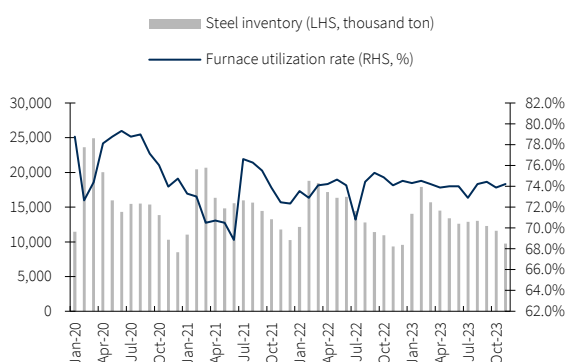


Source: Bloomberg, KB Securities Vietnam

Positive impacts of the Chinese Government's economic stimulus package on the steel industry are expected in 2024

The Chinese government plans to provide a USD112 billion economic stimulus package targeting developing social housing and renovating residential areas in suburban areas, besides new policies to support homebuyers. This has raised expectations of surging steel consumption in 2024, causing input material prices to increase sharply in 4Q23 as mentioned above. However, newly released data represents weak consumption and cautious sentiment in the real estate industry when new home prices dropped by 0.3% MoM (fifth consecutive month of decrease) while sales in the Tier-1 markets fell by 4% MoM. This makes the outlook for the steel industry in China bleak when the housing market has not shown visible signs of recovery. We expect the economic stimulus package to be released soon and believe the Chinese property market will need time to absorb new policies and restore investor and homebuyer confidence. In the base case scenario, we maintain our conservative projection that steel prices will tend to decline in 2024 before starting to rebound in 2025.

Fig 12. China – Inventory, blast furnace capacity utilization rate (thousand tons, %)



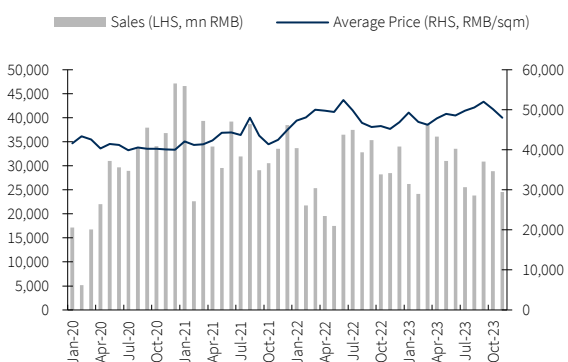
Source: Bloomberg, KB Securities Vietnam

Fig 13. China – GPM of construction steel (%)



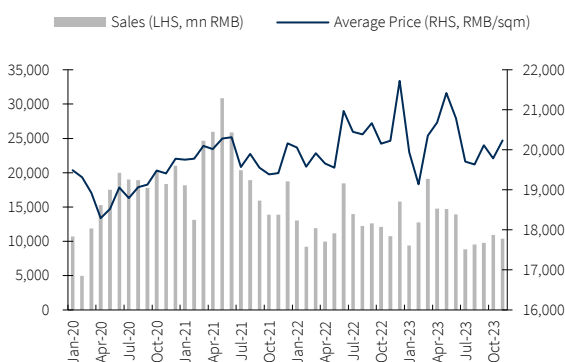
Source: Bloomberg, KB Securities Vietnam

Fig 14. China – Sales, average real estate sale price in Tier-1 markets (RMB mn, RMB/m²)



Source: Bloomberg, KB Securities Vietnam

Fig 15. China – Sales, average real estate sale price in Tier-2 markets (RMB mn, RMB/m²)



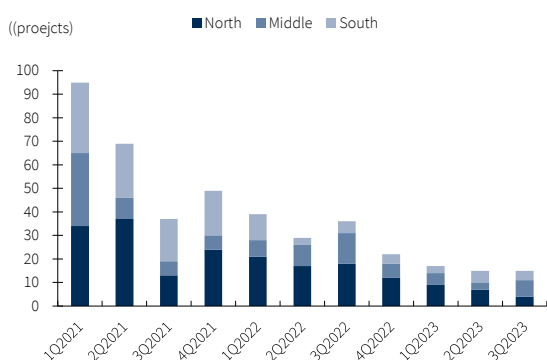
Source: Bloomberg, KB Securities Vietnam

The residential market is expected to gradually recover from 2Q24, thus boosting steel consumption

In 3Q23, 15 real estate projects were granted a construction permit, flat QoQ. However, there were positive signals when (1) land and apartment prices in the secondary market have shown signs of bottoming out and moving sideways and (2) land transactions tended to increase in 2H23. With support policies like lowering/keeping lending interest rates at low levels, promoting the resolution of legal issues for residential and public projects, etc.), we expect the property market will gradually recover from 2Q24, boosting steel consumption.

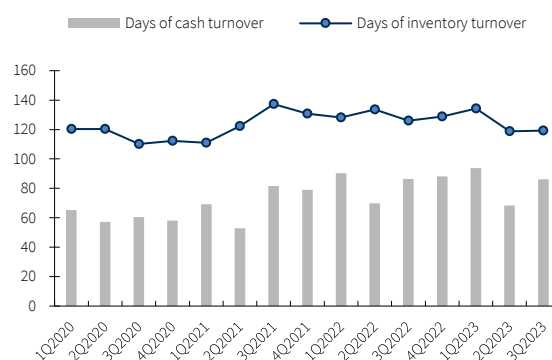
HPG’s representative said that HPG intends to maintain the inventory turnover ratio at stable levels to mitigate the impacts of raw material price fluctuations and ensure operating profit margin, which aligns with our base case scenario.

Fig 16. Vietnam – Number of licensed real estate projects



Source: Ministry of Construction, KB Securities Vietnam

Fig 17. HPG – Cash conversion cycle, inventory turnover days

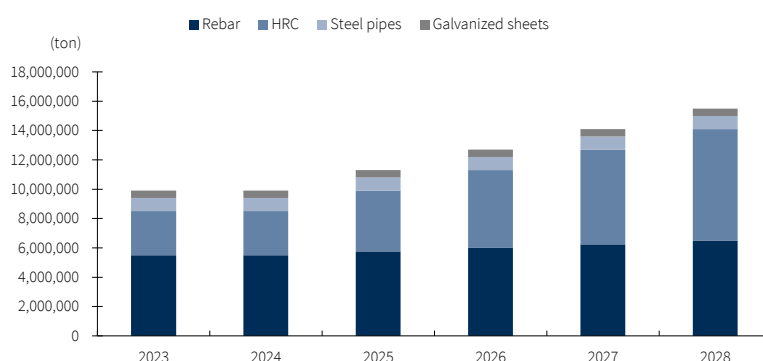


Source: Hoa Phat Group, KB Securities Vietnam

Dung Quat 2 should be put into operation from the end of 1Q25

HPG plans to put Dung Quat 2 into operation in 1Q25, with a capacity of 1.5 million tons/year for phase 1. Dung Quat 2 has a capacity of 5.6 million tons/year (including 4.6 million tons of HRC and 1 million tons of special steel). HPG expects Dung Quat 2 will reach full capacity after three years of operation. We estimate HPG’s 2023F CAPEX at VND16,500 billion, and capital disbursement will last until the end of 2028 when Dung Quat 2 runs at its designed capacity, of which 70% of the capital comes from loans and the remaining 30% comes from owner’s equity.

Fig 18. HPG – Production capacity by product after the operation of Dung Quat 2



Source: Hoa Phat Group, KB Securities Vietnam

Forecast & Valuation

Table 19. HPG – KBSV’s updates on assumptions

	Unit	2023F	New 2024F	2025F	2023F	Old 2024F	2025F	2023F	% change 2024F	2025F
Sales volume										
Construction steel	ton	3,673,000	4,468,700	5,334,300	3,372,036	4,262,500	5,390,625	8.9%	4.8%	-1.0%
HRC	ton	2,731,900	2,850,000	3,669,300	2,747,718	2,850,000	3,942,500	-0.6%	0.0%	-6.9%
Steel pipe	ton	646,000	700,000	700,000	664,304	700,000	700,000	-2.8%	0.0%	0.0%
Galvanized sheet	ton	325,800	340,000	360,000	335,754	340,000	360,000	-3.0%	0.0%	0.0%
Billet	ton	102,000	160,000	160,000	98,000	160,000	160,000	4.1%	0.0%	0.0%
Total	ton	7,478,700	8,518,700	10,223,600	7,217,812	8,312,500	10,553,125	3.6%	2.5%	-3.1%
Input prices										
Iron ore	USD/ton	106	106	105	107	96	95	-1.7%	10.1%	10.5%
Coking coal	USD/ton	268	216	220	242	195	195	11.1%	10.9%	12.8%
Scrap	USD/ton	410	388	400	486	475	480	-15.7%	-18.4%	-16.7%
Output prices										
Construction steel	USD/ton	608	588	600	608	563	552	0.1%	4.4%	8.7%
HRC	USD/ton	592	608	617	597	570	570	-1.0%	6.7%	8.2%

Source: KB Securities Vietnam

Table 20. HPG – 2022A–2024F business results

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Revenue	141,409	118,166	-16%	133,023	13%	Consumption is expected to bottom in 2023 and start to recover from 2024.
Cost of goods sold	-124,646	-106,488	-15%	-115,911	9%	
Gross profit	16,763	11,679	-30%	17,112	47%	Sales volume improves and output prices tend to move sideways, helping to improve gross profit.
Gross profit margin	12%	10%	-2%	13%	3%	
Deposit interest	1,822	2,486	36%	2,390	-4%	
Borrowing costs	-3,084	-3,770	22%	-3,593	-5%	
Exchange rate gain/loss	-1,863	-283	-85%	0	-100%	Exchange rate loss will decrease in 2023 thanks to reduced inventory and effective inventory management.
Shared profits from associates	-1	0	-100%	0	100%	
SG&A	-3,685	-3,448	-6%	-3,991	16%	
SG&A margin	3%	3%	0%	3%	0%	
Operating income/loss	9,794	6,366	-35%	11,919	87%	
Net other income	129	73	-43%	0	-100%	
EBIT	9,923	6,327	-36%	11,919	88%	
EBIT margin	7%	5%	-2%	9%	4%	
Corporate income tax	-1,479	-865	-42%	-1,788	107%	
NPAT	8,444	5,462	-35%	10,131	85%	
NPAT margin	6%	5%	-1%	8%	3%	
NPAT-MI	8,484	5,436	-36%	10,131	86%	
NPAT-MI margin	7%	4%	-3%	8%	4%	

Source: KB Securities Vietnam

We recommend BUY for HPG with a target price of VND32,200/share

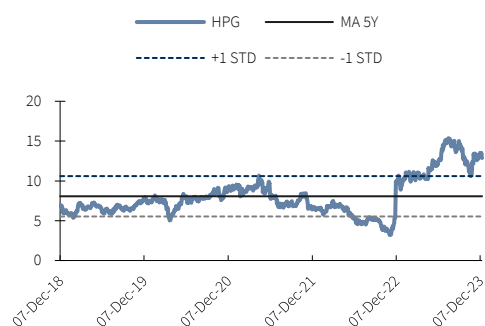
We apply the P/E and discounted cash flow (DCF) valuation methods to determine the fair price for HPG within a 1-year time frame. We recommend BUY for HPG with a target price of VND32,300/share, equivalent to a 21% return compared to the closing price on December 18, 2023.

Table 21. HPG – Valuation results

Method	Unit	Weighting	Value
FCFF			
Beta	x		1.5
Risk-free rate	%		5.00%
Risk premium	%		8.00%
WACC	%		12%
Enterprise value (EV)	VNDbn		252,736
Cash, equivalents, short-term investments	VNDbn		29,654
Short-term & long-term debts	VNDbn		57,982
Equity value	VNDbn		224,408
Outstanding shares	million		5,815
Value per share	VND/share		38,590
P/E			
EPS @ 2024	VND		1,742
P/E target	x		10
Value per share	VND/share		17,400
FCFF	VND/share	70%	27,000
2024 forward P/E	VND/share	30%	5,200
Target price	VND/share		32,200

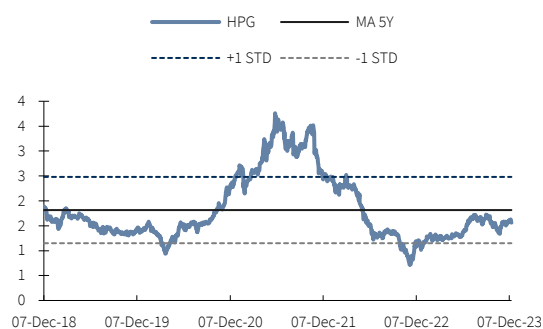
Source: KB Securities Vietnam

Fig 22. HPG – Historical P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

Fig 23. HPG – Historical P/B in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

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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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