

# Nam Kim Steel (NKG)

## Gross profit margin is set to improve in 4Q 2023

December 29, 2023

Analyst Nguyen Duong Nguyen  
nguyennnd1@kbsec.com.vn

**3Q 2023 revenue dropped by 4% YoY, while NPAT hit VND24 billion vs. a loss of VND419 billion in 3Q 2022**

Nam Kim Steel (NKG) reported 3Q 2023 revenue down 4% YoY due to a 16% YoY decline in output prices of steel products. However, NPAT remained positive, up strongly from a loss of VND419 billion in the same period last year due to high-priced inventory and reduced output prices in the 2022-end period.

**The gross profit margin is set to improve in 4Q 2023**

We believe that the gross profit margin (GPM) will improve in 4Q 2023 due to (1) NKG increasing low-cost inventory from 3Q 2023 and (2) the trend of rising steel prices in 4Q 2023 in both domestic and international markets.

**4Q 2023 sales volume may fall slightly due to European countries promoting cheap steel imports**

In our estimates, the October–November 2023 period saw a 25% QoQ decrease in galvanized steel sheet export volume after European countries intensified imports of low-priced steel products from China and other Asian countries from mid-2023.

**Galvanized steel sheet export is the growth driver for NKG in 1Q 2024**

We expect NKG's financial performance to be sustained, driven primarily by the export channel with (1) competitive selling prices and (2) European steelmakers continuing to maintain low production capacity to sustain profitability.

**We recommend HOLD for NKG with a target price of VND25,300/share**

We recommend HOLD for NKG, with a target price of VND25,300 per share, expecting a 3% return after the stock price has shown strong growth in 4Q 2023 in response to market expectations of steel price increases.

## Hold maintain

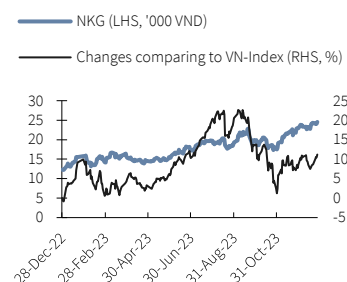
<b>Target price</b>	<b>VND 25,400</b>
Upside	3%
Current price (Dec 29, 2023)	VND 24,650
Consensus target price	VND 24,600
Market cap (VNDtn/USDbn)	0.64/0.26

<b>Trading data</b>	
Free float	75%
3M avg trading value (VNDbn/USDmn)	226.7/9.3
Foreign ownership	16.12%
Major shareholder	Ho Minh Quang (14.20%)

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

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	28,173	23,071	18,531	18,974
Operating income/loss (VNDbn)	2,551	-46	271	349
NPAT-MI (VNDbn)	2,225	-67	205	297
EPS (VND)	10,189	-253	779	1,128
EPS growth (%)	528%	-102%	-407%	45%
P/E (x)	3.5	-71.0	31.5	21.8
P/B (x)	1.4	0.9	1.3	1.2
ROE (%)	50%	-1%	4%	5%
Dividend yield (%)	0.0%	8.4%	0.0%	0.0%



Source: Bloomberg, KB Securities Vietnam

## Business performance

**Table 1. NKG – Sales volume of steel products in 9M22–9M23 (tons)**

(tons)	3Q2022	3Q2023	+/-%YoY	9M2022	9M2023	+/-%YoY	Comments
Galvanized steel sheets	131,121	178,741	36%	567,473	536,078	-6%	Consumption in 3Q 2023 was boosted by the export channel, particularly to the EU market.
Steel pipes	43,791	29,205	-33%	125,041	102,099	-18%	Steel pipe consumption declined as construction demand was affected by residential real estate.
Total	174,912	207,946	19%	692,514	638,177	-8%	

Source: Nam Kim Steel, KB Securities Vietnam

**Table 2. NKG – Input & output prices in 3Q22–3Q23 (USD/ton)**

(USD/ton)	3Q2022	3Q2023	+/-%YoY	2Q2023	+/-%QoQ	Comments
HRC	669	579	-13%	639	-9%	
Galvanized steel sheets	1,079	896	-17%	980	-9%	
Steel pipes	883	738	-16%	798	-8%	

Source: Nam Kim Steel, KB Securities Vietnam

**Table 3. NKG – 9M22–9M23 business results**

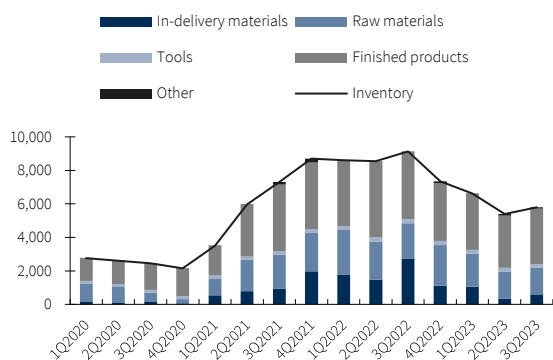
(VNDbn)	3Q2022	3Q2023	+/-%YoY	9M2022	9M2023	+/-%YoY	Comments
Revenue	4,424	4,262	-4%	18,771	14,137	-25%	3Q 2023 revenue contracted by 4% YoY due to steel prices falling more than 15% YoY despite sales volume up 19% YoY.
Cost of goods sold	-4,583	-4,057	-11%	-17,080	-13,298	-22%	
Gross profit	-159	205		1,691	839	-50%	Gross profit returned to positive territory in 3Q 2023 after NKG addressed high-priced inventory issues in late 2022.
Gross profit margin	-4%	5%	8%	9%	6%	-3%	
Financial income	74	79	6%	256	187	-27%	
Financial expenses	-122	-84	-31%	-402	-338	-16%	
Interest expenses	-60	-60	-1%	-179	-233	30%	Interest expenses surged by 30% in 9M 2023 due to high interest rates at the end of 2022.
Shared profits from associates	0	0		0	0		
SG&A	-269	-170	-37%	-1,191	-541	-55%	Cutting transportation costs helped to optimize SG&A.
SG&A margin	6%	4%	-2%	6%	4%	-3%	
Operating income/loss	-476	30		354	147	-58%	
Net other income	0	0		0	0		
PBT	-476	30		354	147	-59%	
PBT margin	-11%	1%	11%	2%	1%	-1%	
Corporate tax	57	-6	-111%	-65	-47	-27%	
NPAT	-419	24		290	100	-66%	
NPAT margin	-9%	1%	10%	2%	1%	-1%	
NPAT-MI	-419	24		290	100	-66%	
NPATMI margin	-9%	1%	10%	2%	1%	-1%	

Source: Nam Kim Steel, KB Securities Vietnam

**Galvanized steel sheet prices should increase in 4Q 2023, pushing GPM**

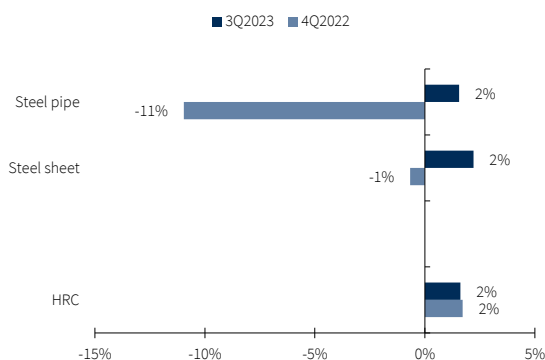
We expect NKG's GPM to improve in 4Q 2023 on the back of (1) rising low-cost inventory in 3Q 2023 (Fig 4) and (2) a 2% QoQ increase in steel prices (Fig 5) resulting from a shortage of steel in the U.S. following the suspension of the UAW strike and rising demand in China on expectations of a real estate recovery in 4Q 2023.

**Fig 4. NKG – Inventory (VNDbn)**



Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

**Fig 5. NKG – Changes in input & output prices (%)**

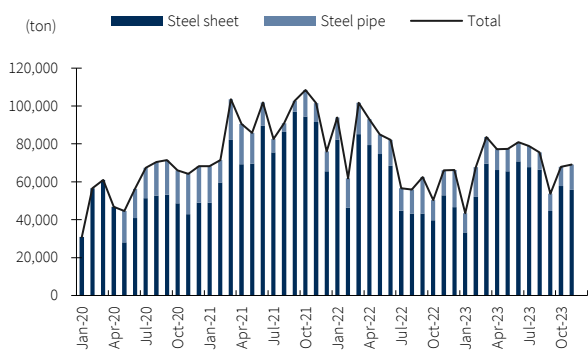


Source: Bloomberg, KB Securities Vietnam

**4Q 2023 sales volume may fall slightly due to European countries promoting cheap steel imports**

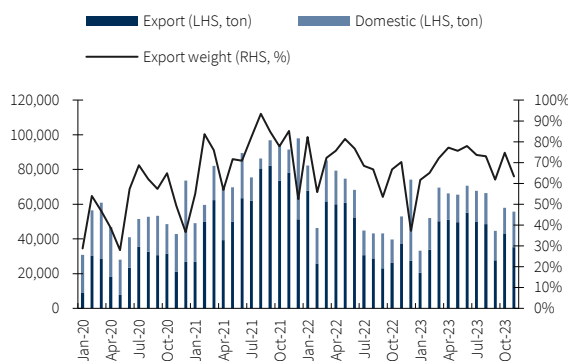
The galvanized steel sheet export volume dropped by 19% QoQ but jumped by 53% YoY in 3Q 2023. The downward trend was attributable to the saturation of cheap steel originating from China in the EU and U.S. markets during the mid-2023 period. Statistics from FiinPro indicate that the export volume in October–November 2023 decreased by an average of 25% QoQ but still maintained a growth rate of 23% YoY.

**Fig 6. NKG – Galvanized steel sheet & steep pipe sales volume (tons)**



Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

**Fig 7. NKG – Domestic & export sales volume of galvanized steel sheet (tons)**



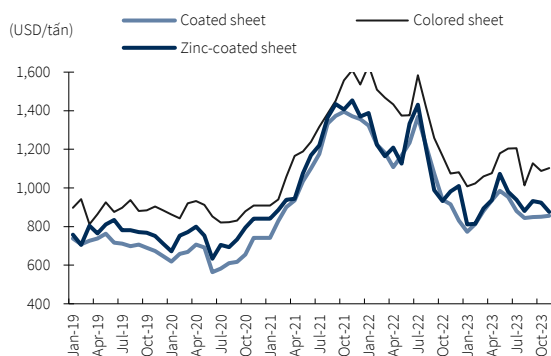
Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

**NKG’s export channel will benefit from price differentials**

We believe that the export channel will continue to be a growth driver for NKG in the coming period due to (1) galvanized steel sheet prices returning to an upward trend in 2024 as the market recovers (Fig 6) and (2) export volume to the EU market expected to be sustained in 1Q 2024, given NKG’s competitive selling prices (data from Bloomberg reveals that HRC prices in Vietnam are currently 18–20% lower than those in the EU market in 4Q 2023). Some European steelmakers still have to maintain low production capacity to sustain profitability and operational cash flow.

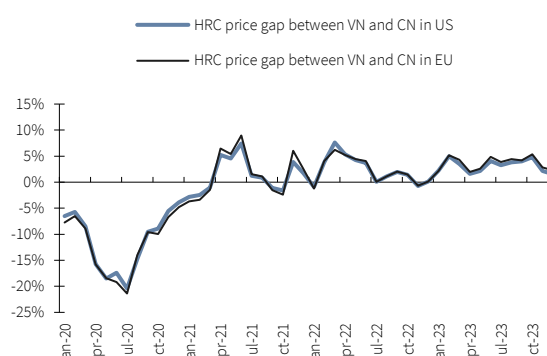
Moreover, we anticipate that galvanized steel sheet prices will improve in 2024 as the Chinese government plans to consolidate and enhance the economic recovery by redirecting steel consumption from construction towards the automotive sector (with steel sheets being a key input), boosting demand and improving steel prices. We expect this shift to have a positive impact on steel prices and NKG’s export channel in 2024.

**Fig 6. NKG – Galvanized steel sheet export prices (USD/ton)**



Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

**Fig 7. Vietnam–China HRC spreads in the US & EU (%)**

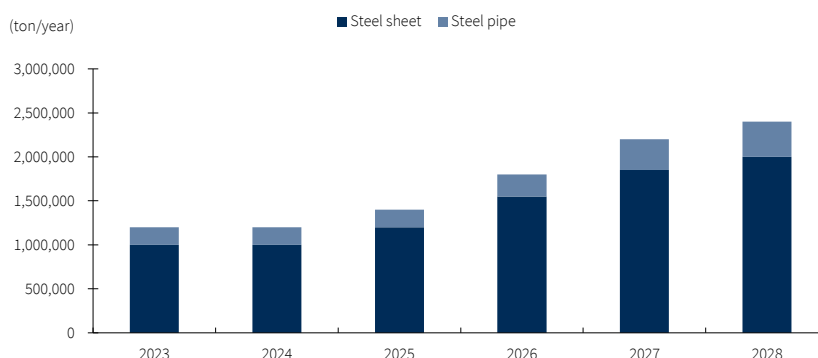


Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

**NKG plans to run the Nam Kim Phu My factory from 2024**

NKG plans to run the Nam Kim Phu My factory (with a capacity of 1.2 million tons per year and an investment cost of VND4,500 billion) in 2024. In the base case scenario, we anticipate the factory to commence operation in Phase 1 in 2025 with a capacity of 400,000 tons per year and reach full capacity by 2028. This is expected to contribute to an average increase of 15–16% in revenue and NPAT during 2026–2028.

**Fig 8. NKG – Total production capacity following the operation of Nam Kim Phu My (tons/year)**



Source: Nam Kim Steel, KB Securities Vietnam

## Forecast & Valuation

**Table 9. NKG – 2023F–2025F assumptions**

	Unit	2023F	Old 2024F	2025F	2023F	New 2024F	2025F	2023F	% change 2024F	2025F
Sales volume										
Galvanized steel										
sheets	Ton	711,078	725,000	834,000	551,250	573,750	828,750	29.0%	26.4%	0.6%
Steel pipes	Ton	129,599	122,500	145,000	140,000	145,000	155,000	-7.4%	-15.5%	-6.5%
Total	Ton	840,677	847,500	979,000	691,250	718,750	983,750	21.6%	17.9%	-0.5%
Input prices										
HRC	USD/ton	605	625	665	630	525	540	-3.9%	19.0%	23.1%
Output prices										
Galvanized steel										
sheets	USD/ton	929	964	1,010	949	839	826	-2.1%	14.9%	22.4%
Steel pipes	USD/ton	778	750	771	886	789	773	-12.3%	-5.0%	-0.3%

Source: KB Securities Vietnam

**Table 10. NKG – 2022A–2024F business results**

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Revenue	23,071	18,531	-20%	18,974	2%	Revenue is expected to improve thanks to (1) rising sales volume and (2) higher output prices.
Cost of goods sold	-21,529	-17,331	-19%	-17,608	2%	
Gross profit	1,542	1,200	-22%	1,366	14%	Growth driver should come from the expectation that steel prices will increase alongside recovering demand in 2024.
Gross profit margin	7%	6%	0%	7%	1%	
Interest on deposits	303	82	-73%	92	11%	
Interest expenses	-262	-297	13%	-254	-15%	Interest expenses are expected to decrease thanks to interest rates remaining low in 2024.
Exchange rate gain/loss	-241	-118	-51%	0	-100%	
Shared profits from associates	0	0		0		
SG&A	-1,388	-721	-48%	-854	18%	
SG&A margin	6%	4%	-2%	5%	1%	
Operating income/loss	-46	271		349	29%	
Net other income	0	0	178%	0		
PBT	-46	271		349	29%	
PBT margin	0%	1%	2%	2%	0%	
Corporate tax	-21	-66	219%	-52	-20%	
NPAT	-67	205		297	45%	
NPAT margin	0%	1%	1%	2%	0%	
NPAT-MI	-67	205		297	45%	
NPATMI margin	0%	1%	1%	2%	0%	

Source: KB Securities Vietnam

We recommend HOLD for NKG  
with a target price of  
VND25,400/share

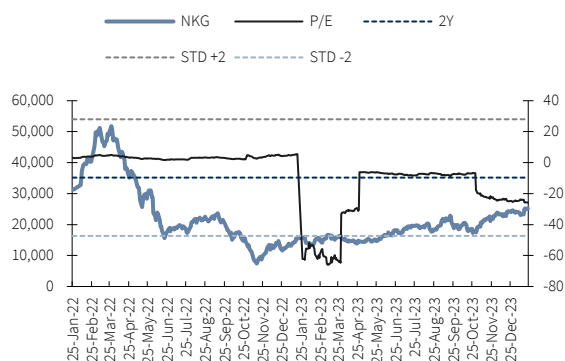
We apply the P/E and EV/EBITDA methods, with respective multiples of 18x and 11x, to determine the fair value of NKG within a one-year timeframe. Accordingly, we recommend HOLD for NKG with a target price of VND25,400 per share, corresponding to an expected return of 3% compared to the closing price on December 29, 2023.

Table 11. NKG – Valuation results

Valuation method	Unit	Weighting	Value
<b>P/E</b>			
EPS @ 2024	VND		1,128
2024 forward P/E	x		18
Target price	VND/share		20,309
<b>EV/EBITDA</b>			
EBITDA	VND		734
2024F EV/EBITDA	x		11
Target price	VND/share		30,666
P/E	VND/share	50%	10,154
EV/EBITDA	VND/share	50%	15,333
Target price	VND/share		25,400

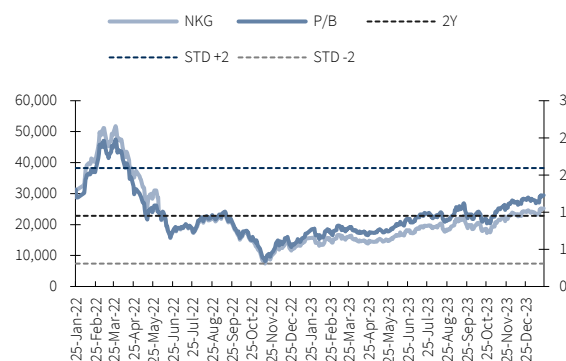
Source: KB Securities Vietnam

Fig 12. NKG – Historical P/E (x)



Source: FiinPro, KB Securities Vietnam

Fig 13. NKG – Historical P/B (x)



Source: FiinPro, KB Securities Vietnam



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

## Equity

### Banks, Insurance & Securities

**Nguyen Anh Tung – Manager**  
tungna@kbsec.com.vn

**Pham Phuong Linh – Analyst**  
linhpp@kbsec.com.vn

### Real Estate, Construction & Materials

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

**Nguyen Duong Nguyen – Analyst**  
nguyennd1@kbsec.com.vn

### Retails & Consumers

**Nguyen Truong Giang – Analyst**  
giangnt1@kbsec.com.vn

### Industrial Real Estate, Logistics

**Nguyen Thi Ngoc Anh – Analyst**  
anhntn@kbsec.com.vn

### Information Technology, Utilities

**Nguyen Dinh Thuan – Analyst**  
thuannd@kbsec.com.vn

### Oil & Gas, Chemicals

**Pham Minh Hieu – Analyst**  
hieupm@kbsec.com.vn

**Research Division**  
research@kbsec.com.vn

## Macro/Strategy

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

### Macroeconomics & Banks

**Ho Duc Thanh – Analyst**  
thanhdh@kbsec.com.vn

**Vu Thu Uyen – Analyst**  
uyenvt@kbsec.com.vn

### Strategy, Investment Themes

**Thai Huu Cong – Analyst**  
congth@kbsec.com.vn

**Nghiem Sy Tien – Analyst**  
tienss@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 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh 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](mailto:ccc@kbsec.com.vn)

Website: [www.kbsec.com.vn](http://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.