

Nam Kim Steel (NKG)

Gross profit margin is set to improve in 4Q 2023

December 29, 2023

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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

Forecast earnings & valuation

VND 25,400
3%
VND 24,650
VND 24,600
0.64/0.26

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

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

2021A	2022A	2023F	2024F
28,173	23,071	18,531	18,974
2,551	-46	271	349
2,225	-67	205	297
10,189	-253	779	1,128
528%	-102%	-407%	45%
3.5	-71.0	31.5	21.8
1.4	0.9	1.3	1.2
50%	-1%	4%	5%
0.0%	8.4%	0.0%	0.0%
	28,173 2,551 2,225 10,189 528% 3.5 1.4 50%	28,173 23,071 2,551 -46 2,225 -67 10,189 -253 528% -102% 3.5 -71,0 1.4 0.9 50% -1%	28,173 23,071 18,531 2,551 -46 271 2,225 -67 205 10,189 -253 779 528% -102% -407% 3.5 -71.0 31.5 1.4 0.9 1.3 50% -1% 4%



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
Galvariized Steet Srieets	131,121	170,741	30%	367,473	330,076	-0%	channel, particularly to the EU market.
Steel pipes	43.791	29,205	-33%	125.041	102.099	-18%	Steel pipe consumption declined as construction
steet pipes	45,791	29,203	9,00	123,041	102,099	10 /6	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%	

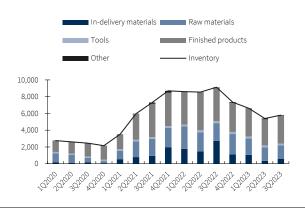
Source: Nam Kim Steel, KB Securities Vietnam

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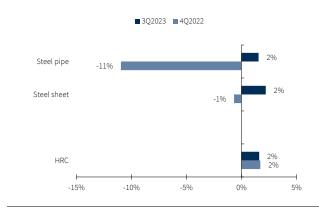
Galvanized steel sheet prices should increase in 4Q 2023, pushing GPM We expect NKG's GPM to improve in 4Q 2023 on the back of (1) rising low-cost inventory in 3Q 2023 (Fig 4) and (2) a 2% QoQ increase in steel prices (Fig 5) resulting from a shortage of steel in the U.S. following the suspension of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

Fig 4. NKG - Inventory (VNDbn)

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



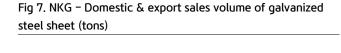
Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

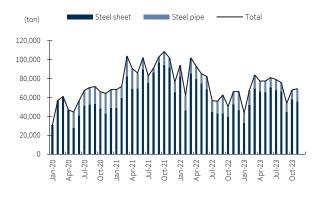


Source: Bloomberg, KB Securities Vietnam

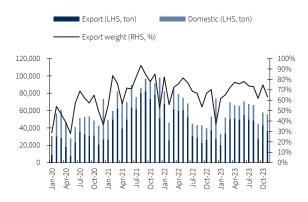
4Q 2023 sales volume may fall slightly due to European countries promoting cheap steel imports The galvanized steel sheet export volume dropped by 19% QoQ but jumped by 53% YoY in 3Q 2023. The downward trend was attributable to the saturation of cheap steel originating from China in the EU and U.S. markets 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



Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

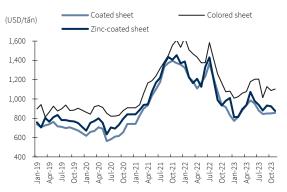
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NKG's export channel will benefit from price differentials

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.

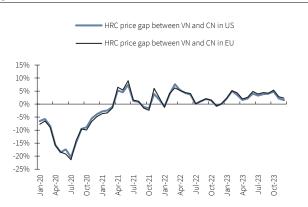
Moreover, we anticipate that galvanized steel sheet prices will improve in 2024 as the Chinese government plans to consolidate and enhance the economic recovery by redirecting steel consumption from construction towards the automotive sector (with steel sheets being a key input), boosting demand and 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 (%)

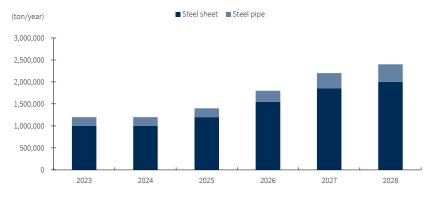


Source: Nam Kim Steel, FiinPro, KB Securities Vietnam

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		Old			New			% change			
	unit	2023F	2024F	2025F	2023F	2024F	2025F	2023F	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

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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
P/E			
EPS @ 2024	VND		1,128
2024 forward P/E	X		18
Target price	VND/share		20,309
EV/EBITDA			
EBITDA	VND		734
2024F EV/EBITDA	Х		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

NKG - 2021A-2024F financials

ncome Statement on. VND)					Balance Sheet (bn. VND)			
Standard Report)	2021	2022	20225	2024E	(Standard Report)	2021	2022	20225
<u> </u>	2021	2022	2023F	2024F		2021	2022	2023F
et Revenue ost of Goods Sold	28,173	23,071	18,531	18,974	TOTAL ASSET	15,398	13,522	12,022
	-23,904	-21,529	-17,331	-17,608	CURRENT ASSETS Cash and cash equivalents	12,216	10,476	9,219 529
ross Profit	4,270	1,542	1,200	1,366	•	751	1,005	
inancial Income	15	303	208	92	Short-term investments	448	252	269
inancial Expenditure	-244	-262	-297	-254	Accounts receivable	1,902	1,517	2,004
ncluding: Cost of Borrowing	30	-241	-118	0	Inventories	8,281	7,061	5,77
rofit/(loss) from affiliated companies	0	0	0	0	LONG-TERM ASSETS	3,182	3,046	2,803
elling expenditures	-1,398	-1,202	-505	-598	Long-term trade receivables	0	2	2
eneral and administrative expenditures	-123	-186	-216	-256	Fixed assets	2,771	2,588	2,370
rofit/(loss) from operating	2,551	3,453	5,545	5,283	Long-term incomplete assets	176	220	204
ther income	11	1	0	0	Long-term investments	8	8	3
ther expenditures	0	-1	0	0	Good will (before 2015)	0	0	(
et Other Income	11	0	0	0	TOTAL LIABILITIES	9,675	8,144	6,588
rofit/(loss) from affiliated companies	0	0	0	0	Current liabilities	9,598	8,109	6,57
rofit/(loss) before tax	2,562	-46	271	349	Trade accounts payable	4,879	2,544	1,788
ax	-337	-21	-66	-52	Short-term borrowings	3,773	5,111	4,494
rofit/(loss) after tax	2,225	-67	205	297	Other short-term liabilities	946	453	288
linority Interest	0	0	0	0	Long-term liabilities	77	35	17
PATMI	2,225	-67	205	297	Long-term trade payables	0	0	0
	,				Other long-term liabilities	46	3	3
perating Ratios					Long-term borrowings	30	32	14
F	2021	2022	2023F	2024F	OWNER'S EQUITY	5,723	5,378	5,434
ross Profit Margin	15.2%	6.7%	6.5%	7.2%	Paid-in capital		2,633	2,633
						2,184		
BITDA Margin	10.3%	17.6%	32.6%	29.9%	Share premium	786	786	786
BIT Margin	8.9%	16.0%	30.6%	27.8%	Other funds	117	273	273
BT Margin	9.1%	-0.2%	1.5%	1.8%	Undistributed earnings	2,636	1,686	1,743
pearating Profit Margin et Profit Margin	9.1% 7.9%	15.0% -0.3%	29.9% 1.1%	27.8% 1.6%	State capital Interest of non-controlling shareholders	0	0	(
ash Flow Statement Standard Report)					Main Ratios (x, %, VND)	2021	2022	2023F
	2021	2022	2023F	2024F		2021	2022	20231
BT	2,562	-46	271	349	Valuation Ratios			
epreciation	379	377	375	385	P/E	3.5	-71.0	31.6
rofit/(loss) from investing	-15	-28	0	0	P/E (diluted)	3.5	-71.0	31.6
ost of borrowing	244	262	297	254	P/B	1.4	0.9	1.3
rofit/(loss) before changes in WC	3,614	436	943	988	P/S	0.0	0.0	0.0
ncrease)/decrease in receivables	-1,225	547	-488	-356	P/Tangible Book	3.1	2.1	3.2
ncrease)/decrease in inventory	-6,331	1,350	1,285	-186	P/Cash Flow	-25.3	-5.7	14.7
ncrease/(decrease) in payables	4,112	-2,744	-756	473	EV/EBITDA	3.7	15.5	13.7
ncrease)/decrase in pre-paid expenses	18	-22	0	0	EV/EBIT	4.3	45.5	19.5
ellable securities, cost of borrowing, tax	-496	-395	-542	-123				
pearting Cash Flow	-308	-827	442	796	Management Efficiency			
Purchases of fixed assets and other long term assets	-145	-210	-289	-621	ROE%	4%	9%	13%
Proceeds from disposal of fixed assets	0	13	0	0	ROA%	3%	7%	10%
Loans granted, purchases of debt instruments	-136	-87	-13	0	ROIC%	4%	8%	12%
Collection of loans, proceeds from sales of debts instruments	87	295	0	0	Financial Ratios			
Investments in other entities	-138	0	0	0	Cash Ratio	0.1	0.1	0.1
Proceeds from divestment in other entities	-136	0	0	0	Quick Ratio	0.3	0.3	0.4
Dividends and interest received	23	23	0	0	Current Ratio	1.3	1.3	1.4
vesting Cash Flow	-309	33	-301	-621	Long-term borrowing/Owner's Equity	0.0	0.0	0.0
Proceeds from issue of shares	334	10	0	0	Long-term borrowing/Total Asset	0.0	0.0	0.0
Payments for share returns and repurchases	0	0	0	0	Short-term borrowing/Owner's Equity	0.7	1.0	0.8
Proceeds from borrowings	21,071	19,311	0	669	Short-term borrowing/Total Asset	0.2	0.4	0.4
Repayment of borrowings	-20,208	-18,041	-617	0	Short-term payables/Owner's Equity	1.0	0.6	0.4
Finance lease principal payments	-47	-9	0	0	Short-term payables/Total Asset	0.4	0.2	0.2
Dividends paid	0	-222	0	0	Total payables/Owner's Equity	1.0	0.6	0.4
Interests, dividends, profits received	0	0	0	0	Total payables/Total Asset	0.4	0.2	0.2
inancing Cash Flow	1,150	1,048	-617	669	Operating Ratios			
	1,150 533	1,048 254	-617 -476	669 845	Operating Ratios Receivables turnover	20.8	18.1	14.3
nancing Cash Flow						20.8 4.5	18.1	14.3
nancing Cash Flow et increase in cash and cash equivalents	533	254	-476	845	Receivables turnover			

Source: Nam Kim Steel, KB Securities Vietnam

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(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	Undernerform the market

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