

# Hoa Phat Group (HPG)

## Public spending as the growth driver

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**HPG's net revenue and profit in 4Q21 outperformed YoY but decreased compared to 3Q21**

Hoa Phat Group's (HPG) recorded VND7,419 billion (+59.2% YoY) in profit on revenue of VND44,710 billion (+90% YoY) in 4Q21. During the quarter, construction steel and hot rolled coil consumption rose to 1,091,000 tons (+19.5% YoY) and 623,000 tons (+37.5% YoY) thanks to eased social restrictions.

**China's crude steel output in 4Q21 was down by 16.2% YoY**

In 4Q21, China's crude steel production reached 227 million tons (-16.2% YoY and -6.8% QoQ), reflecting drastic cuts in the context of China hosting the 2022 Winter Olympics in early February.

**Public spending will be prioritized by the Government in 2022**

Public spending is the key driving force to strengthen the post-pandemic economy. HPG is among businesses benefiting from supplying construction steel for numerous key public investment projects.

**Domestic steel prices have risen given high production costs and recovering demand**

HPG's construction steel prices have risen by VND800/kg, or 5% YTD, after three increases of VND200, VND300, and VND300/kg since the beginning of this year due to the growing demand as well as high raw material costs.

**We recommend BUYING HPG shares with a target price of VND56,700**

We forecast HPG to achieve VND30,550 billion (-11.5% YoY) in NPAT on revenue of VND182,700 billion (+22.1% YoY) in 2022. Assuming higher steel consumption thanks to recovering demand and boosted public spending, we recommend BUYING HPG shares with a target price of VND56,700/share, equivalent to an upside of 21.4%.

**Buy** maintain

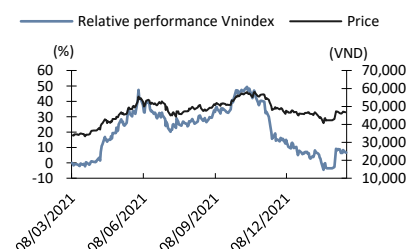
<b>Target price</b>	<b>VND56,700</b>
Upside/Downside (%)	21.4
Current price (Feb 22, 2022)	VND46,700
Market cap (VNDtn/USDbn)	207/9

<b>Trading data</b>	
Free float (%)	55
3M avg trading value (VNDbn/USDmn)	910/39
Foreign ownership (%)	23.19

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	7	-3	-9	35
<b>Relative</b>	5	-7	-21	7

### Forecast earnings & valuation

FY-end	2019A	2020A	2021A	2022F
Net sales (VNDbn)	63,658	90,119	149,680	182,700
Earnings/Loss (VNDbn)	9,031	15,289	37,008	32,750
NPAT (VNDbn)	7,578	13,506	34,521	30,550
EPS (VND)	2,700	4,007	7,718	6,831
EPS growth (%)	-32%	49%	89%	-11.5%
P/E (x)	20.29	13.67	6.01	6.79
P/B (x)	26.81	25.96	22.54	17.24
ROE (%)	16%	23%	37%	25%
Dividend yield (%)	0%	5%	5%	5%



Source: Bloomberg, KB Securities Vietnam

## Updated business performance

**HPG's net revenue and profit in 4Q21 expanded by 73.4% YoY and 59.2% YoY, respectively**

In the fourth quarter of 2021, HPG's profit was VND7,419 billion (+52.9% YoY). Gross profit margin shrank to 21.4% from 24.3% in 4Q20 and 30.7% in 3Q21 due to lower hot rolled coil (HRC) prices and surging coke prices.

Construction steel consumption in the whole industry hit 2.68 million tons in 4Q21, down 5.5% YoY but recovered QoQ thanks to the loosened social distancing measures. During the quarter, HPG's construction steel consumption rose to 1.09 million tons (+19.5% YoY) thanks to the exportation of 344 thousand tons (doubling YoY) of construction steel and 120,000 tons of galvanized steel products (accounting for 77.6% of total consumption amid the weak demand). We believe domestic consumption of galvanized steel sheets and steel pipes will bounce back thanks to the economic rebound after the lockdown.

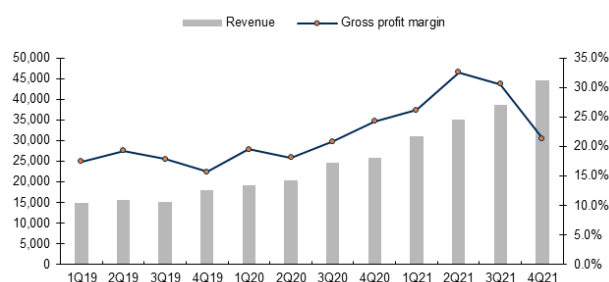
For the whole year of 2021, we estimate HPG's NPAT at VND34,520 billion (+155.6% YoY) on revenue of VND149,680 billion (+66% YoY). Gross profit margin and after-tax profit margin stood at 27.5% and 23.1%, up from 21% and 15% in 2020, respectively.

**Table 1. HPG – 2020A–2021A business results**

Consumption (tons)	4Q20	4Q21	% YoY	2020A	2021A	% YoY	Market share
Construction steel	913,000	1,091,000	-1.5%	3,400,000	3,886,000	14.3%	39%
Steel pipes	255,000	177,000	-44%	823,000	675,000	-18%	31%
Galvanized steel sheets	0	155,000		0	428,000		
Revenue of steel production (VNDbn)	22,270	42,597	91%	76,340	140,393	84%	
NPAT (VNDbn)	4,660	7,419	59%	13,506	34,521	156%	

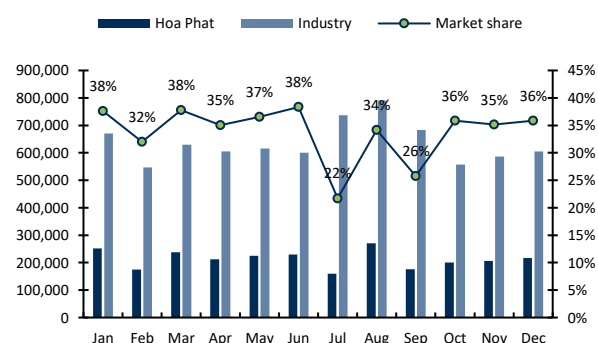
Source: Hoa Phat Group, KB Securities Vietnam

**Fig 2. HPG – Gross profit margin (VNDbn, %)**



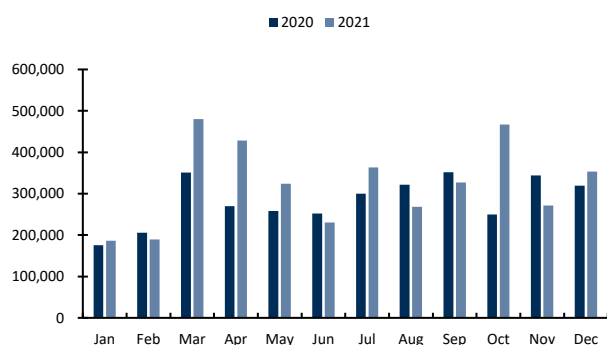
Source: Hoa Phat Group, KB Securities Vietnam

**Fig 3. HPG – HRC consumption (tons)**



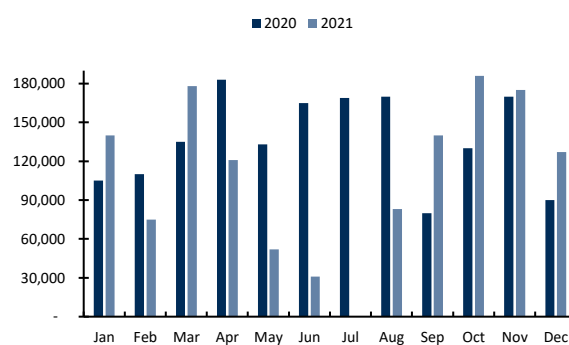
Source: Hoa Phat Group, KB Securities Vietnam

Fig 4. HPG – Construction steel consumption (tons)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 5. HPG – Steel billet consumption (tons)



Source: Hoa Phat Group, KB Securities Vietnam

### China's crude steel output in 4Q21 decreased by 16.2% YoY

In the fourth quarter, crude steel production in China reached 227 million tons (-16.2% YoY and -6.8% QoQ). Throughout the past year, crude steel output was 1.03 million tons (-2.4% YoY), reflecting drastic cuts in the context of China hosting the 2022 Winter Olympics in early February.

### Eased monetary policy and infrastructure investment should stimulate the economy, boosting steel consumption in China

The Chinese government has recently implemented a slew of expansionary monetary policies to prop up the slowing economy due to concerns over the impact of the recurrent COVID-19 outbreak on the supply chain. Stepped-up public spending plays a pivotal role in offsetting the weaknesses of the real estate sector, boosting demand for steel products.

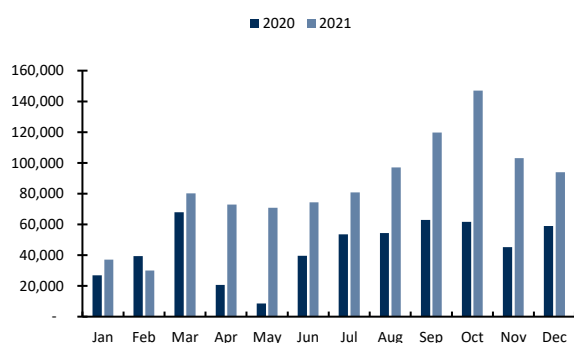
### China eased the green targets by giving the steel industry five more years to start reducing its carbon emissions

China planned to achieve peak emissions from the steel sector by 2025 and aim for a 30% reduction from the peak level by 2030. The steel industry accounts for 15% of China's carbon emissions. The world's second-largest economy moved to prioritize economic growth in the wake of high commodity prices, which will lead to higher carbon emissions. We believe this will help the steel industry reach the highest emission point in an orderly manner since the rush to meet the carbon standard can result in unnecessary "economic costs".

### China's crude steel production in 2022 will not be so high as in 2021, creating opportunities for steel manufacturers out of China

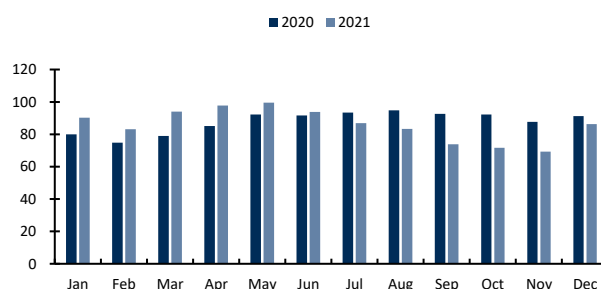
We expect China's crude steel production in 2022 to be lower than in 2021, given ongoing steel output caps in northern China to guarantee clear air during the Winter Olympics, the National People's Congress and the Chinese People's Political Consultative Conference this March. The output cuts will also continue during the 19th Asian Games held in Hangzhou in September 2022. As a result, it will create favorable conditions for the neighboring countries to export finished steel products to China, including Vietnam. HPG is the leading enterprise exporting steel billets and finished products to China.

Fig 6. HPG – Construction steel production (tons)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 7. China – Crude steel production (million tons)



Source: Hoa Phat Group, KB Securities Vietnam

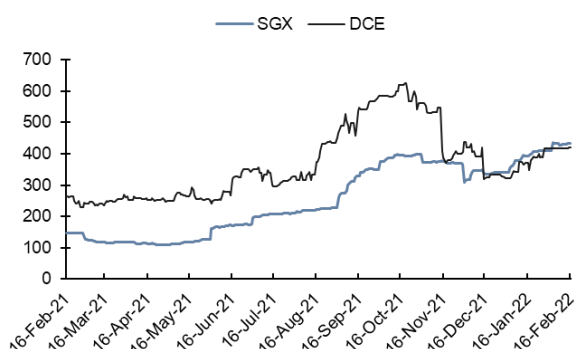
**Coke and iron ore prices have surged since the beginning of this year**

Coke prices on the Singapore Exchange (SGX) have advanced by 27.5% YTD and are trading at all-time highs due to supply shortages amid surging global energy demand. Meanwhile, iron ore prices are trading at USD142/ton, up 26.7% YTD. Rising iron ore and coal prices since early 2022 were attributable to the growing metal demand helped by the loose monetary policy and boosted public spending in Asia's largest economy. However, infrastructure investment will contribute only a "reasonable proportion" to stimulating the economy, so we expect iron ore prices to decline and be less volatile.

**Domestic steel prices grew due to high input material prices and strong domestic demand for steel**

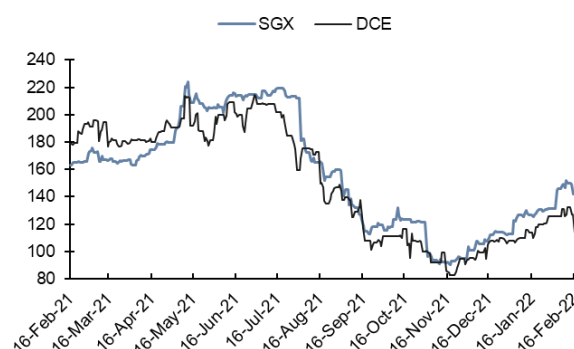
HPG's construction steel prices have risen VND800/kg, or 5% YTD, after three increases of VND200, VND300, VND300/kg since the beginning of this year. However, those increases could not catch up with surging raw material prices. Besides, HRC prices in Vietnam grew by 9.5% YTD, steel products such as galvanized steel sheets and steel pipes also witnessed slight increases.

Fig 8. Singapore & Dalian – Coke futures prices (USD)



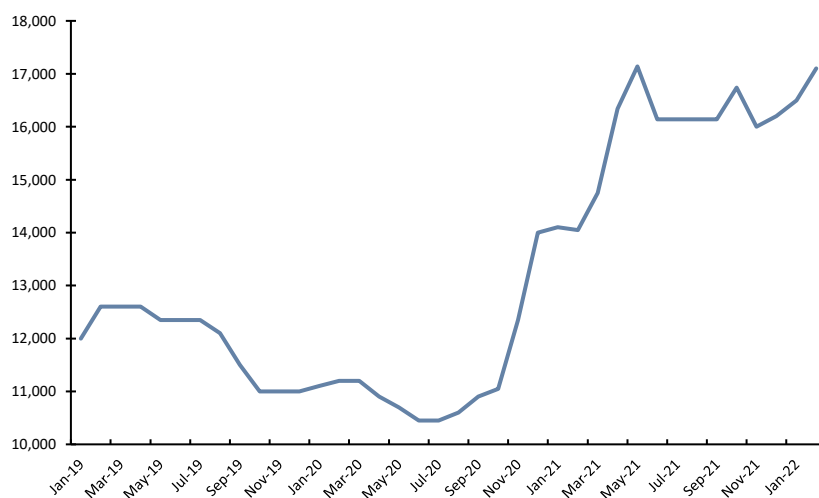
Source: Hoa Phat Group, KB Securities Vietnam

Fig 9. Singapore & Dalian – Iron ore futures prices (USD)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 10. Vietnam – Construction steel prices (VND/kg)



Source: KB Securities Vietnam

### Public spending will be prioritized by the Government in 2022

Public spending plays an important role in stimulating the economy after the pandemic. HPG is among businesses benefiting from supplying construction steel for numerous key public investment projects.

## Forecast and valuation

**We recommend BUYING HPG shares with a target price of VND56,700/share**

Domestic recovering demand combined with public spending promotion to revive the economy may help increase the consumption of steel and steel products. Furthermore, HPG can boost exports to China amid output cuts, loose monetary policies, and infrastructure investment. Along with that, rising steel prices will also contribute to higher revenue for the group in 2022. We forecast HPG's NPAT at VND30,550 billion (-11.5% YoY) on revenue of VND182,700 billion (+22.1% YoY) thanks to the consumption of 9,725,000 tons (+9% YoY) of steel and steel products. It's surging input material prices that lead to a sharp drop in gross margin compared to 2021.

**Table 11. 2019A–2022F business results**

VNDbn	2019A	2020A	2021A	2022F
Construction steel output (tons)	2,773,108	3,400,000	3,880,000	4,600,000
HRC output (tons)	0	681,000	2,560,000	2,480,000
Steel billet output (tons)	0	1,640,000	1,300,000	1,200,000
<b>Net revenue</b>	<b>63,658</b>	<b>90,119</b>	<b>149,680</b>	<b>182,783</b>
Growth (%)	14%	41.6%	66%	22.1%
COGS	52,473	71,214	108,571	145,535
<b>Gross profit</b>	<b>11,185</b>	<b>18,905</b>	<b>41,108</b>	<b>37,247</b>
Gross profit margin (%)	17.6%	21%	27.5%	20.4%
Financial expense	1,182	2,824	3,741	3,676
Selling expense	873	1,094	2,120	2,193
G&A expense	569	690	1,324	1,617
<b>NPAT</b>	<b>7,578</b>	<b>13,506</b>	<b>34,521</b>	<b>30,556</b>
Growth (%)	-11.9%	78.2%	155.6%	-11.5%
After-tax profit margin (%)	11.9%	15%	23.1%	16.7%

Source: KB Securities Vietnam

**We recommend BUYING HPG shares with a target price of VND56,700/share**

By combining two valuation methods P/E and discounted cash flow (DCF) with a ratio of 50:50, we recommend BUYING HPG shares with a target price of VND56,700/share, 21.4% higher than the closing price on February 23, 2022:

- Based on the P/E method, we give HPG shares a reasonable P/E of 8x, equivalent to VND54,600/share.
- Based on the DCF method, we value HPG at VND58,800/share.

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## Investment ratings & definitions

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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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