

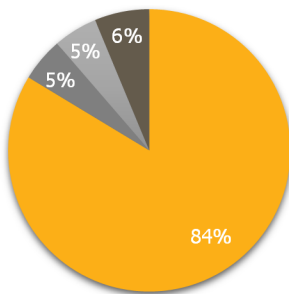
HOA PHAT GROUP (HPG - HOSE)

Recommendation: **BUY**

KEY INDICATORS

Current Price (VND)	42,500
Target Price (VND)	56,400
Upside Potential (%)	32.7
Market Cap (VND billion)	90,227
Outstanding Share (million)	2,123
P/E Trailing (x)	10.9
P/B (x)	2.62
P/E VN-Index (x)	20.1

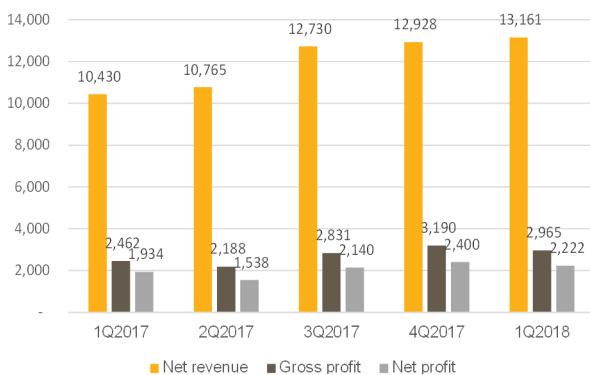
Sales structure in 1Q2018:



■ Steel ■ Other industrial production ■ Real estates ■ Ariculture

Source: HPG, KBSV

Business performance in 4Q2016 - 4Q2017



Source: HPG

Business results 1Q2018

In 1Q2018, HPG revenue and net profit reached VND 13,161 billion (+26.1% yoy) and VND 2,222 billion (+14.8% yoy) respectively, fulfilling 23.8% and 27.6% company's revenue and net profit target for 2018. Strong revenue growth in 1Q2018 was attributed to a gain of VND 515 billion from sales of the Mandarin Garden 2 projects (compared to VND 16 billion in 2016) and sales volume of construction steel and steel pipes reached 542,000 tons (+10% yoy) and 148,200 tons (+17% yoy) respectively, and steel price increased. Gross profit margin was 22.8% compared to 23.9% in the same period in 2017, gross profit margin slightly lower than the same period last year due to the profit from the iron ore hedging contract of about VND 700 billion in 1Q2017. Other expenses have not changed compared to 2017.

VND billion	1Q2018	1Q2017	YoY
Net revenue	13,161	10,430	26.2%
Gross profit	2,965	2,462	20.4%
Gross profit margin	22.5%	23.6%	NA
Net profit	2,222	1,933	15.0%
Net profit margin	16.9%	18.5%	NA

VND billion	2017	2016	YoY
Net revenue	46,161	33,283	38.6%
Gross profit	10,674	8,750	21.9%
Gross profit margin	23.1%	26.2%	NA
Net profit	8,014	6,606	21.3%
Net profit margin	17.4%	19.8%	NA

Source: HPG, KBSV

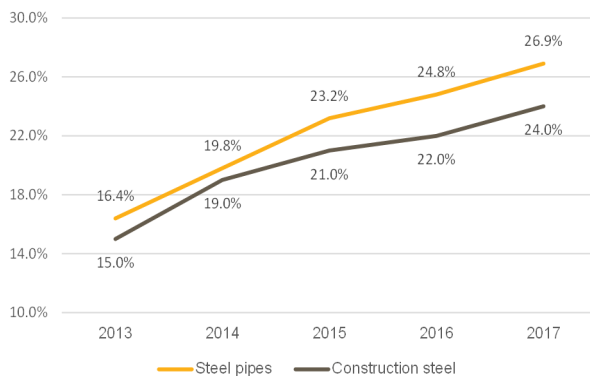
2018 Outlook

In 2018, The US decided to impose a 25% tax on imported steel and 10% on aluminum. We estimate that this decision will not have a big impact on HPG's prospect in the coming years, as HPG's steel only export to the US account for about 1% of sales in 2017. The concern that China's steel restriction on exports to US will increase competitive pressure on neighboring countries, including Vietnam, is groundless. Export of steel from China to the US account for only 1.1% of total steel exports from China and US has imposed a very high tariff on steel originating in China in 2016-2017. Therefore, we

Analyst

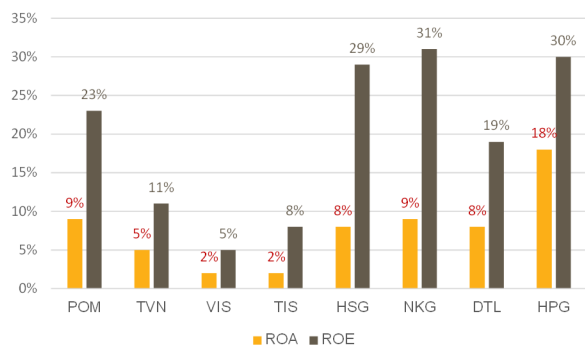
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Market share of HPG in 2013-2017



Source: VSA

Profitability ratio in 2017



Source: KBSV research

estimate that the imposition of 25% tariff of steel will have not a big impact on HPG.

HPG will complete Phase 1 of rolling mill in the Dung Quat Steel Complex with a capacity of 600,000 tons/year in Jun 2018, and complete full Phase 1 in Feb 2019 with a capacity of 2,000,000 tons of long steel per year. According to HPG, 2,000,000 tons of long steel will be consumed mainly in the South and the Central, and 30% for export.

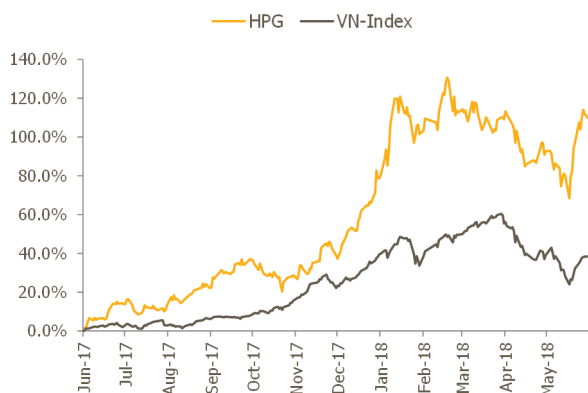
In 2019, HPG will continue to complete Phase 2 of Dung Quat Steel Complex with a capacity of 2,000,000 tons HRC per year, which will be used internally to complete the closed value chain of steel pipes and galvanized steel production. Currently HPG has a production capacity of 600,000 tons of steel pipes and 400,000 tons of galvanized steel, expected to raise to more than 1,000,000 tons of steel pipes and 1,000,000 tons of galvanized steel at the end of 2019 and 2020. We highly appreciate HPG’s prospect in the next three years when the entire Dung Quat Steel Complex will be put into operation to bring HPG in the top 50 largest steel producers in the world.

According to HPG’s board of directors in the annual general meeting 2018, Tran Tuan Duong (General Director of HPG) expects Vietnam’s steel consumption per capita to increase from 210kg/person to 400kg/person in the next 10-15 years, the company also revealed the possibility to double capacity of Dung Quat to 8,000,000 tons per year if the market is favorable.

HPG will transfer the Mandarin Garden 2 real estate project in 2018 with expected total revenue of VND 1,500 billion, which has been recorded a part in 1Q2018 and will continue to be recognized in Q2 and Q3. In addition, the second blast furnace with capacity of 500,000 tons/year in Hai Duong underwent major maintenance in April 2018 after the operation period.

The ASP of construction steel have tended to rebound after falling to 10-month low as a result of a decision from US to impose a 25% anti-dumping tax on imported steel. We are still optimistic about the long-term outlook for steel prices as China is aggressively cutting back on excess production to protect the environment. China, which produces more than 50% of crude steel output in the world, has cut capacity by 100 million tons per year, equivalent to Japan’s total annual steel output. China also cut 30% of its steel export in 2016 and 2017. However, China still has excess capacity of 200 million tons of crude steel per year. According to statistic, global crude steel production reached 1,600 million tons in 2016 and China produced 800 million per year at the end of 2015, while China’s total capacity

1Y Stock Performance



Source: FiinPro, KBSV research

reached more than 1,100 million tons. This means that China has an excess capacity of 300 million tons per year. At the annual China National Assembly meeting, the National Development and Reform Commission said it would cut 30 million tons of steel output in 2018. Steel bar prices increased by 17.4% and steel coil up by 20.1% in 2017 compared to 2016.

We expect that HPG revenue and net profit in 2018 will come to VND 62,000 billion (+34.5% yoy) and VND 9,600 billion (+20% yoy), respectively, thanks to the key contribution from the new segments will be recognized and put into operation in 2018 as: Mandarin Garden 2; 400,000 tons of galvanized steel started operation in Apr 2018 and Phase 1 of the first rolling mill. We expect that sales volume of construction steel in 2018 reach 2.6 million tons (+20% yoy) thanks to Phase 1 of the first rolling mill coming into operation in Jun 2018.

► Recommendation

HPG is currently trading at a 2018 PE forward at 9.4x. Target price by FCF discounted cash flow method is VND 56,400 per share, given that HPG will not raise capacity of Dung Quat in 2020 and terminal growth rate of 6% after 2022. Therefore, We maintain our **BUY** rating on HPG with a target price of **VND 56,400 per share**.

FINANCIAL SUMMARY 2014-2018

Financial summary	2014A	2015A	2016A	2017A	2018F
Revenue (VND billion)	25,851	27,864	33,884	46,854	62,000
Sales growth rate (% YoY)	34.6	7.8	21.6	38.3	32.3
Net profit (VND billion)	3,250	3,504	6,606	8,014	9,600
Net profit growth rate (% YoY)	61.7	7.8	88.5	21.3	19.8
Net profit margin (%)	12.6	12.6	19.5	17.1	15.5
Equity (VND billion)	11,795	14,466	19,850	32,397	41,997
Total assets (VND billion)	22,089	25,506	33,226	53,021	78,901
ROE (%)	30.5	26.7	38.5	30.7	25.8
ROA (%)	18.3	14.7	22.5	18.6	14.6
EPS (VND)	6,435	4,517	7,162	5,316	4,522
Dividend (VND)	1,500	1,000	1,500	0	0

Source: HPG, KBSV forecast

RATING

BUY - Expected return for 1-year is 15% or greater

HOLD - Expected return for 1-year is between -15% and 15%

SELL - Expected return for 1-year is below or equal to -15%

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