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December Steel Output (HPG)

Another big surge in the Southern market

December construction steel consumption hits 285,000 & 2.77 million tons for 2019

— Hoa Phat Group's (HPG) December steel consumption reached 285,000 tons, increasing 41% MoM and 34% YoY. Total consumption for all of 2019 hit 2.77 million tons of construction steel (+17% YoY), of which over 265,000 tons were exported to other markets (+82% YoY). As a result, HPG's construction steel market share rose to 25.5% from 2018's 23.7%.

Strong gains in the Southern region & more than doubling tonnage from 2018

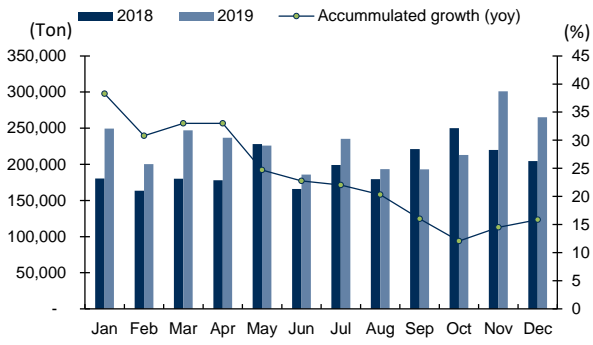
— HPG's annual tonnage of construction steel sold in the Southern region more than doubled to 478,550 tons in 2019 vs 2018's 231,760 tons. Large volumes of construction-grade steel were sold for use in both civil & construction projects. In particular, November and December steel consumption surged by 70,000–80,000 tons per month over the 30,000 ton consumption average seen in previous months and the same period last year. We attribute the strong growth in HPG's steel consumption to higher output from the Dung Quat Iron & Steel Integrated Complex. Higher outputs are supported by its ideal location in the central region and access to a deep-water port able to handle ships weighing over 200,000 tons to facilitate distribution of finished steel products to end markets. Previously, transport from Hai Duong Iron & Steel Integrated Complex took more than seven days but now the Dung Quat facility only takes about three days. In order to increase its market share in the Southern region, HPG has strengthened its distribution network by adding more warehouses and wharves.

Phase 1 trials complete for Dung Quat & over 80% of phase two near completion

— HPG completed phase 1 of trials for the Dung Quat facilities and is near completion of phase 2 with over 80% of the trial completed. Both phases should come into operation from the end of 2Q20 and HPG plans to sell 3.6 million tons of construction steel in 2020 or an increase of 30% YoY. Specifically, HPG targets 1 million tons of construction steel to be sold in the Southern region to more than double the annual tonnage seen in 2019 and boost its market share in the south to about 30% from 2019's 14%. Given the advantages of the Dung Quat production facilities, we believe HPG will be able to meet this ambitious goal.

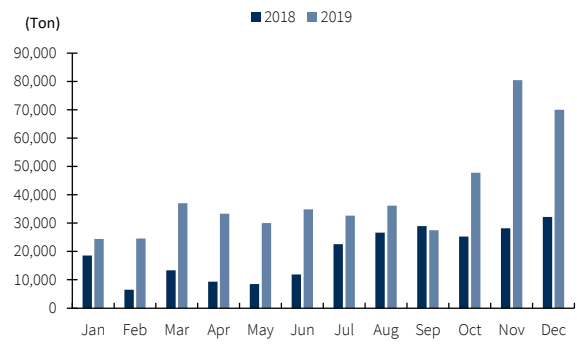


Fig 1. HPG – Nationwide construction steel consumption



Source: HPG, KBSV Research

Fig 2. HPG – Southern region construction steel consumption



Source: HPG, KBSV Research

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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 | Underperform the market |

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