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Power & Steel Analyst
Le Thanh Cong
conglt@kbsec.com.vn

Hoa Phat Group (HPG)

Bullish 2020E guidance

Bullish 2020E earnings guidance at VND9–10 trillion vs VND8.5 trillion consensus

— Chairman Tran Dinh Long announced preliminary 2020E earnings guidance at VND9–10 trillion at an analyst meeting on May 15. This would be 19%–32% higher than 2019's results, 6%–18% above the VND8.5 trillion consensus and 39%–54% higher than our current forecasts. He also projected sales to reach VND85–90 trillion or up 33%–41% YoY or 6%–12% ahead of the VND80.1 trillion consensus and 22%–29% above our forecasts. The company expects about 80% of earnings from the steel segment, with sales volumes estimated at 3.6 million tons for construction steel (+30% YoY), steel pipes at 750,000 tons (flat YoY) and additional volumes from new products of steel billets at 800,000 tons and coated steel at 120,000 tons. The company also announced a 20% stock dividend and cash dividend of VND500 per share. The Board of Management will finalize these annual targets for the annual general shareholders' meeting scheduled for June 25.

Phase 2 *Dung Quat-Hoa Phat* project back on track & management hoping for Sep start

— About 80% of Phase 1 of the *Dung Quat-Hoa Phat* project was completed by March 31 and the remaining portion should be completed in 2Q and add 1 million tons of steel output or increase volume sales by 14% by our estimates (management expects Phase 1 to add 1.2 million tons or a 21% boost to sales volume). Delays due to COVID-19 risk pushing back the start of Phase 2 to the end of the year, but management is working on maintaining the official operating start for September. The coronavirus has prevented foreign technicians from entering Vietnam to complete equipment installations and risks for delay remain. We expect Phase 2 will add another 200,000 tons of steel output or increase volume sales by 7% vs management's target for an additional 500,000 tons of output or 18% increase in sales volume. Moreover, the *Dung Quat* port located in the *Dung Quat* complex is 85% complete and will officially begin operations in the next few months. The new port will be able to receive 200,000-ton ships and will help Hoa Phat directly import raw materials at lower prices from Brazil, Australia and Indonesia. This development should give the company a meaningful advantage vs peers and allow it to gain market share from other local steel makers.

Government's public investment to restore positive growth for Vietnam's steel industry

— Industry-wide steel production fell by 8.4% YoY in the first four months of the year, while steel consumption dropped by 13.2% during the same period due to the negative effects from the COVID-19 pandemic. That said, management expects the government's efforts to expedite public investment in infrastructure projects should return Vietnam's steel industry to positive growth in 2020E.

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong

congl@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen

huyennt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of Equity Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh

vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin

shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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

Website: 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

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