

# Hoa Phat Group (HPG)

## Expecting year-end consumption recovery

June 15, 2023

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In 1Q23, revenue and NPAT of the parent company was VND26,589 billion (+3% QoQ) and VND393 billion (-95% YoY), respectively

GPM should improve in 2Q23 thanks to falling input material prices

HPG resumed three blast furnaces in Hai Duong and three at Dung Quat in 2Q23 and possibly restart the last one in 3Q23

We recommend BUY for HPG stocks with a target price of VND27,400/share

**Buy** update

<b>Target price</b>	<b>VND 27,400</b>
Upside	19%
Current price (Jun 15, 2023)	VND 23,150
Consensus target price	VND 21,500
Market cap (VNDtn/USDbn)	134.3/5.7

#### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	141,409	114,617	146,411	175,311
Operating income (VNDbn)	9,794	7,783	12,385	14,595
NPAT of parent company (VNDbn)	8,484	6,650	10,528	12,405
EPS (VND)	1,459	1,144	1,810	2,133
EPS growth (%)	-81%	-22%	58%	18%
P/E (x)	12.3	20.2	12.8	10.8
P/B (x)	1.1	1.3	1.2	1.1
ROE (%)	9%	7%	10%	10%
Dividend yield (%)	2.5%	0%	0%	0%

Hoa Phat Group's (HPG) profits turned positive in 1Q23 thanks to (1) HPG reversed VND928 billion in inventory provision, helping gross profit margin (GPM) increase from 3% to 6%, (2) SG&A expenses narrowed 28% QoQ due to suspending 3-4 blast furnaces in Hai Duong and Dung Quat in 1Q23, and (3) steel prices increased slightly in 1Q23 on the expectation of China's economic recovery.

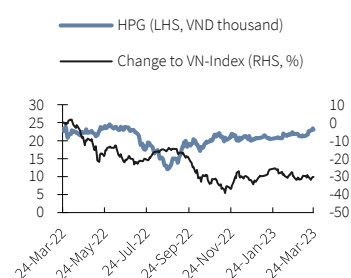
While input material prices fell sharply (ore, coke, and scrap prices dropped by 10% QoQ, 44% QoQ, and 18% QoQ, respectively), construction steel and HRC prices in the local market witnessed a slower decline rate (-6% and -15% QoQ respectively), enabling HPG to further improve GPM in the quarter.

Statistically, production volume in May 2023 reached 75% of the designed capacity and 95% of the total capacity of the enterprise, mainly thanks to surging HRC export orders in April and May 2023. At the same time, the steel giant's finished product inventory has risen since the start of the year. It can be seen that HPG is aggressively preparing for the recovery of steel consumption in the foreseeable future.

We recommend BUY for HPG stocks with a target price of VND27,400/share, equivalent to an upside of 19% compared to the closing price on June 15, 2023.

Trading data	
Free float	55%
Avg 3M trading value (VNDbn/USDmn)	10.62/0.45
Foreign ownership	24.5%
Major shareholder	Tran Dinh Long (26.08%)

Share price performance				
(%)	1M	3M	6M	12M
<b>Absolute</b>	5	8	20	-1
<b>Relative</b>	0	3	14	8



Source: Bloomberg, KB Securities Vietnam

## Business performance

**Table 1. HPG – Sales volume (tons)**

(tons)	1Q2022	1Q2023	+/-%YoY	4Q2022	1Q2023	+/-%QoQ	Notes
Construction Steel	1,342,754	868,000	-35%	820,000	868,000	6%	
HRC	764,118	482,000	-37%	591,000	482,000	-18%	
Steel Pipes	207,000	160,000	-23%	184,000	160,000	-13%	
Galvanized Sheets	105,627	70,000	-34%	79,000	70,000	-11%	
Billet	77,128	28,000	-64%	82,000	28,000	-66%	
<b>Total</b>	<b>2,496,627</b>	<b>1,608,000</b>	<b>-36%</b>	<b>1,756,000</b>	<b>1,608,000</b>	<b>-8%</b>	Low consumption was recorded due to a deep dive in demand from the Real Estate sector.

Source: Hoa Phat Group, KB Securities Vietnam

**Table 2. HPG – Selling and input prices (USD/ton)**

(USD/tons)	1Q2022	1Q2023	+/-%YoY	4Q2022	1Q2023	+/-%QoQ	Notes
Construction Steel	762	662	-13%	591	662	12%	
HRC	825	659	-20%	557	659	18%	Prices went up as cost of materials increased.
Iron Ore	129	117	-10%	95	117	23%	As China reopened in 1Q2023, cost of materials rose since the market expect the reopen will drive the economy and demand for construction materials will surge.
Coking Coal	285	333	17%	300	333	11%	
Steel Scraps	626	511	-18%	388	511	32%	

Source: Hoa Phat Group, KB Securities Vietnam

**Table 3. HPG – 1Q22-1Q23 business results**

(VNDbn)	1Q2022	1Q2023	+/-%YoY	4Q2022	1Q2023	+/-%QoQ	Notes
<b>Revenue</b>	<b>44,058</b>	<b>26,589</b>	<b>-40%</b>	<b>25,826</b>	<b>26,589</b>	<b>3%</b>	Revenue increased 3% QoQ thanks to a 12% rise in selling prices QoQ, however, consumption decreased 8% QoQ.
Cost of Goods Sold	-33,950	-24,912	-27%	-26,711	-24,912	-7%	
<b>Gross Profit</b>	<b>10,108</b>	<b>1,676</b>	<b>-83%</b>	<b>-885</b>	<b>1,676</b>		A VND928 billion reversal of inventory provision helped GPM rose from -3% to 6% in 1Q2023.
Gross Profit Margin	23%	6%	-17%	-3%	6%	9%	
Financial income	769	903	17%	1,541	903	-41%	
Financial expenses	-1,111	-1,331	20%	-1,688	-1,331	-21%	
Interest payments	-597	-990	66%	-933	-990	6%	
Profit/(loss) from JVs	0	0		0	0		
SG&A	-841	-757	-10%	-1,059	-757	-28%	SG&A declined 28% QoQ due to operation shut down at 4 furnaces in Hai Duong and Dung Quat since Nov 2022.
SG&A Margin	2%	3%		4%	3%	-1%	
<b>Profit/(loss) from Operation</b>	<b>8,924</b>	<b>492</b>	<b>-94%</b>	<b>-2,091</b>	<b>492</b>		
Other (net)	-2	40		13	40	211%	
<b>PBT</b>	<b>8,922</b>	<b>532</b>	<b>-94%</b>	<b>-2,079</b>	<b>532</b>		
PBT Margin	20%	2%	-18%	-8%	2%	10%	
Tax	-716	-149	-79%	80	-149	-287%	
NPAT	8,206	383	-95%	-1,999	383		
NPAT Margin	19%	1%	-18%	-8%	1%	9%	
<b>NPATMI</b>	<b>8,217</b>	<b>397</b>	<b>-95%</b>	<b>-1,992</b>	<b>397</b>		
NPATMI Margin	19%	1%	-18%	-8%	1%	9%	

Source: Hoa Phat Group, KB Securities Vietnam

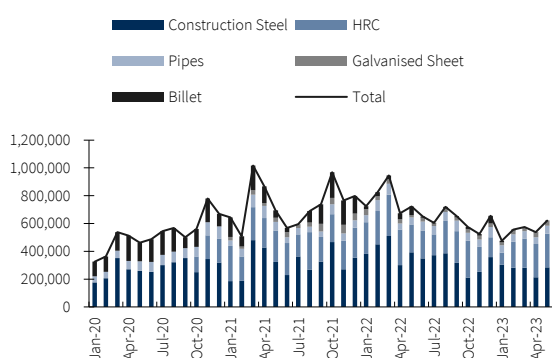
**We expect HPG’s 2Q23 profit to grow thanks to a sharp drop in raw material prices vs. a slight decrease in finished products’ prices**

In April and May 2023, HPG sold 538,800 tons and 621,000 tons of steel, respectively, primarily thanks to surging HRC exports following supply tightness across Europe from the end of 1Q23.

We assess that HPG’s 2Q23 profit will improve for the following reasons:  
 (1) Sales volume should increase versus 1Q23 as a result of growing demand of HRC as mentioned earlier.  
 (2) Input material prices tend to decrease in 2Q23 (Figure 2). However, construction steel and HRC prices in the local market have a slight decrease, thus pushing GPM in the quarter.

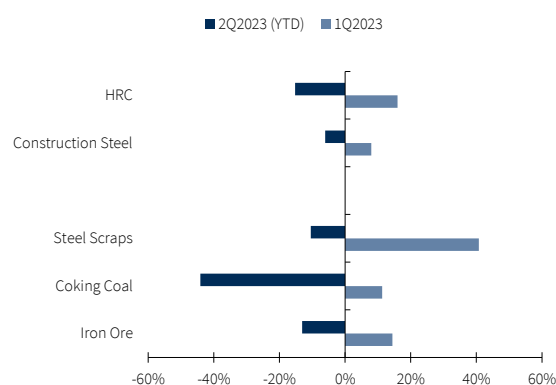
However, pre-paid expenses continued to increase to 55% in 1Q23 vs 45% in 1Q22. We assess that the situation will continue throughout 2023 and HPG needs to find balance between revenue-profit targets and cash flow amid dwindling demand.

**Fig 1. HPG – Sales volume (tons)**



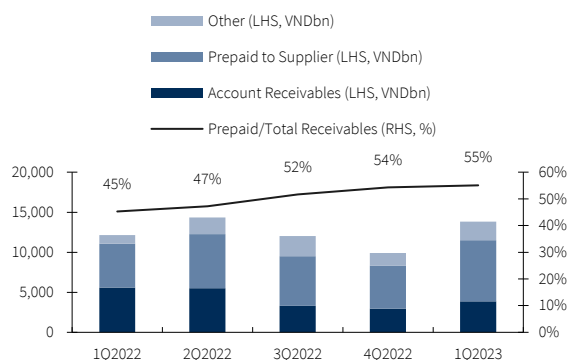
Source: Hoa Phat Group, KB Securities Vietnam

**Fig 2. HPG – Selling and input price movements (%)**



Source: Hoa Phat Group, KB Securities Vietnam

**Fig 3. HPG – Pre-paid expenses (VND bn, %)**



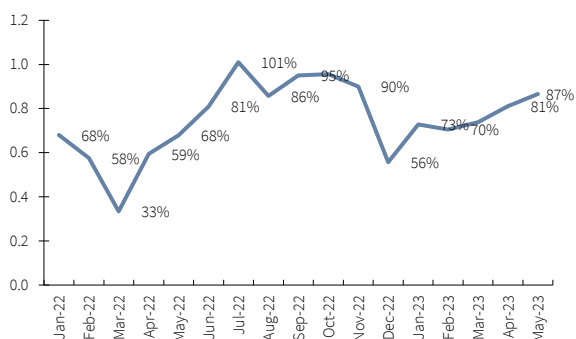
Source: Hoa Phat Group, KB Securities Vietnam

**HPG has increased steel stocks and may resume its last blast furnace at Hoa Phat Dung Quat in 3Q23**

As of May 2023, HPG had relaunched three basic oxygen furnaces (BOFs) at Hai Duong Iron and Steel Integrated Complex and three BOFs at Hoa Phat Dung Quat Iron and Steel Integrated Complex, in addition to one electric arc furnace (EAF) in Hung Yen, with a utilization rate of 85%. HPG produced 669,998 tons of steel in May 2023, equivalent to 95% of HPG’s total capacities, the highest recorded since October 2022.

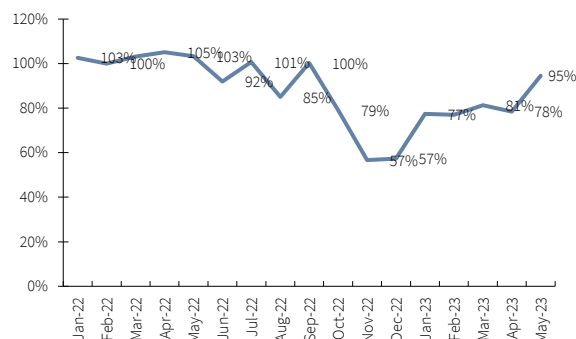
Besides, HPG is also preparing for the market recovery when continuously increasing steel stocks from the beginning of the year until now after destocking high-priced inventory in 4Q22.

**Fig 4. HPG – Inventory/Consumption (%)**



Source: Fiinpro, KB Securities Vietnam

**Fig 5. HPG – Production capacity (%)**

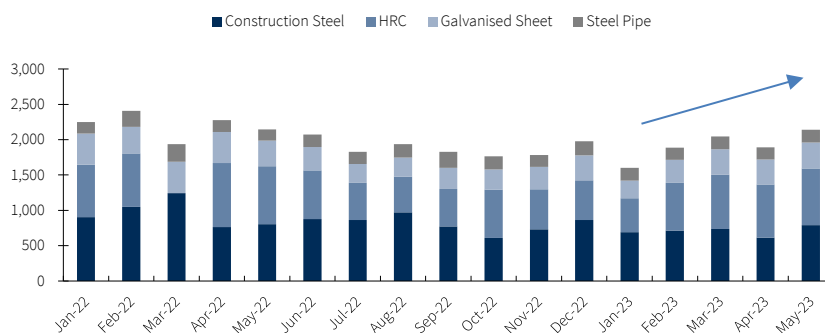


Source: Fiinpro, KB Securities Vietnam

**The steel industry may see its sales volume rise steadily in 2H23 before growing strongly in 2024**

The steel industry was quiet in the first five months of 2023 (excluding sudden HRC export orders in April and May 2023). However, we saw an uptrend in consumption demand from the beginning of the year until now. In the base case scenario, we expect sales volume to rebound strongly in late 3Q23 and early 4Q23 before growing strongly in 2024 (see details in Risk assessment).

**Fig 6. HPG – Domestic steel consumption (thousand tons)**



Source: VSA, Fiinpro, KB Securities Vietnam

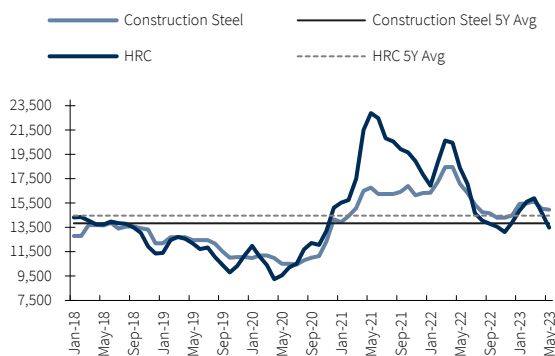
### Steel prices should stabilize in 2H23 and return to upward trend from 2024

In the base case scenario, steel prices should stabilize in 2H23 for the two main reasons:

- (1) Consumption demand among international markets remains weak, causing prices of raw materials like iron ore, coke, scrap to plummet to their 5-year bottom.
- (2) Construction steel and HRC prices in the local market have also fallen to their 5-year average in the context of soft demand.

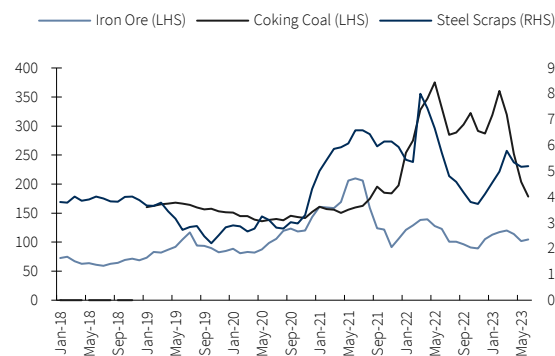
We believe input costs and selling prices will tend to be flat and stable in 2H23 before resurging next year when global demand improves. In the optimistic scenario, steel prices may increase more strongly in the year-end period, assuming that China gets off to solid growth in 4Q23.

**Fig 7. Vietnam – Construction steel & HRC prices (VND thousand)**



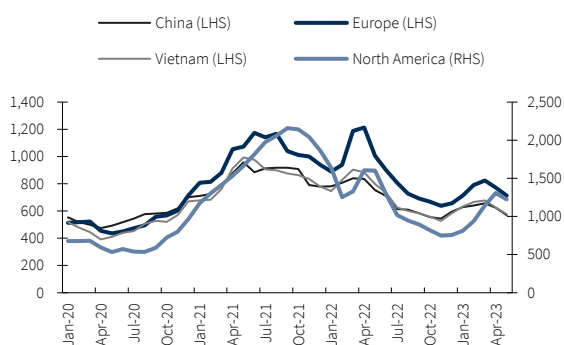
Source: Fiinpro, Bloomberg, KB Securities Vietnam

**Fig 8. Global – Input material prices (USD/ton)**



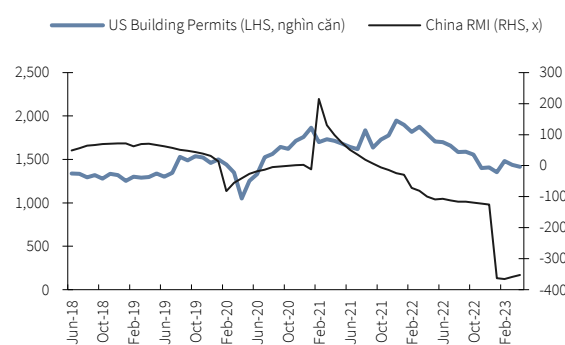
Source: Bloomberg, KB Securities Vietnam

**Fig 9. Global – HRC prices (USD/ton)**



Source: Bloomberg, KB Securities Vietnam

**Fig 10. China, US – Property purchases**



Source: Bloomberg, KB Securities Vietnam

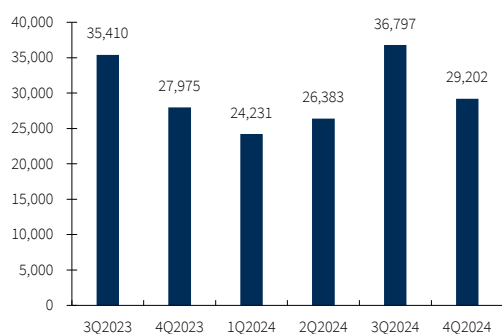
### The recovery of the steel sector may fall short of expectations due to weak construction material consumption of real estate

We see that the steel industry will continue to be under pressure of weak domestic demand due to difficulties related to real estate. Specifically:

- (1) Property developers tend to restrict new launches in 2023 amid frozen market and focus on delivering sold homes instead. Therefore, construction demand for new projects will also remain low during the year.
- (2) The Hanoi Stock Exchange (HNX) reported that the value of corporate bond default since the beginning of 2023 has neared VND42 trillion, while the maturity value in 2H23 and 2024 should be VND63,400 billion and VND116.6 trillion, respectively.
- (3) Total outstanding loans of the economy as a whole has increased by 3.17% YTD, and banks have also limited credit for property firms against the backdrop of existential risks related to real estate bonds coupled with an enormous maturity value in the near future.

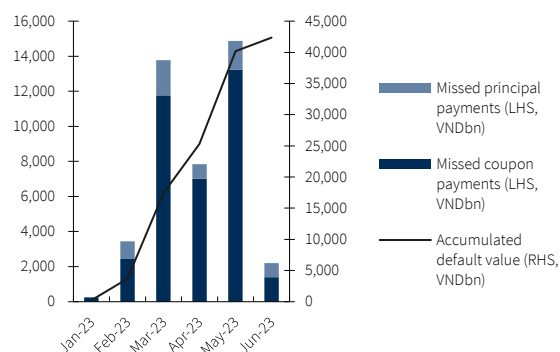
Therefore, in the base case, we assume that domestic demand will start recovering more strongly from 4Q23 when lending interest rates decline from the current levels. Along with that, steel prices should stabilize in 2H23 in light of soft demand worldwide. In the optimistic scenario, steel prices may grow in 4Q23, assuming China starts a strong recovery in the year-end period.

Fig 11. Vietnam – Value of maturity real estate bonds (VNDbn)



Source: HNX, KB Securities Vietnam

Fig 12. Vietnam – Missed principal payments, missed coupon payments, accumulated default value (VNDbn)



Source: HNX, KB Securities Vietnam

## Forecast & Valuation

**Table 4. HPG – 2023F–2024F sales volume (tons)**

(ton)	2022	2023F	+/-%YoY	2024F	+/-%YoY	Notes
Construction Steel	4,279,754	3,585,167	-16%	5,225,000	46%	
HRC	2,624,118	2,649,500	1%	2,850,000	8%	
Steel Pipe	750,000	640,000	-15%	700,000	9%	
Galvanized Sheets	328,000	355,000	8%	360,000	1%	
Billet	298,128	114,000	-62%	240,000	111%	
<b>Total</b>	<b>8,280,000</b>	<b>7,343,667</b>	<b>-11%</b>	<b>9,375,000</b>	<b>28%</b>	

Source: Hoa Phat Group, KB Securities Vietnam

**Table 5. HPG – 2023F–2024F input material prices (USD/tons)**

(USD/ton)	2022	2023F	+/-%YoY	2024F	+/-%YoY	Notes
Construction Steel	683	628	-8%	644	2%	
HRC	698	552	-21%	545	-1%	
Iron Ore	113	105	-7%	100	-5%	
Coking Coal	307	243	-21%	230	-5%	
Steel Scraps	532	495	-7%	510	-3%	

Source: Hoa Phat Group, KB Securities Vietnam

**Table 6. HPG – 2023F–2024F business results**

(VNDbn)	2022	2023F	+/-%YoY	2024F	+/-%YoY	Notes
Revenue	141,409	111,290	-21%	146,411	32%	We expect demand to recover greatly in 2024, which will boost revenue by 28%.
Cost of Goods Sold	124,646	100,045	-20%	127,883	28%	
<b>Gross Profit</b>	<b>16,763</b>	<b>11,246</b>	<b>-33%</b>	<b>18,529</b>	<b>65%</b>	
Gross Profit Margin	11.9%	10.1%	-1.7%	12.7%	2.6%	HPG will be able to maintain a steady GPM thanks to favorable outlook in the commodity market
Financial income	3,744	2,852	-24%	3,291	15%	
Financial expenses	7,027	3,879	-45%	5,097	31%	
Interest payments	3,084	3,879	26%	5,097	31%	
Profit/(loss) from JVs	1	0		0		
SG&A	3,685	3,172	-14%	4,392	38%	
SG&A Margin	2.6%	2.9%	0.2%	3%	0.2%	
Profit/(loss) from Operation	9,794	7,046	-28%	12,330	75%	
Other (net)	129	40	-69%	0	-100%	
PBT	9,923	7,086	-29%	12,330	74%	
PBT Margin	7.0%	6.4%	-0.6%	8.4%	2.1%	
Tax	1,479	1,063	-29%	1,850	74%	
NPAT	8,444	6,023	-28%	10,481	74%	
NPAT Margin	6.0%	5.4%	-0.6%	7.2%	1.7%	
<b>NPATMI</b>	<b>8,484</b>	<b>6,023</b>	<b>-28%</b>	<b>10,481</b>	<b>74%</b>	NPATMI will recover as consumption in the Real Estate sector starts to bounce back in 2024
NPATMI Margin	6.0%	5.4%	-0.6%	7%	1.7%	

Source: Hoa Phat Group, KB Securities Vietnam

## Valuation

**We recommend BUY for HPG stocks with a target price of VND27,400/share**

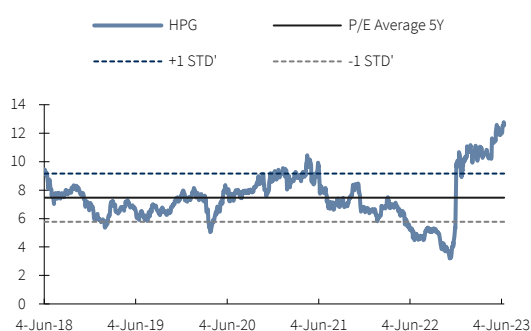
Based on the P/E and DCF valuation methods within a 1-year time frame. We recommend BUY for HPG stocks with a target price of VND27,400/share, corresponding to an upside of 19% compared to the closing price on June 15, 2023.

**Table 7. HPG – Valuation (VND/share)**

Valuation method	Value
<b>DCF</b>	
EV (VNDbn)	280,969
Cash and cash equivalents (VNDbn)	32,508
Minimum balance of cash required (VNDbn)	6,677
Short and long-term borrowing	83,566
No. of shares (mn)	235,404
Shareholders' equity (VNDbn)	5,815
Stock price (VND/stock)	40,484
<b>P/E</b>	
EPS (2024)	1,802
P/E target (x)	8
Stock price (VND/share)	14,419
Applied weight	
DCF	50%
P/E	50%
<b>Fair price (VND/share)</b>	<b>27,400</b>

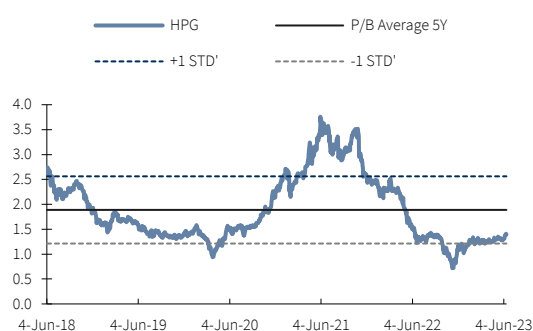
Source: KB Securities Vietnam

**Fig 13. HPG – Historical P/E (x)**



Source: Bloomberg, KB Securities Vietnam

**Fig 14. HPG – Historical P/B (x)**



Source: Bloomberg, KB Securities Vietnam



## HPG – 2021A–2023F financials

### Income Statement

(bn. VND)

(Standard Report)

	2021	2022	2023F	2024F
Net Revenue	149,680	141,409	111,290	146,411
Cost of Goods Sold	-108,571	-124,646	-100,045	-127,883
Gross Profit	41,108	16,763	11,246	18,529
Financial Income	0	0	0	0
Financial Expenditure	3,071	3,744	2,852	3,291
Including: Cost of Borrowing	-3,732	-7,027	-3,879	-5,097
Profit/(loss) from affiliated companies	4	-1	0	0
Selling expenditures	-2,120	-2,666	-2,220	-3,075
General and administrative expenditures	-1,324	-1,019	-952	-1,318
Profit/(loss) from operating	37,008	3,453	5,545	5,283
Other income	797	872	0	0
Other expenditures	-748	-743	0	0
Net Other Income	48	129	40	0
Profit/(loss) from affiliated companies	0	0	0	0
Profit/(loss) before tax	37,057	9,923	7,086	12,330
Tax	-2,536	-1,479	-1,063	-1,850
Profit/(loss) after tax	34,521	8,444	6,023	10,481
Minority Interest	43	-39	0	0
NPATMI	34,478	8,484	6,023	10,481

### Operating Ratios

	2021	2022	2023F	2024F
Gross Profit Margin	27.5%	11.9%	10.1%	12.7%
EBITDA Margin	31.3%	12.2%	14.7%	12.2%
EBIT Margin	27.2%	7.4%	8.5%	7.1%
FBT Margin	24.8%	7.0%	6.4%	8.4%
Operating Profit Margin	24.7%	2.4%	5.0%	3.6%
Net Profit Margin	23.1%	6.0%	5.4%	7.2%

### Cash Flow Statement

(Standard Report)

	2021	2022	2023F	2024F
PBT	37,057	9,923	7,086	12,330
Depreciation	6,077	6,814	6,949	7,516
Profit/(loss) from investing	-1,661	-1,822	0	0
Cost of borrowing	44,209	19,199	17,915	24,943
Profit/(loss) before changes in WC	44,209	19,199	17,915	24,943
(Increase)/decrease in receivables	-3,039	4,723	1,979	-1,742
(Increase)/decrease in inventory	-16,949	8,022	4,437	-17,397
Increase/(decrease) in payables	9,250	-14,681	-2,205	6,494
(Increase)/decrease in pre-paid expenses	-814	-19	-4	0
Sellable securities, cost of borrowing, tax	-5,936	-5,053	-6,528	-5,445
Operating Cash Flow	26,721	12,192	15,598	6,853
Purchases of fixed assets and other long term assets	-11,621	-17,966	-21,250	-28,333
Proceeds from disposal of fixed assets	49	14	0	0
Loans granted, purchases of debt instruments	-41,061	-55,506	0	0
Collection of loans, proceeds from sales of debts instruments	31,076	47,413	-1,153	0
Investments in other entities	0	-372	0	0
Proceeds from divestment in other entities	834	0	0	0
Dividends and interest received	1,054	1,706	0	0
Investing Cash Flow	-19,669	-24,712	-22,403	-28,333
Proceeds from issue of shares	11	4	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	125,075	135,257	0	0
Repayment of borrowings	-121,653	-134,631	0	0
Finance lease principal payments	0	0	0	0
Dividends paid	-1,693	-2,247	0	0
Interests, dividends, profits received	0	0	0	0
Financing Cash Flow	1,740	-1,617	3,567	33,895
Net increase in cash and cash equivalents	8,792	-14,137	-3,237	12,415
Cash and cash equivalents at the beginning o period	13,696	22,471	8,325	5,087
Cash and cash equivalents at the end of period	22,471	8,325	5,087	17,502

### Balance Sheet

(bn. VND)

(Standard Report)

	2021	2022	2023F	2024F
TOTAL ASSET	178,236	170,336	177,646	230,017
CURRENT ASSETS	94,155	80,515	72,461	104,015
Cash and cash equivalents	22,471	8,325	5,087	17,502
Short-term investments	18,236	26,268	27,421	27,421
Accounts receivable	7,663	9,893	7,914	9,656
Inventories	42,134	34,491	30,054	47,451
LONG-TERM ASSETS	84,082	89,821	105,185	126,002
Long-term trade receivables	809	894	899	899
Fixed assets	69,281	70,833	85,134	105,951
Long-term incomplete assets	9,699	13,363	14,405	14,405
Long-term investments	7	1	1	1
Good will (before 2015)	0	0	0	0
TOTAL LIABILITIES	87,456	74,223	75,510	117,400
Current liabilities	73,459	62,385	42,341	62,982
Trade accounts payable	23,729	11,107	8,902	15,396
Short-term borrowings	43,748	46,749	29,066	41,711
Other short-term liabilities	5,983	4,530	4,374	5,875
Long-term liabilities	13,996	11,837	33,169	54,419
Long-term trade payables	0	0	0	0
Other long-term liabilities	13,465	11,152	32,402	53,652
Long-term borrowings	532	686	767	767
OWNER'S EQUITY	90,781	96,113	102,136	112,617
Paid-in capital	44,729	58,148	58,148	58,148
Share premium	3,212	3,212	3,212	3,212
Other funds	1,076	920	920	920
Undistributed earnings	41,763	33,834	39,857	50,338
State capital	0	0	0	0
Interest of non-controlling shareholders	0	0	0	0

### Main Ratios

(x, %, VND)	2021	2022	2023F	2024F
<b>Valuation Ratios</b>				
P/E	4.6	12.3	22.3	12.8
P/E (diluted)	4.6	12.3	22.3	12.8
P/B	1.8	1.1	1.3	1.2
P/S	79.0	51.8	66.4	66.4
P/Tangible Book	2.3	1.5	1.6	1.3
P/Cash Flow	6.0	8.6	8.6	19.6
EV/EBITDA	4.3	7.8	10.6	8.5
EV/EBIT	4.9	11.9	17.4	12.2
<b>Management Efficiency</b>				
ROE%	4%	9%	13%	11%
ROA%	3%	7%	10%	9%
ROIC%	4%	8%	12%	10%
<b>Financial Ratios</b>				
Cash Ratio	0.3	0.1	0.1	0.3
Quick Ratio	0.7	0.7	1.0	0.9
Current Ratio	1.3	1.3	1.7	1.7
Long-term borrowing/Owner's Equity	0.0	0.0	0.0	0.0
Long-term borrowing/Total Asset	0.0	0.0	0.0	0.0
Short-term borrowing/Owner's Equity	0.5	0.5	0.3	0.4
Short-term borrowing/Total Asset	0.0	0.0	0.0	0.0
Short-term payables/Owner's Equity	0.3	0.1	0.1	0.1
Short-term payables/Total Asset	0.1	0.1	0.1	0.1
Total payables/Owner's Equity	0.3	0.1	0.1	0.1
Total payables/Total Asset	0.1	0.1	0.1	0.1
<b>Operating Ratios</b>				
Receivables turnover	33.6	35.7	28.6	28.6
Inventory turnover	3.2	3.3	3.1	3.3
Payables turnover	7.2	5.7	10.0	10.5

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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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