

Hoa Phat Group (HPG)

Sustainable growth for medium & long term

September 5, 2024

Analyst Nguyen Duong Nguyen
nguyend1@kbsec.com.vn

1H24 net profit completed 62% of the year's plan

Hoa Phat Group (HPG) posted VND3,320 billion in 2Q24 NPAT (+129% YoY) thanks to (1) sales volume increasing 29% YoY with the recovery of domestic demand and (2) GPM gaining 243bps thanks to raw material costs decreasing faster than prices in 1H24. By the end of June, the company reached 62% of the full-year profit plan.

GPM may reach 12.6%/14.8% in 2024/2025

HPG's GPM may decrease slightly in 3Q due to inventory provisions when iron ore and coke prices fell 8%/16% from the beginning of the quarter. However, in the medium term, product prices will decline more slowly than raw material costs, which will help HPG maintain a high GPM.

Dung Quat 2 should come into operation from 1Q25

Construction of Dung Quat 2 (DQ2) phase 1 & 2 has reached 80%/50% of the plan, which should contribute 1.1 million tons of HRC to the group in 2025.

Domestic consumption output should recover more strongly in 2025

HPG's consumption output has changed, focusing more on the domestic market after a period of export boom (accumulated HRC exports in 7M24 accounted for 32% of total consumption output, compared to 42% in 2023). We expect domestic consumption in 2H24 and 2025 to continue to increase thanks to (1) higher demand during the year-end construction season and (2) the recovery of the residential real estate market. KBSV estimates HPG's total construction steel and HRC consumption will reach 7.8/9.1 million tons in 2024/2025, up 20%/15% YoY.

Valuation: BUY rating – Target price VND31,000

KBSV gave a BUY rating to HPG with a price target of VND31,000, equivalent to a 24% return on the closing price on September 5, 2024.

Buy maintain

Target price	VND31,000
Upside	24%
Current price (Sep 5, 2024)	VND25,050
Consensus target price	VND35,900
Market cap (VNDtn/USDbn)	160.2/6.5

Forecast earnings & valuation

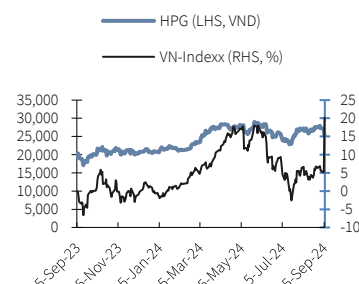
FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	141,409	118,953	134,102	145,647
Operating income/loss (VNDbn)	9,794	7,651	11,969	15,856
NPAT-MI (VNDbn)	8,484	6,835	10,778	13,477
EPS (VND)	1,459	1,175	1,685	2,107
EPS growth (%)	-81%	-19%	43%	25%
P/E (x)	12.3	25.7	14.9	11.9
P/B (x)	1.1	1.7	1.5	1.4
ROE (%)	9%	7%	10%	12%
Dividend yield (%)	3.9%	0.0%	9.1%	0.0%

Trading data

Free float	55.9%
3M avg trading value (VNDbn/USDmn)	549.9/21.7
Foreign ownership	23.1%
Major shareholder	Chairman Tran Dinh Long (25.8%)

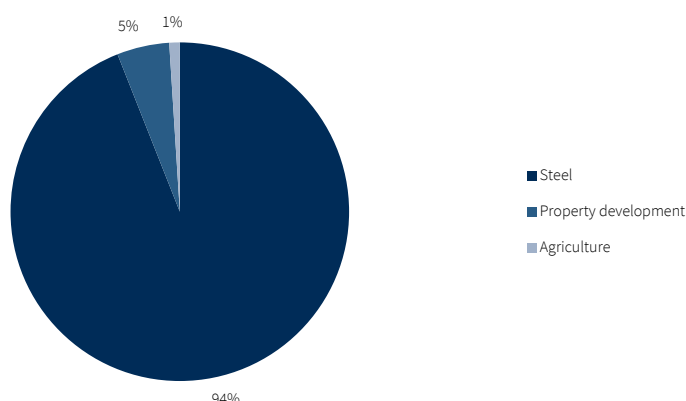
Share price performance

(%)	1M	3M	6M	12M
Absolute	-3.8	-14.4	-10.5	-5.0
Relative	-8.1	-13.1	-11.0	-6.8



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Hoa Phat Group, KB Securities Vietnam

Business operation

Hoa Phat Group (HPG) is a multi-industry enterprise, operating mainly in the field of iron and steel production. It holds the No. 1 market share in domestic construction steel and steel pipe production. HPG is also one of only two enterprises in Vietnam that can produce HRC with a current capacity of 3 million tons/year.

Investment Catalysts

Domestic steel prices decrease more slowly than input material prices, supporting gross profit margins in the medium term. Since the beginning of 3Q24, HPG's steel prices have decreased by an average of 2% while iron ore and coke prices have lost 8%/16%.

Domestic consumption output should continue to improve in the coming time. We expect domestic consumption output to be the growth force in 2H24 and 2025 thanks to (1) increased construction demand during the year-end construction season and (2) the recovery of the residential real estate market.

Dung Quat 2 will be put into operation and commercial operation from 1Q25. KBSV estimates that Dung Quat 2 will contribute 1.1 million tons of HRC to HPG in 2025.

Notes

Please find more details [here](#)

Please see more details below

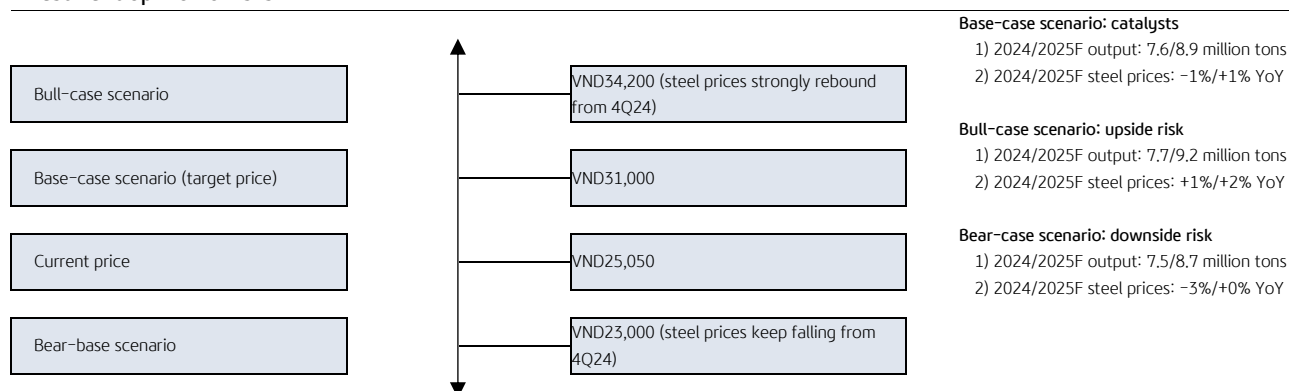
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	134,102	145,647	0.5%	-5.0%	134,321	155,260	-0.2%	-6.2%
EBIT	16,563	20,362	22.9%	10.6%	16,108	20,800	2.8%	-2.1%
NP after MI	10,778	13,477	5.5%	-3.1%	12,008	15,292	-10.2%	-11.9%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

Table 1. HPG – 1H24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	1H23	1H24	+/-%YoY	Notes
Revenue	29,496	39,556	34%	56,085	70,408	26%	2Q24 sales volume went up 29% YoY
Gross profit	3,195	5,247	64%	4,871	9,401	93%	
<i>Gross profit margin</i>	10.8%	13.3%	243 bps	8.7%	13.4%	467 bps	Raw material costs went down 22% in 1H24 while domestic steel prices fell 2%, helping GPM increase by 243/467bps in 2Q24 and 1H24.
Financial income	740	645	-13%	1,644	1,397	-15%	
Financial expenses	-1,349	-1,065	-21%	-2,679	-2,126	-21%	Interest expenses decreased 40% YoY in 1H24 thanks to low interest rates.
Profit from affiliates	0	0		0	0		
SG&A	-871	-1,136	30%	-1,629	-2,094	29%	Transportation costs climbed 44% YoY in 2Q24.
Operating profit/loss	1,715	3,692	115%	2,207	6,579	198%	
Other income	-13	42	-418%	27	415	1437%	Other income surged 14x YoY in 1H24 due to HPG liquidating fixed assets in 1Q24.
PBT	1,702	3,733	119%	2,234	6,994	213%	
NPAT	1,448	3,320	129%	1,831	6,189	238%	HPG completed 62% of the year's objective.
NP after MI	1,460	3,319	127%	1,858	6,190	233%	
<i>NPAT margin</i>	4.9%	8.4%	344 bps	3.3%	8.8%	548 bps	

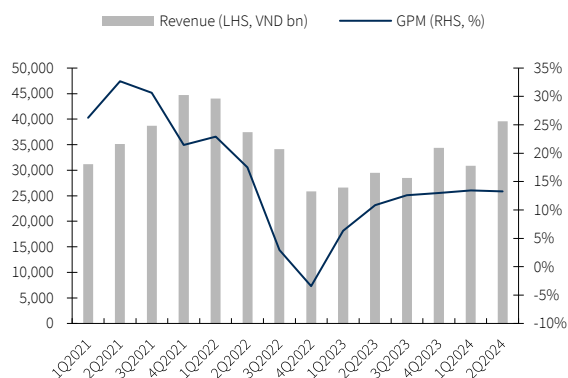
Source: Hoa Phat Group, KB Securities Vietnam

Table 2. HPG – Steel consumption (ton)

(ton)	2Q23	2Q24	+/-%YoY	1H23	1H24	+/-%YoY	Notes
Construction steel	784,036	1,271,321	62%	1,652,036	2,227,735	35%	Domestic consumption increased 48% YoY.
HRC	733,468	724,019	-1%	1,215,468	1,529,575	26%	Domestic consumption increased 40% YoY.
Steel pipes	164,304	187,692	14%	324,304	317,374	-2%	
Galvanized steel	105,754	124,126	17%	175,754	222,089	26%	
Total	1,787,562	2,307,158	29%	3,367,562	4,296,773	28%	

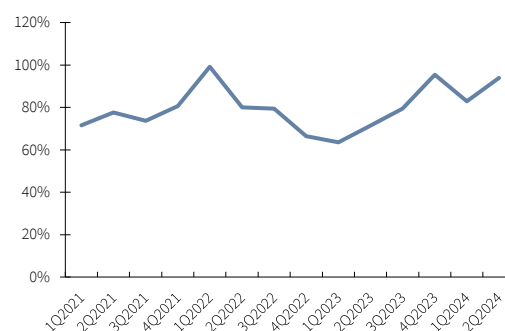
Source: Hoa Phat Group, KB Securities Vietnam

Fig 3. HPG – Revenue & GPM (VNDbn, %)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 4. HPG – Upstream steel capacity (%)

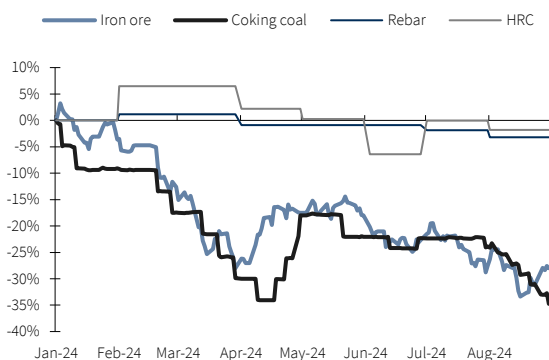


Source: Hoa Phat Group, KB Securities Vietnam

Raw material costs decrease faster than product prices, helping HPG to maintain high GPM in the medium term

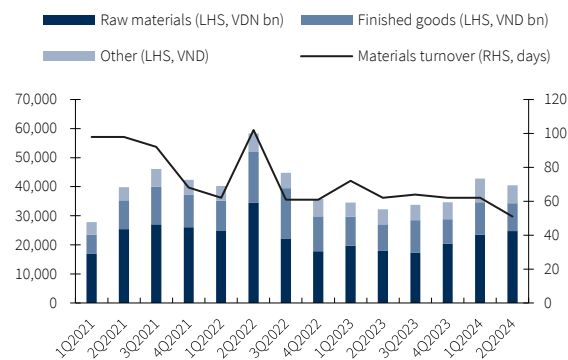
Iron ore and coke prices have dropped 8%/16% since the beginning of 3Q (respectively falling 28%/35% YTD) as domestic demand in China is recovering slowly amid large inventories, and export prospects are less positive due to markets increasing protection measures against Chinese steel. The sharp decrease in input material prices will create pressure on HPG's provisioning in 3Q24 (HPG's inventory reached VND40.4 trillion in 2Q24, down 6% QoQ), causing GPM to decline during the period. However, in the medium term, we believe that HPG's GPM will remain high since (1) input costs decrease faster than output prices (domestic steel prices have decreased by 3% YTD, supported by better domestic demand); and (2) HPG's inventory turnover days are tightly controlled, falling to the lowest level since early 2022 (reaching 51 days in 2Q24, compared to 102 days in 2Q22). KBSV estimates HPG's GPM to reach 12.6%/14.8% in 2024/2025.

Fig 5. Vietnam – Input material costs vs steel product prices



Source: Bloomberg, KB Securities Vietnam

Fig 6. HPG – Inventories (VNDbn)



Source: Hoa Phat Group, KB Securities Vietnam

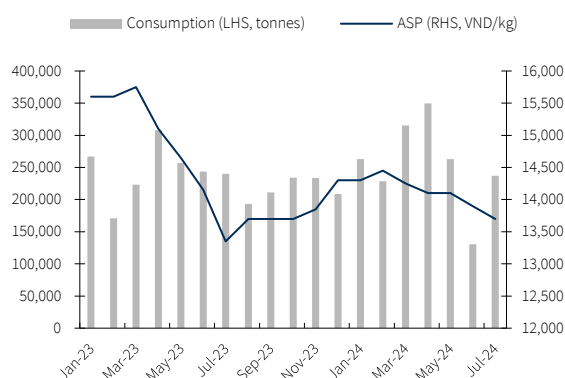
Domestic demand will continue its recovery in 2H24

We expect domestic steel consumption to be the main driver of HPG's sales output in the coming time thanks to (1) the gradual recovery of the real estate market and (2) increased steel consumption demand during the year-end construction season. Domestic orders will have better gross profit margins than export orders with lower transportation costs. KBSV estimates HPG's total sales output of construction steel and HRC to reach 7.6/8.9 tons in 2024/2025, up 16%/17% YoY.

KBSV assesses the probability of AD20 approval at 50–60%

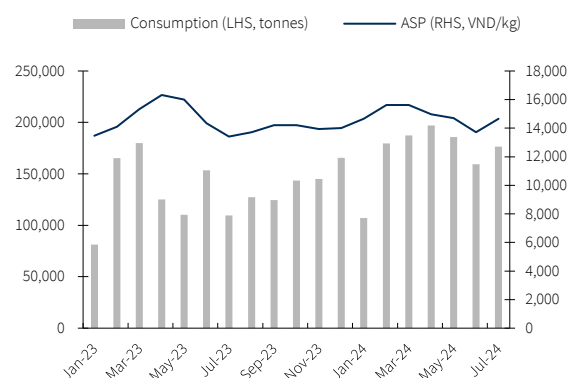
Regarding the proposal to apply anti-dumping measures on HRC imported from China and India (AD20), we believe that the need for trade protection for HRC products is present as the two countries currently account for more than 80% of HRC imported into Vietnam. However, the production and supply capacity of HRC in the domestic market is still limited (estimated total HRC capacity of Formosa and HPG by 2026 is more than 14 million tons/year, lower than the current demand of 15–16 million tons/year, according to VSA). The imposition of anti-dumping tax may hinder domestic enterprises in accessing supply and production. We believe that the probability of AD20 being applied is at an average level (50–60%), so our valuation model excludes the expectation and positive impact of AD20 on HPG's HRC consumption output.

Fig 7. HPG – Domestic construction steel consumption & prices (ton, VND/kg)



Source: Vietnam Steel Association, FlinPro, KB Securities Vietnam

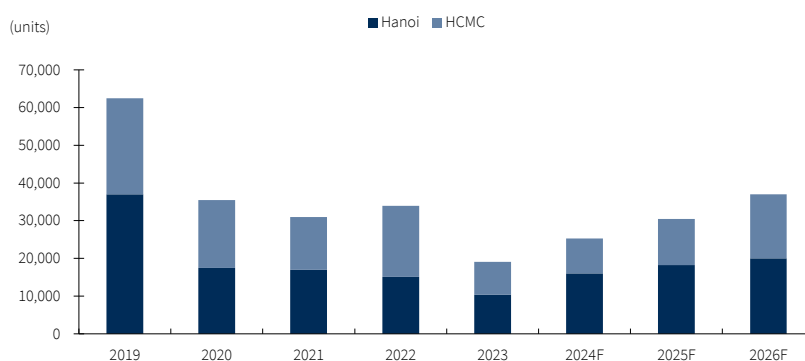
Fig 8. HPG – Domestic HRC consumption & prices (ton, VND/kg)



Source: Vietnam Steel Association, FlinPro, KB Securities Vietnam

The early application of the Land Law (amended) and the Real Estate Business Law (amended) will help shorten the time for legal completion of projects, improve supply, and create conditions for the real estate market to develop more sustainably. We expect the number of newly licensed housing projects to increase more strongly in 2025, helping to boost domestic steel consumption demand.

Fig 9. Hanoi & HCM – Forecast supplies of apartments (unit)



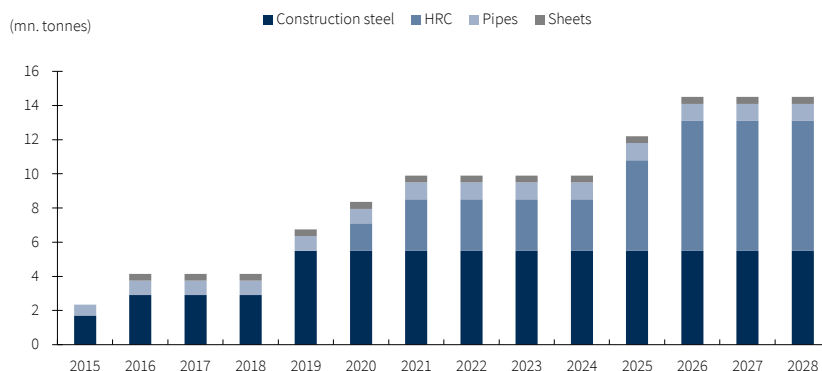
Source: CBRE, KB Securities Vietnam

Dung Quat 2 should operate and contribute to HPG's revenue from 1Q25

The construction progress of phase 1 and 2 of DQ2 is currently at 80%/50% respectively, ensuring the implementation progress for phase 1 to come into operation and start commercial operations from 1Q25 with the first blast furnace (capacity of 2.3 million tons/year). As of the end of 2Q24, the value of unfinished basic construction of DQ2 was recorded at VND42.4 trillion (+58% QoQ).

Fig 10. HPG – Production capacity (million tons)

Dung Quat 2 Iron and Steel Complex has two blast furnaces. Its main products are HRC and high-quality steel with a total capacity of 4.6 million tons/year. According to the orientation of the BoD, 70% of HRC produced will serve domestic consumption needs, and the remaining 30% is for exportation.

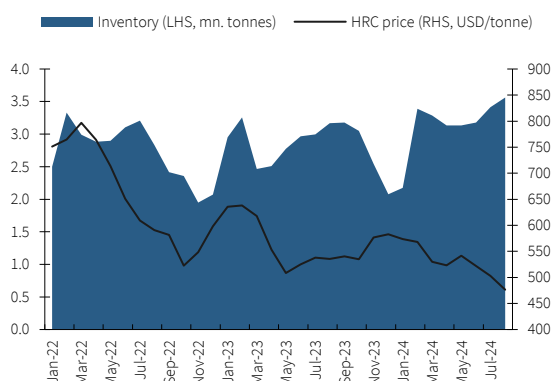


Source: Hoa Phat Group, KB Securities Vietnam

High inventories in China put pressure on steel prices

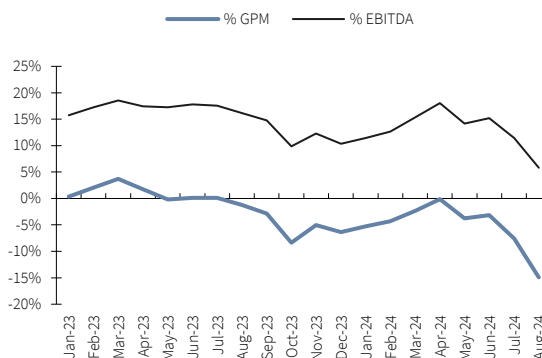
China's steel export prospects are expected to decline in the coming time as major markets such as the US and EU increase trade defense measures. This has caused steel prices in China to fall by an average of 11% since the beginning of 3Q24 to stimulate domestic consumption demand amid high steel inventories (estimated figures for August 2024 are 13.6 million tons, down 5% MoM but up 6%/4% YoY). With high inventories while falling EBITDA, we believe that manufacturers will prioritize reducing inventories and optimizing capacity in the coming time. This could put further pressure on steel prices in the short term and will stabilize later when supply and demand in China's domestic steel market rebalance. In the negative scenario, HPG's GPM may be affected when DQ2 comes into operation while HRC prices continue to decline, the blast furnace has not been operated at full capacity, and the enterprise begins to record depreciation costs. Therefore, the development of HRC prices is a factor that needs to be monitored in the coming time to assess the impact on DQ2's profitability in 2025.

Fig 11. China – HRC inventories (million tons)



Source: Bloomberg, KB Securities Vietnam

Fig 12. China – GPM & EBITDA of blast furnaces (%)



Source: Bloomberg, KB Securities Vietnam

Forecast & valuation

Table 12. HPG – 2024–2025F results

(VNDbn, %)	2023	2024	+/-%YoY	2025	+/-%YoY	Assumptions
Revenue	118,953	134,102	13%	145,647	9%	Sales volume should gain 17% YoY in 2025, driven by (1) domestic demand recovery and (2) DQ2 coming into operation.
Gross profit	12,938	16,888	31%	21,588	28%	
<i>Gross profit margin</i>	10.9%	12.6%	172 bps	14.8%	223 bps	2025F GPM rises 223bps thanks to gradual recovery of steel prices, and low raw material costs after sharp decline in 2024.
Deposit interests	2,071	1,665	-20%	1,525	-8%	Lending interest rates rebounds in 2025.
Interest expenses	-3,585	-2,275	-37%	-2,888	27%	
Exchange gain/loss, others	-184	-182	-1%	0	-100%	Exchange rates are stable in 2025.
Profit from affiliates	0	0		0		
SG&A	-3,269	-4,004	23%	-4,369	9%	
Operating profit/loss	7,651	11,969	56%	15,856	32%	
Other income	142	0	-100%	0		
PBT	7,793	12,384	59%	15,856	28%	
NPAT	6,800	10,778	58%	13,477	25%	
NP after MI	6,835	10,778	58%	13,477	25%	
<i>NPAT margin</i>	5.7%	8.0%	229 bps	9.3%	122 bps	

Source: Hoa Phat Group, KB Securities Vietnam

Valuation: BUY rating – Target price VND31,000

We adjust HPG's 2024/2025FY NPAT forecast by +5.5%/-3.1% YoY, respectively, based on (1) lower interest expenses due to a lower interest rate environment than initially assumed, and lower forecast for exchange loss after the exchange rate cools down from the beginning of 3Q. Since the beginning of 3Q24, HPG's share price has decreased by 11%, currently trading at P/B of 1.5x (-0.5 Std from the five-year average).

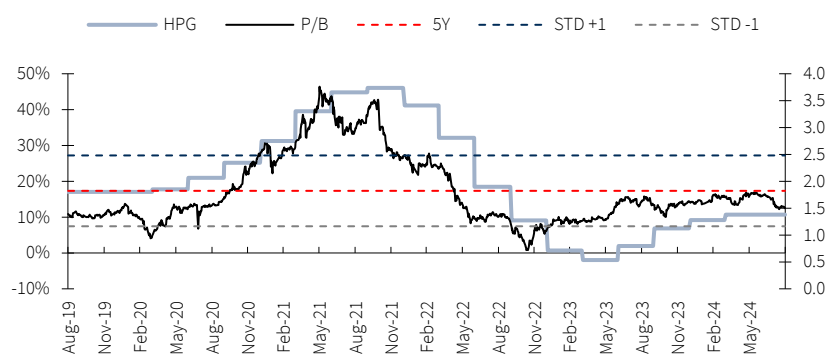
Applying two valuation methods, EV/EBITDA and P/E, with targets of 9x/13x respectively, we determine the fair value of HPG for FY2025 at VND31,000/share (P/E and P/B forward FY2025 are 14.7x/1.7x), corresponding to a return of 24% compared to the closing price on September 5, 2024.

Table 15. HPG – Final valuation

Method	Target	Valuation	Weight	Target price
EV/EBITDA	9	34,800	50%	17,400
P/E	13	27,300	50%	13,650
Target price				31,000

Source: KB Securities Vietnam

Fig 16. HPG – ROE & P/B (% , x)



Source: FiinProX, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Research Division

research@kbsec.com.vn

Nguyen Xuan Binh – Head of research

binhnx@kbsec.com.vn

Financials**Nguyen Anh Tung – Manager**

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Consumer**Nguyen Duc Quan – Analyst**

quannd@kbsec.com.vn

Nguyen Hoang Duy Anh – Analyst

anhnhd@kbsec.com.vn

Real Estate**Pham Hoang Bao Nga – Manager**

ngaphb@kbsec.com.vn

Nguyen Thi Trang – Analyst

trangnt6@kbsec.com.vn

Industrials & Materials**Nguyen Thi Ngoc Anh – Analyst**

anhntn@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Macro & Strategy**Tran Duc Anh – Head of macro & strategy**

anhtd@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

Energy, Utilities & IT**Pham Minh Hieu – Analyst**

hieupm@kbsec.com.vn

Nguyen Viet Anh – Analyst

anhnv3@kbsec.com.vn

Support Team**Nguyen Cam Tho – Assistant**

thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant

huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh 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:	Neutral:	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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only, not authorized to use for any other purposes.