

# Hoa Phat Group (HPG)

## Dominating the domestic market

December 6, 2024

Analyst Nguyen Duong Nguyen  
nguyennd1@kbsec.com.vn

**NP after MI reached VND3,022 billion in 3Q2024, down 9% QoQ**

In 3Q2024, HPG experienced a 14% QoQ decline in revenue, primarily driven by: (i) a 2% QoQ decrease in average steel prices and (ii) a 7% QoQ reduction in sales volume due to seasonal factors. However, the faster decline in input costs for iron ore and coking coal compared to domestic steel prices enabled HPG to improve its gross profit margin by 67bps QoQ during the quarter.

**Consumption is projected to grow by 19%/9% YoY in 2025F/2026F, supported by the continued recovery of the domestic market**

We expect domestic residential construction to pick up in 2025, supported by a stronger recovery in the real estate market. Additionally, demand from public investment projects is projected to increase as several major projects approach their handover deadlines. Furthermore, anti-dumping measures on imported steel are likely to stimulate domestic consumption in the near future.

**Gross profit margin is estimated at 15.2%/15.6% in 2025F/2026F**

A decline in iron ore and coking coal prices would further benefit HPG's gross profit margin. We forecast stable steel prices in 2025, with limited downward pressure compared to Chinese steel prices, as domestic demand continues its upward trajectory.

**Dung Quat 2 is set to commence operations in 1Q2025**

Currently, the first blast furnace along with the steel casting and rolling lines has been installed and is slated to commence operations in December 2024. KBSV estimates that Dung Quat 2 will contribute 1.1 million tons of HRC to HPG in 2025.

**We recommend BUY for HPG with a target price of VND34,700/share**

We recommend BUY for HPG with a revised target price of VND34,700 per share, implying a 25.7% return from the closing price on December 5, 2024.

**Buy** maintain

**Target price VND34,700**

Upside	25.7%
Current price (Dec 6, 2024)	VND27,600
Consensus target price	VND33,900
Market cap (VNDtn/USDbn)	178.1/7.0

### Trading data

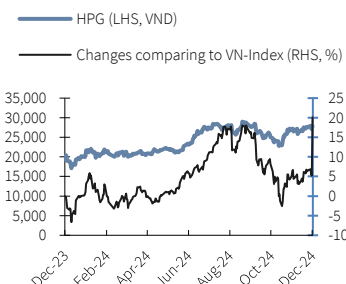
Free float	55.9%
3M avg trading value (VNDbn/USDmn)	526.7/21.0
Foreign ownership	27.3%
Major shareholder	Tran Dinh Long (34.9%)

### Share price performance

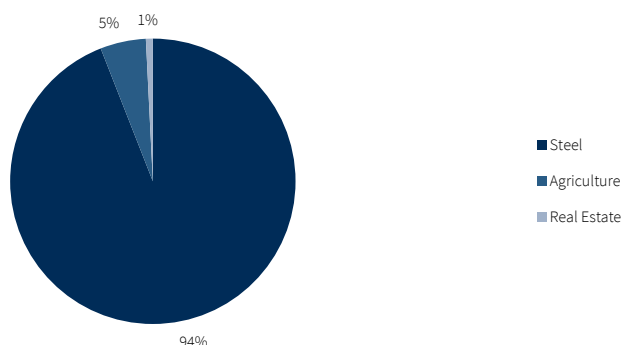
(%)	1M	3M	6M	12M
<b>Absolute</b>	0.8	6.6	-8.7	7.8
<b>Relative</b>	1.2	8.8	-5.3	-3.4

### Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	141,409	118,953	140,232	161,391
Operating income/loss (VNDbn)	9,794	7,651	13,626	17,479
NPAT-MI (VNDbn)	8,484	6,835	12,424	15,355
EPS (VND)	1,459	1,175	1,942	2,401
EPS growth (%)	-81%	-19%	65%	24%
P/E (x)	12.3	25.7	14.3	11.5
P/B (x)	1.1	1.7	1.5	1.4
ROE (%)	9%	7%	11%	12%
Dividend yield (%)	3.9%	0.0%	0.0%	0.0%



## Revenue composition (2023)



Source: Hoa Phat Group, KB Securities Vietnam

## Business operation

HPG is an industrial conglomerate primarily engaged in steel production, holding the dominant market share in the domestic construction steel and steel pipe segments. It is also one of only two companies in Vietnam capable of producing HRC, with a current production capacity of 3 million tons per year.

## Investment Catalysts

**Domestic consumption demand is recovering**, supported by expectations of a rebound in the real estate market and increased demand from public investment projects as several key developments approach their handover deadlines in 2025.

**Steel prices are expected to remain stable, while gross margins should improve in 2025.** We project steady steel prices next year, with improved gross margins driven by effective inventory control.

**Dung Quat 2 is set to begin commercial operations in 1Q2025.** KBSV estimates that Dung Quat 2 will contribute 1.1 million tons of HRC to HPG in 2025, with total consumption of construction steel and HRC projected to grow by 19%/9% in 2025F/2026F.

## Notes

Please find more details below

Please find more details below

Please find more details below

## Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	140,232	161,391	0.9%	1.1%	139,068	166,827	0.8%	-3.3%
EBIT	15,457	19,947	11.2%	5.6%	15,697	20,758	-1.5%	-3.9%
NP after MI	12,424	15,355	11.5%	9.7%	12,267	15,920	1.3%	-3.5%

Source: Bloomberg, KB Securities Vietnam

## Investment opinion &amp; risks

Bull-case scenario	VND36,000 (2025F average steel prices up 5% YoY)	<b>Base-case scenario: catalysts</b> 1) 2025F/2026F consumption up 19%/9% YoY 2) 2025F/2026F gross profit margin: 15.2%/15.6% 3) 2025F average steel prices up 3%
Base-case scenario (target price)	VND34,700	<b>Bull-case scenario: upside risk</b> 1) 2025F/2026F consumption up 21%/10% YoY 2) 2025F/2026F gross profit margin: 15.6%/15.9% 3) 2025F average steel prices up 5%
Current price	VND27,600	<b>Bear-case scenario: downside risk</b> 1) 2025F/2026F consumption up 16%/9% YoY 2) 2025F/2026F gross profit margin: 14.8%/15.2% 3) 2025F average steel prices down 2%
Bear-case scenario	VND23,000 (2025F average steel prices down 2% YoY)	

## Business performance

Table 1. HPG – 9M2024 business performance

(VNDbn)	3Q2023	3Q2024	+/-%YoY	9M2023	9M2024	+/-%YoY	Notes
<b>Revenue</b>	<b>28,484</b>	<b>33,956</b>	<b>19%</b>	<b>84,569</b>	<b>104,364</b>	<b>23%</b>	
Steel	26,901	31,355	17%	79,330	97,871	23%	In 3Q2024, average steel price and total sales volume increased by 2% and 12% YoY, respectively.
Agriculture	1,519	1,833	21%	4,586	4,892	7%	
Real estate	64	768	1099%	654	1,601	145%	
<b>Gross profit</b>	<b>3,595</b>	<b>4,731</b>	<b>32%</b>	<b>8,466</b>	<b>14,133</b>	<b>67%</b>	
Gross profit margin	12.6%	13.9%	131 bps	10.0%	13.5%	353 bps	Gross profit margin increased by 131bps in 3Q2024 thanks to a slight increase in steel prices while input costs for iron ore and coking coal declined.
Financial income	851	528	-38%	2,494	1,925	-23%	
Financial expenses	-1,438	-833	-42%	-4,118	-2,959	-28%	Interest expenses decreased by 40% thanks to a more favorable interest rate environment.
Profits from affiliates	0	0		0	0		
SG&A	-879	-1,042	19%	-2,508	-3,135	25%	Transportation and export costs in 3Q2024 jumped by 32% YoY.
<b>Operating income/loss</b>	<b>2,128</b>	<b>3,385</b>	<b>59%</b>	<b>4,335</b>	<b>9,964</b>	<b>130%</b>	
Other income	46	27	-41%	73	443	506%	Liquidation of fixed assets of VND374 billion from 1Q2024
<b>Profit before tax (PBT)</b>	<b>2,174</b>	<b>3,412</b>	<b>57%</b>	<b>4,408</b>	<b>10,407</b>	<b>136%</b>	
<b>Net profit after tax (NPAT)</b>	<b>2,000</b>	<b>3,022</b>	<b>51%</b>	<b>3,831</b>	<b>9,210</b>	<b>140%</b>	
<b>NP after MI</b>	<b>2,005</b>	<b>3,023</b>	<b>51%</b>	<b>3,862</b>	<b>9,213</b>	<b>139%</b>	Completed 92% of the full-year target
NPAT margin	7.0%	8.9%	186 bps	4.6%	8.8%	426 bps	

Source: Hoa Phat Group, KB Securities Vietnam

Table 2. HPG – Sales volume by product (tons)

(tons)	3Q2023	3Q2024	+/-%YoY	9M2023	9M2024	+/-%YoY	Notes
Construction steel	920,987	1,095,683	19%	2,573,023	3,323,418	29%	Domestic consumption was up 10% YoY in 3Q2024
HRC	766,522	738,951	-4%	1,981,990	2,268,526	14%	Domestic consumption was up 40% YoY in 3Q2024.
Galvanized sheets	65,109	122,668	88%	240,863	344,757	43%	
Steel pipes	162,648	184,979	14%	486,952	502,353	3%	
<b>Total</b>	<b>1,915,266</b>	<b>2,142,281</b>	<b>12%</b>	<b>5,282,828</b>	<b>6,439,054</b>	<b>22%</b>	

Source: Vietnam Steel Association, FiinProX, KB Securities Vietnam

### Consumption demand is shifting towards the domestic market

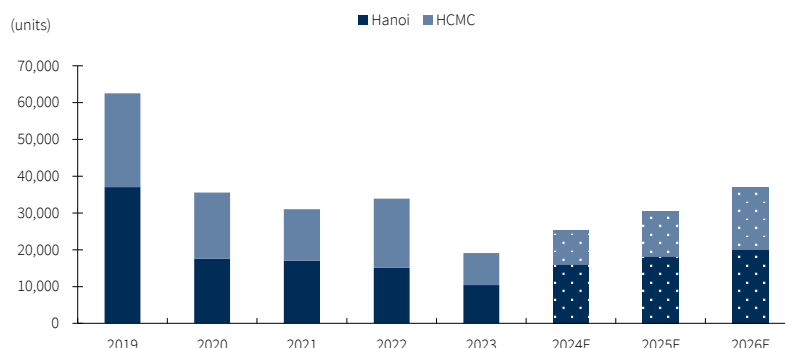
In October 2024, HPG's sales volume for construction steel, HRC, and steel pipes rose by 65%, 57%, and 2% YoY, respectively, contributing to cumulative growth of 19%, 9%, and 26% YoY for 10M2024. As highlighted in the previous report, there has been a notable shift in the primary consumption channel towards the domestic market, aligning with increased trade protection measures in key markets such as the U.S., EU, and India against steel products made in and imported from Vietnam.

We expect this trend to persist through 2025–2026, supported by a recovery in the real estate sector, with apartment supply in Hanoi and Ho Chi Minh City forecasted to grow at a compound annual growth rate (CAGR) of 21%.

Additionally, steel demand from public investment projects is anticipated to surge as many major projects near their completion in 2025. Regarding anti-dumping measures on HRC imports from China and India (AD20), we anticipate preliminary results by end-1Q2025. However, we maintain a neutral stance, with a moderate probability (50–60%) of AD20 approval, and have not yet revised our assumptions to account for any potential positive impact on HPG. KBSV projects HPG's total sales volume for construction steel and HRC to reach 7.6/9.0/9.8 million tons in 2024F/2025F/2026F, representing YoY growth of 15%/19%/9%.

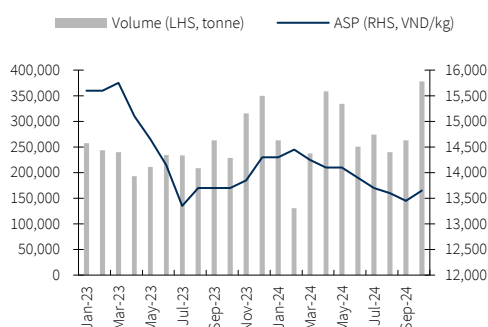
Fig 3. Vietnam – Apartment supply in Hanoi & Ho Chi Minh City (units)

The early implementation of the amended Land Law and Real Estate Business Law is expected to streamline project approvals, boost supply, and foster the sustainable development of the real estate market. We foresee a substantial increase in the number of newly approved residential real estate projects in 2025, which will in turn drive domestic steel consumption demand.



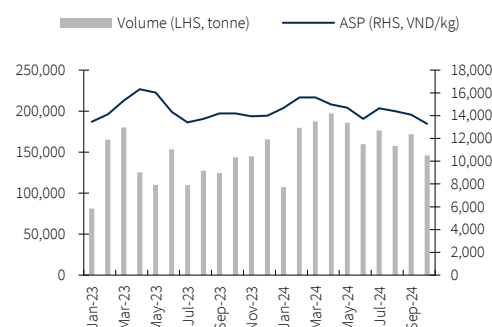
Source: CBRE, KB Securities Vietnam

Fig 4. HPG – Correlation between sales volume & average selling price of construction steel in Vietnam (tons, VND/kg)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 5. HPG – Correlation between sales volume & average selling price of HRC in Vietnam (tons, VND/kg)



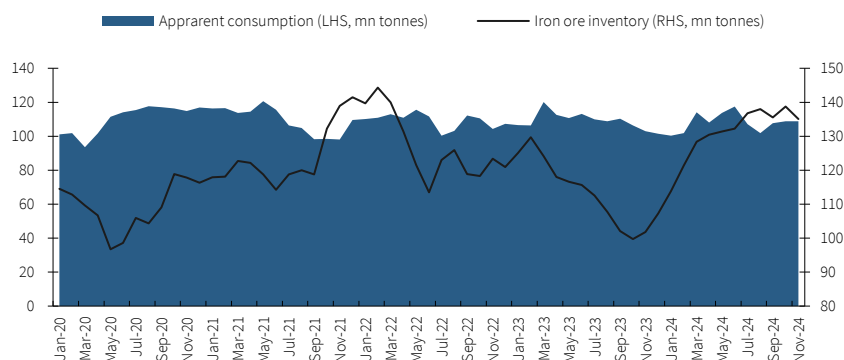
Source: Hoa Phat Group, KB Securities Vietnam

**Steel prices are expected to remain stable, while gross margins are projected to improve in 2025**

With consumption demand shifting towards the domestic market, domestic steel prices will be the key indicator to monitor in 2025. Two main factors are expected to influence steel prices in the near term: (1) the continued rise in steel imports from China, driven by low domestic consumption, which will put downward pressure on local prices, and (2) the potential further adjustment of iron ore and coking coal prices due to the anticipated decline in demand in China in 2025, after export volumes peak in 2024. The reduction in input costs will benefit HPG's gross profit margin, assuming that domestic steel prices decrease at a slower pace due to recovering demand.

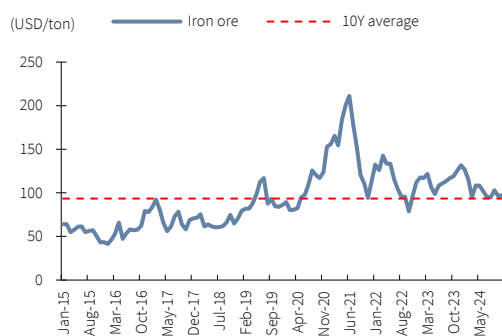
KBSV expects domestic steel prices to rise by an average of 3% YoY in 2025 and projects HPG's gross profit margin to reach 13.7%, 15.2%, and 15.6% in 2024F, 2025F, and 2026F, respectively.

**Fig 6. China – Iron ore inventory & consumption (million tons)**



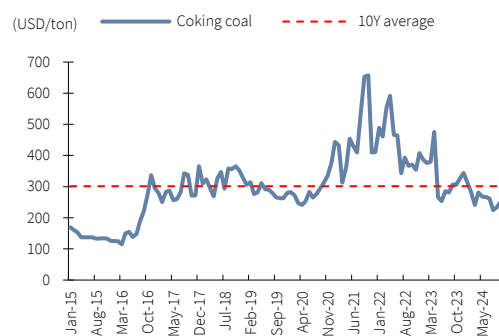
Source: Bloomberg, KB Securities Vietnam

**Fig 7. China – Iron ore 62% Fe prices (USD/ton)**



Source: Bloomberg, KB Securities Vietnam

**Fig 8. China – Coking coal prices (USD/ton)**



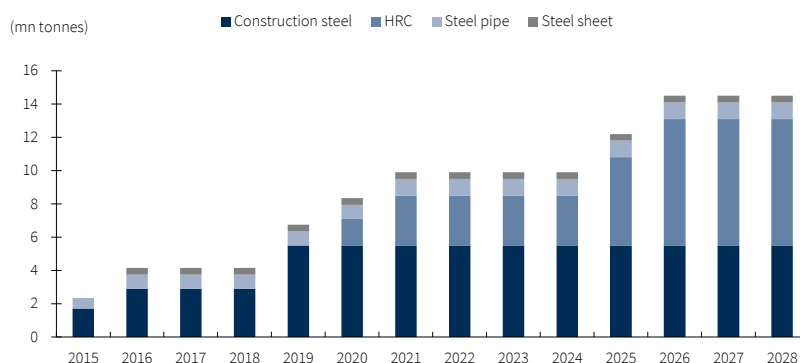
Source: Bloomberg, KB Securities Vietnam

### Dung Quat 2 is set to begin operations and contribute to HPG's revenue starting from 1Q2025

The Hoa Phat Dung Quat 2 Iron and Steel Production Complex consists of two blast furnaces, with a total production capacity of 4.6 million tons per year. Its main products include HRC and high-quality steel. According to the management's strategy, 70% of the HRC produced will be supplied to meet domestic demand, while the remaining 30% will be directed towards export markets.

As of the end of 3Q2024, HPG had completed the installation of the main production lines for Phase 1 and 50% of the construction progress for Phase 2 of the Dung Quat 2 project. The first blast furnace is expected to become operational by the end of 4Q2024, with commercial production beginning in 1Q2025, while the second blast furnace is scheduled to be operational in 1Q2026 (each blast furnace has a capacity of 2.3 million tons per year). KBSV estimates that Dung Quat 2's utilization rate will reach 48% in 2025 and 38% in 2026.

**Fig 9. HPG – Production capacity by product (million tons)**



Source: Hoa Phat Group, KB Securities Vietnam

## Forecast

Table 10. HPG – 2023A–2025F business performance

(VNDbn)	2023A	2024A	+/-%YoY	2025F	+/-%YoY	Notes
<b>Revenue</b>	<b>118,953</b>	<b>140,232</b>	<b>18%</b>	<b>161,391</b>	<b>15%</b>	Average steel price and total sales volume is expected to increase 3% and 19% YoY, respectively, in 2025.
<b>Gross profit</b>	<b>12,938</b>	<b>19,225</b>	<b>49%</b>	<b>24,466</b>	<b>27%</b>	
Gross profit margin	10.9%	13.7%	283 bps	15.2%	145 bps	In 2025, domestic steel prices are forecasted to remain flat, while gross profit margin is expected to improve thanks to lower input costs.
Interest income	1,380	1,337	-3%	1,434	7%	
Interest expenses	-3,585	-2,341	-35%	-3,677	57%	Interest expenses may surge 57% YoY due to the cessation of interest capitalization for the Dung Quat 2 project
Foreign exchange gain/loss	-139	-347	150%	-224	-35%	
Profits from affiliates	0	0		0		We assume that VND continues to depreciate 2-3% against USD in 2025.
SG&A	-3,269	-4,211	29%	-4,519	7%	
Operating income/loss	7,651	13,626	78%	17,479	28%	SG&A should increase slightly by 7% thanks to lower transportation and export costs.
Other income	142	443	212%	0		
Profit before tax (PBT)	7,793	14,069	81%	17,480	24%	
<b>Net profit after tax (NPAT)</b>	<b>6,800</b>	<b>12,424</b>	<b>83%</b>	<b>15,355</b>	<b>24%</b>	
<b>NP after MI</b>	<b>6,835</b>	<b>12,424</b>	<b>82%</b>	<b>15,355</b>	<b>24%</b>	
NPAT margin	5.7%	8.9%	311 bps	9.5%	65 bps	

Source: KB Securities Vietnam

## Valuation

**We recommend BUY for HPG with a target price of VND34,700/share**

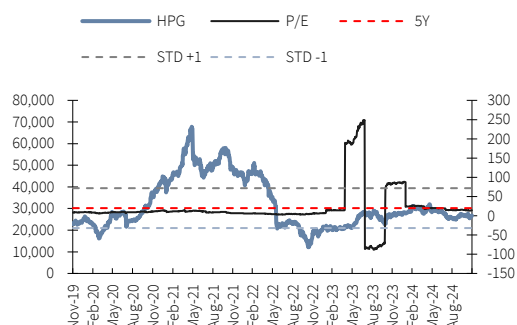
We have raised the target price for HPG to VND34,700 per share (up 11.9% from the previous target price) due to a 9.7% upward revision in NP after MI. Despite the ongoing risk of steel price fluctuations driven by external factors, KBSV views HPG as an attractive investment stock due to (i) its industry-leading position and focus on upstream steel production (using iron ore and coking coal as key raw materials), enabling HPG to effectively manage gross profit margins through optimized inventory turnover and (ii) strong growth potential with an anticipated 24%/23% increase in NPAT in 2025F/2026F as Dung Quat 2 comes into operation. HPG's current PBR stands at 1.6x (a -0.5 standard deviation from the 5-year average), with a forward PBR for 2025 of 1.4x.

**Table 11. HPG – Valuation results**

Valuation method	Target multiple	Derived price	Weighting	Weighted price
EV/EBITDA	9	38,300	50%	19,150
P/E	13	31,200	50%	15,600
Target price				34,700

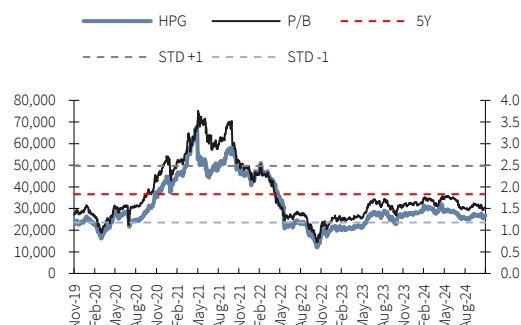
Source: KB Securities Vietnam

**Fig 12. HPG – PER**



Source: FiiProX, KB Securities Vietnam

**Fig 13. HPG – PBR**



Source: FiiProX, 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](mailto:ccc@kbsec.com.vn)

Website: [www.kbsec.com.vn](http://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.