

April 14, 2020

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Government preparing to use state coffers to push ahead with projects

Concerns that Private–Public Partnerships (PPP) projects may be delayed due to difficulties with financing, the government is preparing to use the State Budget to push ahead with key infrastructure projects, including the 1) North–South Expressway (which includes eight PPPs); 2) My Thuan–Can Tho Expressway; 3) Noi Bai Airport runway; and 4) Tan Son Nhat International Airport runway. This should lead to a boon for construction steel and benefit HPG.

Safeguard duties extended and Phase 1 of the Dung Quat facilities fully operational by 2Q

Safeguard tariffs have been extended to March 2023 and should protect local market participants from cheap steel imports (especially from China). Moreover, Phase 1 of the Dung Quat facilities is back on track and should be fully operational by 2Q. This should allow HPG to double construction steel output to four million tons per year and utilize the blast furnace to secure an absolute cost advantage.

We lower our target price to VND24,900 and cut 20E earnings by 27%

We lower our target price to VND24,900 per share from VND29,800 after revising down 20E earnings by 27% to reflect the COVID–19 lockdown, weaker steel pricing and delayed capacity. Our assumptions for finished steel pricing go down by VND500,000 (–4%) and steel volumes fall by 400,000 tons (–10%).

BUY maintain

Target Price	VND 24,900
Upside/downside (%)	24.8 %
Current price (Apr 14 2020)	VND 19,950
Consensus target price	VND 30,640
Market cap (VNDtn/USDbn)	51.9/2.2

Trading data

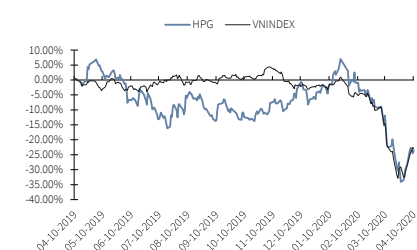
Number of outstanding share	2,761,074,115
3–mth avg daily trading volume	7,896,542
Foreign available shares (%)	36.55%

Share price performance

(%)	1M	3M	6M	12M
HPG	–13.2%	–22.3%	–12.6%	–23.5%
VNINDEX	–9.5%	–21.7%	–23.2%	–22.8%

Earnings and valuation

FY–end	2016A	2017A	2018A	2019A
Net sales (VNDbn)	33,885	46,855	56,580	64,678
Operating profit/(loss) (VNDbn)	7,685	9,252	10,072	9,031
Net profit attributable to shareholders (VNDbn)	6,602	8,007	8,573	7,527
EPS (VND)	2,393	2,903	3,115	2,745
EPS growth (%)	88.5%	21.3%	7.3%	–11.9%
P/E (x)	7.86	6.48	6.04	6.85
P/B (x)	2.61	1.60	1.28	1.09
ROE (%)	45.7%	40.4%	26.5%	18.7%
Dividend yield, common (%)	2.1%	0.0%	0.0%	0.0%



Source: KBSV Research

Stimulus a boon for construction steel

Government public investment projects to boost demand for construction materials in 2H

The Government Office proposed to the National Assembly to convert several Public-Private Partnerships (PPP) into public investment projects to expedite construction. These include the: 1) North-South Expressway (which includes eight PPPs); 2) My Thuan-Can Tho Expressway; 3) Noi Bai Airport runway; and 4) Tan Son Nhat International Airport runway. The government plans to use remaining resources from 2019's State Budget to push ahead with projects amid concerns the private companies involved in these projects may encounter delays in financing. Should these plans be approved, we expect construction to begin as early as 3Q and not only benefit HPG but also lead to a meaningful boost in demand for all construction materials.

Extension of safeguard duties on imported long steel and steel billets to March 2023

The Ministry of Industry & Trade finalized the extension of safeguard duties to March 2023 for long steel and billet imports. Vietnam will apply a 9.4% tariff for long steel imports and a 15.3% tariff on billets between March 2020 and March 2021. Tariffs for long steel will drop by 1.5%-points and 2.0%-points for billets per year until March 2023. We expect the extension of these tariffs to continue insulating the local market against the flood of cheap steel (especially from China) that could hurt domestic steel makers.

Phase 1 of the Dung Quat facilities fully operational by 2

Phase 1 of HPG's Dung Quat facilities should be fully operational by 2Q and double construction steel output to four million tons per year. HPG's blast furnaces will also be utilized for construction-grade steel and give the company an absolute cost advantage. This and access to deep-water ports should allow HPG to gradually gain market share from other local steel makers and imports. Moreover, the COVID 19 pandemic will likely have a disproportionate impact on the smaller arc furnace steel makers with more limited financial resources and allow HPG to secure more market share.

Lower target price to VND24,900 from VND29,800 and cut 20E earnings by 27% to reflect COVID-19, weaker steel pricing and delayed capacity

We lower our target price to VND24,900 from VND29,800 to reflect slower volumes due to the COVID-19 lockdown, lower prices for finished steel amid still high raw material costs and delayed capacity at the Dung Quat facilities. Our 20E earnings fall by 27% after lowering our assumptions for finished steel pricing by VND500,000 per ton (-4%) and steel consumption by 400,000 tons (-10%).

Table 1. Hoa Phat Corporation: Revised earnings estimates

(VNDbn)	Previous			Revised			Change (%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sales	79,243	92,443	102,043	69,693	87,693	98,043	-12.1	-5.1	-3.9
OP	10,410	12,289	14,966	7,594	9,480	11,452	-27.1	-22.9	-23.5
EBT	10,447	12,325	15,002	7,630	9,516	11,488	-27.0	-22.8	-23.4
NP (controlling)	8,880	10,477	12,752	6,486	8,089	9,765	-27.0	-22.8	-23.4
EPS (VND)	3,216	3,794	4,618	2,349	2,930	3,537	-27.0	-22.8	-23.4
YoY (%)									
Sales	24.4	16.7	10.4	9.4	25.8	11.8			
OP	15.3	18.0	21.8	-15.9	24.8	20.8			
EBT	14.8	18.0	21.7	-16.1	24.7	20.7			
NP (controlling)	17.2	18.0	21.7	-14.4	24.7	20.7			
OPM (%)	13.1	13.3	14.7	10.9	10.8	11.7			
EBT margin (%)	13.2	13.3	14.7	10.9	10.9	11.7			
NPM (controlling, %)	11.2	11.3	12.5	9.3	9.2	10.0			

Source: KBSV Research

Income Statement

(VND billion)	2016	2017	2018	2019
Net sales	33,283.21	46,161.69	55,836.46	63,658.19
Cost of sales	-24,532.65	-35,536.12	-44,165.63	-52,472.82
Gross Profit	8,750.56	10,625.57	11,670.83	11,185.37
Financial income	197.18	186.22	294.41	471.05
Financial expenses	-367.99	-555.76	-772.32	-1,181.68
of which: interest expenses	-279.95	-479.71	-539.86	-936.71
Gain/(loss) from joint ventures (from 2015)	-0.53	-0.16	0.00	-1.43
Selling expenses	-489.95	-594.71	-676.81	-873.33
General and admin expenses	-404.59	-409.04	-444.02	-569.01
Operating profit/(loss)	7,684.68	9,252.12	10,072.09	9,030.98
Other incomes	434.47	452.79	488.86	657.68
Other expenses	-417.32	-396.55	-489.87	-592.00
Net other income/(expenses)	17.15	36.25	-1.02	65.68
Income from investments in other entities	0.00	0.00	0.00	0.00
Net accounting profit/(loss) before tax	7,701.82	9,288.37	10,071.07	9,096.66
Corporate income tax expenses	-1,095.62	-1,273.61	-1,470.52	-1,518.41
Net profit/(loss) after tax	6,606.20	8,014.76	8,600.55	7,578.25
Minority interests	4.10	8.08	27.54	50.81
Attributable to parent company	6,602.10	8,006.67	8,573.01	7,527.44

Operating statistics & Ratios

	2016	2017	2018	2019
Gross profit margin	0.00%	20.38%	26.29%	23.02%
EBITDA margin	0.00%	20.73%	28.63%	25.19%
EBIT margin	0.00%	16.06%	23.60%	20.84%
Pre-tax profit margin	0.00%	14.53%	23.14%	20.12%
Operating profit margin	0.00%	14.90%	23.09%	20.04%
Net profit margin	0.00%	12.77%	19.85%	17.36%

Cash Flow Statement

(VND billion)	2016	2017	2018	2019
Net profit/(loss) before tax	7,701.82	9,288.37	10,071.07	9,096.66
Depreciation and amortisation	1,674.33	2,004.66	2,259.59	2,593.23
Profit/loss from investing activities	-142.79	-100.14	-112.99	-286.19
Interest expense	279.95	479.71	539.86	936.71
Operating profit/(loss) before changes in Working Capital	9,421.55	11,657.00	12,740.51	12,358.83
(Increase)/decrease in receivables	-486.37	-462.71	-1,423.16	-288.52
(Increase)/decrease in inventories	-3,334.84	-2,201.68	-2,301.59	-5,132.24
Increase/(decrease) in payables	2,294.02	-427.14	1,459.71	3,557.80
(Increase)/decrease in prepaid expenses	121.80	-57.14	-500.92	-8.48
Net cash inflows/(outflows) from operating activities	6,818.72	6,058.32	7,642.34	7,715.17
Purchases of fixed assets and other long term assets	-3,416.97	-8,875.04	-27,594.12	-20,825.37
Proceeds from disposal of fixed assets	27.79	6.99	64.82	26.94
Loans granted, purchases of debt instruments	-10.56	-13,644.06	-11,295.50	-4,467.55
Collection of loans, proceeds from sales of debts instrument	271.60	4,461.99	17,443.01	6,832.22
Investments in other entities	0.00	-40.83	-115.95	0.00
Proceeds from divestment in other entities	0.00	0.65	17.60	0.00
Dividends and interest received	0.00	164.53	947.00	369.55
Net cash inflows/(outflows) from investing activities	-3,128.13	-17,925.77	-20,533.13	-18,064.22
Proceeds from issue of shares	0.01	5,057.29	11.42	0.09
Payments for share returns and repurchases	0.00	0.00	0.00	0.00
Proceeds from borrowings	28,158.08	37,194.70	53,472.01	69,584.17
Repayment of borrowings	-28,560.49	-30,674.53	-42,335.01	-57,193.67
Finance lease principal payments	0.00	0.00	0.00	0.00
Dividends paid	-1,102.41	-3.75	-5.92	-12.65
Interests, dividends, profits received	0.00	0.00	0.00	0.00
Net cash inflows/(outflows) from financing activities	-1,504.81	11,573.69	11,142.51	12,377.94
Net increase in cash and cash equivalents	2,185.78	-293.75	-1,748.28	2,028.89
Cash and cash equivalents at the beginning of period	2,372.76	4,558.66	4,264.64	2,515.62
Cash and cash equivalents at the end of period	4,558.66	4,264.64	2,515.62	4,544.90

Balance Sheet

(VND billion)	2016	2017	2018	2019
CURRENT ASSETS	18,182.79	33,068.06	25,308.73	30,436.94
Cash and cash equivalents	4,558.66	4,264.64	2,515.62	4,544.90
Short-term investments	693.50	9,936.71	3,724.56	1,374.34
Accounts receivable	2,394.83	6,555.42	3,210.28	3,561.40
Inventories	10,247.18	11,748.87	14,115.14	19,411.92
LONG-TERM ASSETS	15,043.77	19,954.12	52,914.28	71,339.09
Long-term trade receivables	18.17	21.81	22.30	27.72
Fixed assets	12,670.46	13,197.80	12,782.56	31,249.49
Investment properties	202.76	191.19	179.74	576.62
Long-term incomplete assets	1,154.98	5,468.75	38,107.32	37,435.32
Long-term investments	78.86	16.95	66.58	45.79
TOTAL ASSETS	33,226.55	53,022.18	78,223.01	101,776.03
LIABILITIES	13,376.29	20,624.60	37,600.06	53,989.39
Current liabilities	11,985.02	18,519.72	22,636.15	26,984.20
Trade accounts payable	3,733.63	4,226.44	8,706.91	7,507.20
Advances from customers	1,036.12	824.28	361.44	408.69
Short-term unrealized revenue	5.43	2.86	9.93	27.41
Short-term borrowings	5,488.17	11,328.52	11,494.72	16,837.65
Long-term liabilities	1,391.27	2,104.88	14,963.91	27,005.20
Long-term trade payables	0.00	0.00	1,647.09	6,652.49
Long-term advances from customers	0.00	0.00	0.00	0.00
Unrealized revenue	0.00	0.00	0.00	3.37
Long-term borrowings	972.20	1,651.49	12,811.00	19,842.10
OWNER'S EQUITY	19,850.26	32,397.58	40,622.95	47,786.64
Paid-in capital	8,428.75	15,170.79	21,239.07	27,610.74
Share premium	674.15	3,202.20	3,211.56	3,211.56
Undistributed earnings	9,486.35	13,397.03	15,126.44	15,876.91
Minority interests	105.69	110.61	126.96	163.21

Key ratios

	2016	2017	2018	2019
Multiple				
P/E	2.40	3.56	4.81	6.90
P/E diluted	2.40	3.56	4.66	6.90
P/B	0.80	0.88	0.99	1.09
P/S	0.48	0.62	0.72	0.82
P/Tangible Book	0.81	0.89	0.99	1.09
P/Cash Flow	2.32	4.71	5.22	6.73
EV/EBITDA	1.86	3.20	4.82	6.81
EV/EBIT	2.26	3.87	5.85	8.63
Operating performance				
ROE%	0.38	0.31	0.23	0.17
ROA%	0.22	0.19	0.13	0.08
ROIC%	0.30	0.21	0.16	0.12
Financial structure				
Cash Ratio	0.38	0.23	0.11	0.17
Quick Ratio	0.58	0.58	0.25	0.30
Current Ratio	1.52	1.79	1.12	1.13
LT Debt/Equity	0.05	0.05	0.32	0.42
LT Debt/Total Assets	0.03	0.03	0.16	0.19
Debt/Equity	0.33	0.40	0.60	0.77
Debt/Total Assets	0.19	0.24	0.31	0.36
ST Liabilities/Equity	0.60	0.57	0.56	0.56
ST Liabilities/Total Assets	0.36	0.35	0.29	0.27
Total Liabilities/Equity	0.67	0.64	0.93	1.13
Total Liabilities/Total Assets	0.40	0.39	0.48	0.53
Activity ratios				
Account Receivable Turnover	24.14	26.03	26.08	25.56
Inventory Turnover	2.79	3.19	3.39	3.12
Account Payable Turnover	7.70	8.93	5.44	4.28

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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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