

# Hoa Phat Group (HPG)

## Maintains strong growth

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### HPG performed impressively in 2020

Hoa Phat Group (HPG) posted VND4,660 billion in 4Q20 earnings on revenue of VND25,778 billion, up 142.3% YoY and 43.4% YoY respectively. For the whole year, HPG's net profit reached VND13,056 billion (+78.2% YoY) on revenue of VND 90,119 billion (+41.6% YoY). 4Q steel output was 5.8 million ton, twice as much as that of 2019.

### HRC output increased sharply from 2021

KBSV forecast HPG 2021's construction steel output to reach 3.7 million tons, +9% YoY in 2021. The main product is still hot-rolled coil (HRC), launched in November 2020, and sold 291 thousand tons last year. HPG produced 252 thousand tons of HRC in January, and planned to sell 2.7 million tons this year. Accordingly, we estimate the company may export about 1.5 million tons, much larger than a few thousand tons in 2020.

### Steel prices is expected to remain high in 2021, which helps HPG to maintain a high gross profit margin

Steel prices have surged since the end of 2020 thanks to the recovery of world demand and the lack of supply amid the COVID-19 pandemic. From November 3, 2020 to February 5, 2021, domestic steel prices climbed 30.6% for rolled steel and 31.7% for rebar. We project HPG's average steel prices in 2021 will gain 17% YoY.

### Expected 2021 earnings grows 33% YoY. We recommend to BUY HPG

HPG's 2021 earnings are estimated at VND17,962 billion, up 33% YoY on revenue of VND133,852 billion, up 48.5% YoY. We revise up HPG's target price to VND52,550 per share with a BUY recommendation, upside 20%.

**Buy** maintain

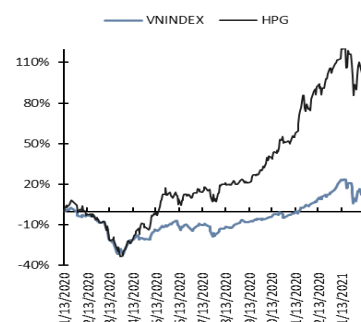
<b>Target price</b>	<b>VND52,550</b>
Upside/downside	20%
Current price (Jan 18, 2021)	VND43,850
Consensus target price	VND49,000
Mkt cap (VNDtrn/USDbnbn)	145/6.32

<b>Trading data</b>	
Free float (%)	55%
Avg trading value (3M)	946.5/41.1
Foreign ownership (%)	31.09%

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>HPG</b>	-2.22	32.6	78.2	106
<b>VNIndex</b>	-4.52	17.12	27.2	15.4

#### Forecast earnings & valuation

Fiscal year-end	2019A	2020A	2021F	2022F
Revenue (VNDbn)	63,658	90,119	133,852	142,434
Earnings/loss (VNDbn)	9,031	15,289	20,580	22,122
Post-tax earnings (VNDbn)	7,578	13,506	17,962	19,304
EPS (VND thousand)	2.74	4.07	5.4	5.8
EPS growth (%)	-32%	49%	32.6%	7%
P/E (x)	15.23	10.22	7.71	7.17
P/B (x)	24.15	23.22	18.32	14.96
ROE (%)	16%	23%	24%	21%
Dividend yield (%)	1.6%	5%	6%	6%



Source: Bloomberg, KB Securities Vietnam

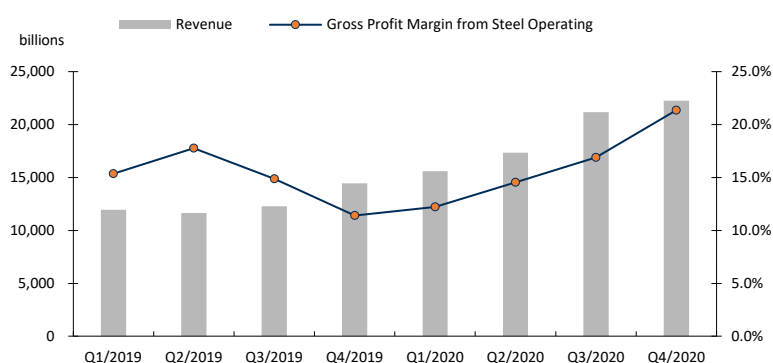
## Business performance

**4Q20 revenue and earnings were up 43.4% YoY and 142.3% YoY, respectively**

HPG's 4Q20 revenue hit VND4,660 billion, 2.42 times higher than the same period last year. Whole year net revenue and profit were VND 90,119 billion and VND 13,506 billion, up 41.6% YoY and 78.2% YoY respectively. 4Q gross profit margin (GPM) reached 24.3%, up 3.4% MoM, and higher than 15.8% recorded in the same period in 2019. Steel production grew 52% YoY, and agricultural production also logged an impressive growth of 75% YoY.

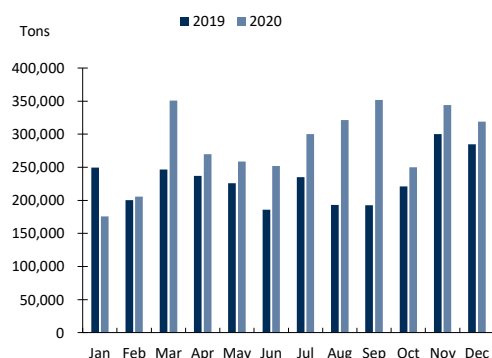
	Q4/2019	Q4/2020	Change	2019	2020	Change	Market share
<b>Steel consumption</b>							
Construction steel	806,277	913,414	13.3%	2,773,108	3,400,000	22.6%	32.5%
<b>Steel pipe</b>	200,700	255,000	27.1%	747,423	823,768	10.2%	31.7%
Revenue from steel	14,452	22,270	54.1%	50,341	76,340	51.6%	
Revenue from agriculture	640	2,718	324.7%	6,017	10,551	75.4%	
<b>Net profit</b>	1,923	4,661	142.3%	7,578	13,506	78.2%	

Fig 1. HPG – GPM from steel segment (VNDbn)



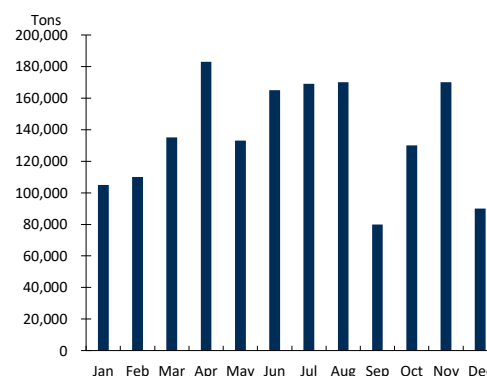
Source: Hoa Phat Group, KB Securities Vietnam

Fig 2. HPG – Sold construction steel (ton)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 3. HPG – Sold steel billets (ton)



Source: Hoa Phat Group, KB Securities Vietnam

## Investment highlights

### Global demand for steel should rise 4.1% in 2021

The World Steel Association expected global steel demand to increase 4.1% this year after falling 2.4% in 2020. Domestic steel demand is quite positive thanks to the post-COVID recovery of the real estate market and FDI inflows. Particularly, public investment should be accelerated after the latest National Party Congress.

### The blast furnace No. 4 of the Hoa Phat Dung Quat Iron and Steel Integrated Complex went into operation

HPG started the blast furnace No. 4, the last blast furnace in phase 2 of Hoa Phat Dung Quat Iron and Steel Integrated Complex on January 6, 2021. With all furnaces in operation, the complex can produce up to 16,000 tons crude steel per day, equivalent to 5 million tons per year. It is very flexible in terms of construction steel and HRC manufacturing construction to meet the market demand.

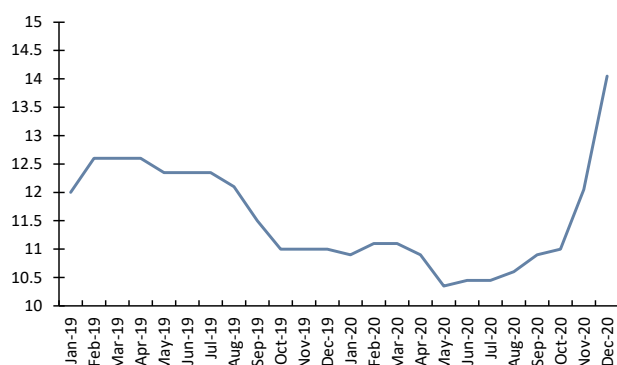
### HRC volume is expected to grow fast in 2021

2020 accumulated construction steel sales volume was 3.4 million tons (+22.5% YoY) and achieved 33% market share. This output reached 186 thousand tons (+6% YoY) last January. We expect it to reach 3.7 million tons (+9% YoY) for the whole year of 2021. HPG's main product in 2021 is still HRC which was launched in November 2020. HPG sold 291 thousand tons of HRC last year and 252 thousand tons in January 2021. The company hopes to raise the sold volume of HRC to 2.7 million tons this year. Accordingly, we estimate exported HRC volume at 1.5 million tons, much higher than that in 2020.

### GMP is forecast to stay high in 2021 due to 1) steel price increase and 2) low coal prices

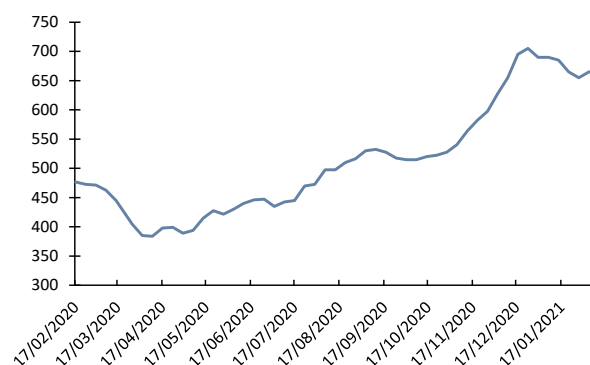
Steel prices have jumped sharply since late-2020 due to the recovery of world demand and supply disruptions by the Coronavirus outbreak. From November 3, 2020 – February 5, 2021, domestic steel prices gained 30.6% for rolled steel and 31.7% for rebar. Accordingly, we estimate that HPG's 2021 average steel price will climb 17% YoY. Not to mention that the trade tension between China and Australia pushed the prices of coking coal down 20% YoY to USD115–120/ton.

Fig 4. Vietnam – Construction steel prices (VNDmn/ton)



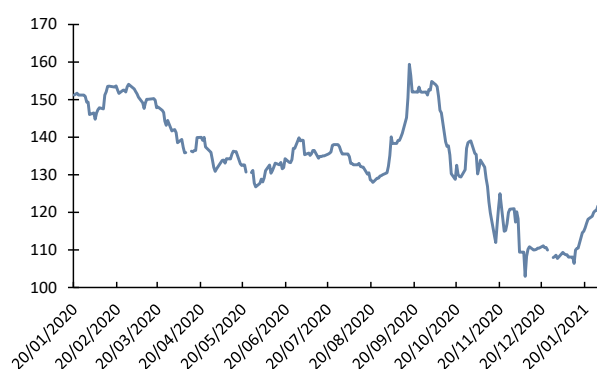
Source: Vietnam Steel Association, KB Securities Vietnam

Fig 5. Vietnam – HRC CFR prices (USD/ton)



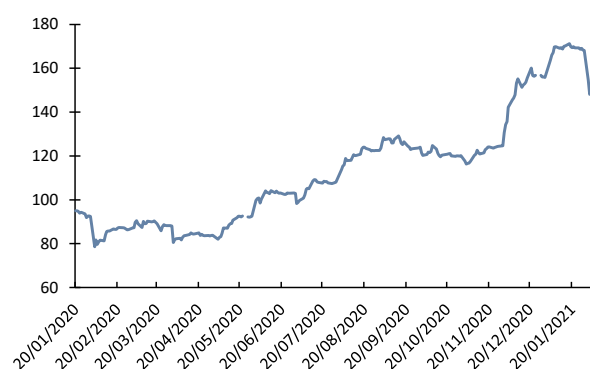
Source: Bloomberg, KB Securities Vietnam

Fig 6. Australia – Coking coal prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 7. CFR Tianjin port – Iron ore fines 62% FE (USD/ton)



Source: Bloomberg, KB Securities Vietnam

## Valuation and forecasts

### Forecast business results

KBSV estimate HPG's 2021 earnings at VND17,962 billion, an increase of 33% thanks to high steel prices and exported HRC volume of 1.5 million tons.

Table 8. HPG – Forecast financial data

Billion VND	2019A	2020A	2021F	2022F
Construction steel output (tons)	2,773,108	3,400,000	3,700,000	4,000,000
HRC output (tons)	0	N/A	1,500,000	1,700,000
Billet output (tons)	0	1,640,000	1,700,000	1,700,000
<b>Net revenue</b>	<b>63,658</b>	<b>90,119</b>	<b>133,852</b>	<b>142,434</b>
Growth (%)	14%	41.6%	48.5%	7%
COGS	52,473	71,214	108,526	116,270
<b>Gross profit</b>	<b>11,185</b>	<b>18,905</b>	<b>25,326</b>	<b>26,164</b>
Gross profit margin (%)	17.6%	21%	18.9%	18.4%
Financial expense	1,182	2,824	3,229	3,115
Selling expense	873	1,094	1,606	1,567
General & Administrative expense	569	690	1,196	1,273
<b>Net profit</b>	<b>7,578</b>	<b>13,506</b>	<b>17,962</b>	<b>19,304</b>
Growth (%)	-11.9%	78.2%	33%	7.5%
Net profit margin (%)	11.9%	15%	13.4%	13.6%

Source: KB Securities Vietnam

**KBSV recommend to BUY HPG shares with the target price of VND52,550 apiece**

Based on the two valuation methods, we recommend to **BUY** HPG shares with a target price of VND52,550/share, upside 20% compared to the closing price on February 18, 2021:

- According to P/E method, we value Hoa Phat at a fair P/E of 9x, or VND48,800/share.
- According to discounted cash flow method, we find the fair value of each HPG share is VND56,300.

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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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