

May 27, 2021

Power & Construction Material Analyst
Nguyen Ngoc Hieu
hieunn@kbsec.com.vn

HPG's business results in 1Q21 hit a record high

Hoa Phat Group's (HPG) 1Q earnings reached VND7,005 billion (+204% YoY) (of which VND500 billion came from the divestment of the furniture segment) on revenue of VND31,176 billion (+62% YoY). Sold volume of construction steel and hot rolled coil was 855 thousand tons (+17% YoY) and 665 thousand tons (75% QoQ).

The price trend and demand for steel in the world would increase strongly in 2021

High steel prices are not only triggered by high raw material prices, but also by supply shortages, especially in the US and European markets. In the past 10 years, developed countries apart from China have not operated blast furnaces to produce steel, but China is also cutting down steel production to protect the environment. This made the supply source is no longer as redundant as in the previous crisis, while the world demand is still high to prepare for the post-pandemic recovery.

Rising steel prices help boost HPG's gross profit margin in the next quarters

HPG raised steel prices twice in March and four – six times in April. HPG's construction steel prices fluctuated between VND16,200–VND16,450 per kilogram. April sold volume was 869 thousand tons, of which construction steel reached 428 thousand tons (+59% YoY) and hot rolled coil hit 212 thousand tons.

Expected profit in 2021 to grow 109%, BUY recommendation

KBSV estimate HPG's 2021 earnings at VND28,233 billion (+109% YoY) on revenue of VND151,652 billion (+68.3% YoY). We raise our target price to VND73,010 VND/share and recommend to BUY HPG shares with an upside of 20.1%.

Buy maintain

Target price

Upside/downside	20.1%
Current price (Jan 18, 2021)	VND60,800
Consensus target price	VND68,000
Mkt cap (VNDtn/USDbnbn)	201/8.73

Trading data

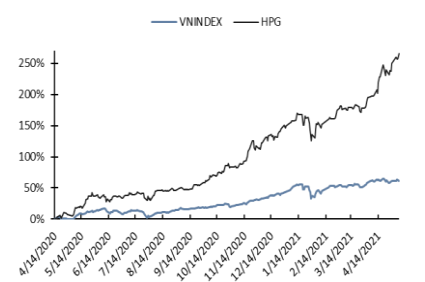
Free float (%)	55%
Avg trading value (3M)	1068/46.5
Foreign ownership (%)	30.24%

Share price performance

(%)	1M	3M	6M	12M
HPG	23%	49%	93%	209%
VNIndex	0%	15%	30%	56%

Forecast earnings & valuation

Fiscal year-end	2019A	2020A	2021F	2022F
Revenue (VNDbn)	63,658	90,119	151,652	146,634
Earnings/loss (VNDbn)	9,031	15,289	32,386	33,314
Post-tax earnings (VNDbn)	7,578	13,506	28,233	29,040
EPS (VND thousand)	2.74	4.07	8.52	8.75
EPS growth (%)	-32%	49%	109%	3%
P/E (x)	15.23	10.22	7.14	6.94
P/B (x)	24.15	23.22	23.46	17.89
ROE (%)	16%	23%	33%	26%
Dividend yield (%)	1.6%	5%	6%	6%



Source: Bloomberg, KB Securities Vietnam

Business performance

HPG's revenue and profit in the first quarter of 2021 increased by 62.1% yoy and 204% yoy, respectively

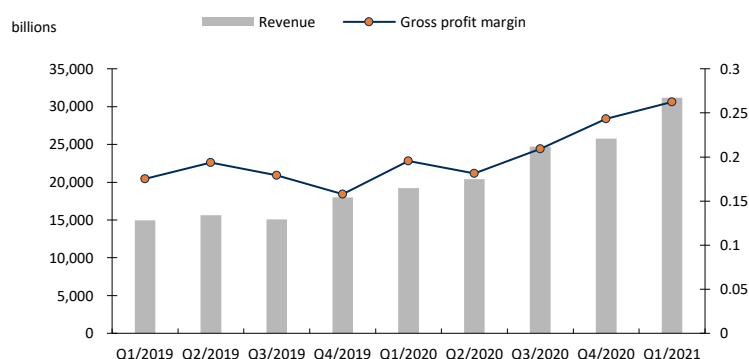
Hoa Phat's profit in the first quarter of 2021 reached VND 7,005 billion, 3 times higher than the same period last year, of which VND 6,500 billion was net profit from business activities and VND 500 billion came from divestment of furniture segment. 1Q gross profit margin (GPM) was reached 26.2%, up 1.9% QoQ, and up 19.6% YoY. HRC products in the first quarter also achieved an impressive output of 665 thousand tons, an increase of 75% compared to 4Q20.

Table 1. HPG – Performance YoY

	Q1/2020	Q1/2021	Change	Mrkt Share
Steel Consumption				
Construction steel	732,274	855,000	16.8%	33.8%
Steel pipe	144,900	183,200	26.4%	29.7%
Revenue from steel	23,624	34,042	44.1%	
Revenue from agriculture	2,800	2,248	-19.7%	
Net profit	2,304	7,005	204%	

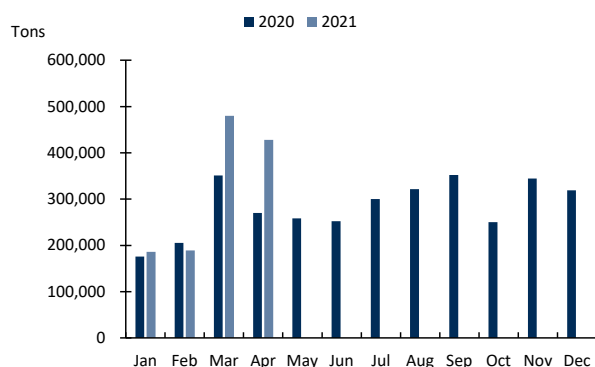
Source: Hoa Phat Group

Fig 1. HPG – Gross profit margin (VNDbn – %)



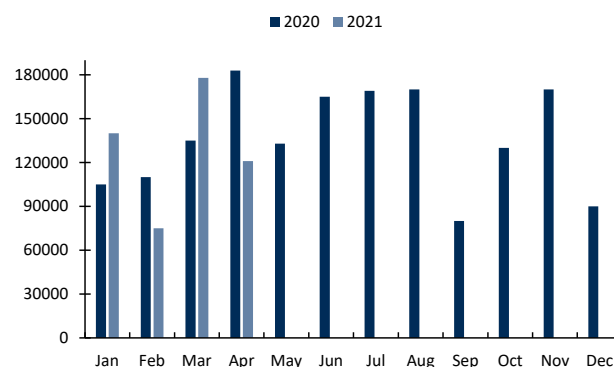
Source: Hoa Phat Group, KB Securities Vietnam

Fig 2. HPG – Construction steel consumption (tons)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 3. HPG – Steel billet consumption (tons)



Source: Hoa Phat Group, KB Securities Vietnam

Steel prices rose after China cut production to control emissions, canceled steel export tax refund and reduced import taxes

The steel industry contributes 15% of the total greenhouse gas emissions in China, so the country is implementing a policy to control carbon emissions from steel factories across the country. China asked more than 20 steel mills in Tangshan city (accounting for 14% of China's steel capacity) to cut steel output by 30–50% until the end of 2021. Besides, on April 28, Chinese Government officially announced the cancellation of steel export tax refund from May 1, 2021, a reduction from 13% to 0% for 146 steel products, including hot rolled coil, coil and bar steel. Along with that, China also reduced import tariffs on cast iron, raw steel and recycled steel to 0%. The production cuts, the cancellation of steel export tax refund and the promotion of steel imports from the world's largest steel producer led to an upward trend in global steel prices.

HPG would Invest in Dung Quat Hoa Phat Integrated Complex 2 from 2022

Dung Quat Hoa Phat Integrated Complex 2 should be built in early 2022 and cover an area of 5.6 million tons/year, of which hot rolled coil steel may reach 4.6 million tons, and construction steel is 1 million tons. Total investment capital is about VND85,000 billion, including VND70,000 billion in fixed assets (up from VND50,000 billion thanks to larger investment in technology) and VND15,000 billion in working capital. The project is expected to be completed in 2024, one year earlier than planned and raise Hoa Phat's steel production capacity to 14 million tons/year.

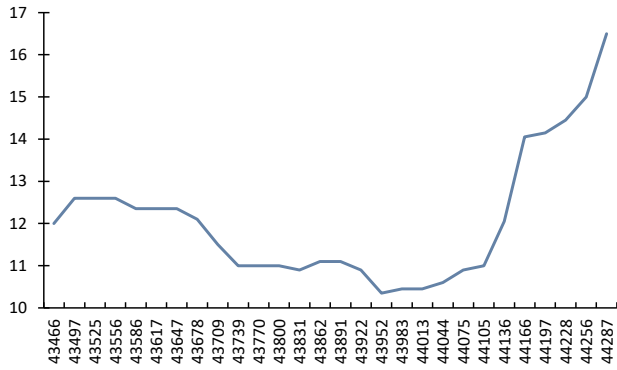
Business expansion to container production

HPG plans to produce 500,000 TEUs/year in two areas near Hai Phong and Southeast seaports when the Coronavirus-induced container shortage delayed the release and rotation of empty containers. With an expected output of 500,000 TEUs per year, container production will consume 1 million tons of HRC steel – the output product of Dung Quat 2 Project. This product should be launched to the market by the beginning of 2Q22, diversifying Hoa Phat's iron and steel production ecosystem.

The prices of input materials increased, but the risk was lowered thanks to higher steel prices

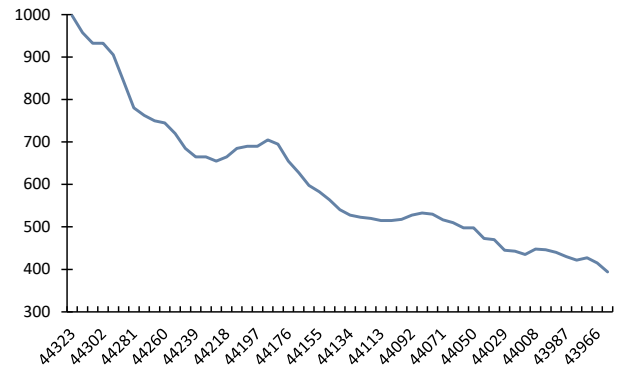
The price of 62% FE ore is VND190.4 USD/ton, up 16.34% compared to the beginning of the year. Coke prices in May contracts maintain low and tend to decrease to USD111.83/ton, down 24.5% compared to the beginning of the year. HPG raised steel prices twice in March and four – six times in April. HPG's construction steel prices fluctuated between VND16,200–VND16,450 per kilogram. The increase in the prices of iron ore was partially eliminated by the decrease in the prices of coke coal, besides the rise in steel prices, triggered by higher demand for construction materials domestically and globally. As a result, we expect HPG's profit margin to be higher than in 1Q.

Fig 4. Vietnam – Construction steel price (VND million/ton)



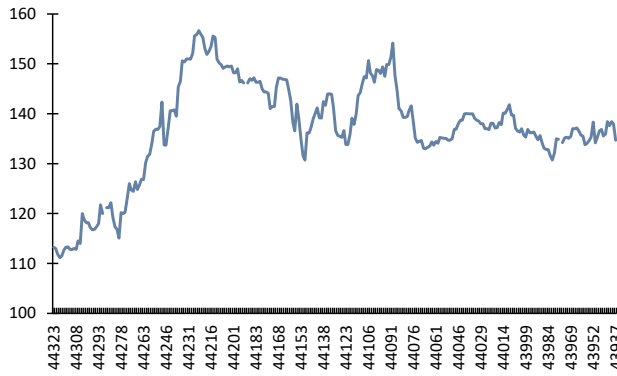
Source: VSA, KBSV

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



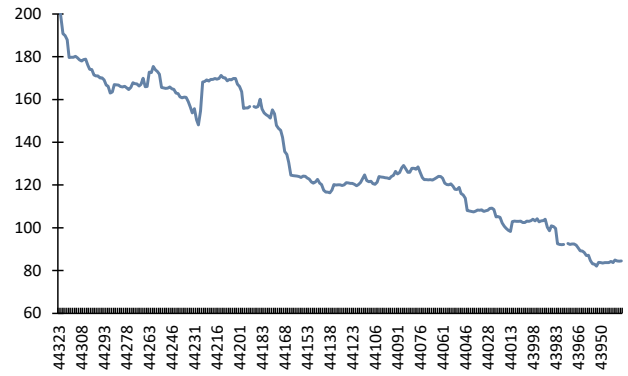
Source: Bloomberg, KBSV

Fig 6. Australia – Coke prices (USD/ton)



Source: Bloomberg, KBSV

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



Source: Bloomberg, KBSV

Forecast business performance & valuation

Forecast business performance

As HPG's profit and steel prices rose higher than expected in 1Q21 and would likely to increase further in the next quarters, we revise out forecast of this company's 2021E earnings up 57.1% from the previous report to VND28,233 billion on revenue of VND151,652 billion, up 13.9% compared to the previous forecast.

Table 2. HPG – Forecast business results

Billion VND	2019A	2020A	2021F	2022F
Construction steel output (tons)	2,773,108	3,400,000	4,000,000	4,000,000
HRC output (tons)	0	681,000	1,700,000	1,700,000
Billet output (tons)	0	1,640,000	1,200,000	1,200,000
Net revenue	63,658	90,119	151,652	146,634
Growth (%)	14%	41.6%	68.3%	-3.3%
COGS	52,473	71,214	114,426	110,800
Gross profit	11,185	18,905	37,225	35,834
Gross profit margin (%)	17.6%	21%	24.5%	24.4%
Financial expense	1,182	2,824	3,318	3,386
Selling expense	873	1,094	1,820	1,613
General & Administrative expense	569	690	1,356	1,311
Net profit	7,578	13,506	28,233	29,040
Growth (%)	-11.9%	78.2%	109%	2.9%
Net profit margin (%)	11.9%	15%	18.6%	19.8%

Source: KB Securities Vietnam

BUY recommendation with a target price of VND73,010/share, 38.9% higher than the previous forecast

Based on the average of 2 valuation methods, we recommend to BUY HPG shares with a target price of VND73,010/share, 20.1% higher than the closing price on May 7, 2021:

- According to the P/E method, we concluded the reasonable P/E of HPG is 8 times, equivalent to a share price of VND68,170.
- According to the discounted cash flow method, we value HPG share at VND77,900 apiece.

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity analyst – Tran Thi Phuong Anh

anhhttp@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Nguyen Ngoc Hieu

hieunn@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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:	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

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 and not authorized for use for any other purpose.