

Hoa Sen Group (HSG)

Waiting for a brighter future

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Analyst Nguyen Duong Nguyen
nguyend1@kbsec.com.vn

HSG recorded a loss of VND186 billion in 4Q FY24

Hoa Sen Group (HSG) recorded a loss in 4Q FY24 due to VND122 billion in inventory provisioning amid a plunge in HRC prices during the period. At the end of FY24, HSG's net profit after minority interest hit VND510 billion, equal to 102% of the full-year target thanks to a recovery in consumption output (+37% YoY).

Estimated total sales volume increase by 8%/10% in FY25/FY26

The rebounding domestic demand will be the main force for HSG's consumption output in the coming time. In particular, the recovery of the real estate market and the imposition of anti-dumping tax on imported galvanized steel will be two key supporting factors, helping HSG's revenue to increase 10%/13% in FY25/FY26.

Estimated GPMs are 11.8%/12.3% for FY25/FY26

KBSV expects the average steel price to remain stable in 2025. However, HRC may continue to reduce in price due to the pressure on iron ore and coking coal prices when steel consumption demand in China is forecast to decline in 2025. In case HRC prices decrease slowly, we expect HSG to cushion its GPM with the policy of optimizing raw material inventory at an average of two months.

Hoa Sen Homes creates competitive advantage for HSG in the domestic market

With a separate construction material distribution and retail system, HSG can maintain steel prices at a higher level than competitors on the market, helping to maintain a stable GPM. 80% of its domestic revenue comes from Hoa Sen Homes.

Valuation: BUY rating – Target price VND21,900/share

KBSV recommends BUY for HSG with a price target of VND21,900, which is 3% lower than the valuation in the previous report but still brings a return of 17.4% compared to the price of December 6, 2024.

Buy change

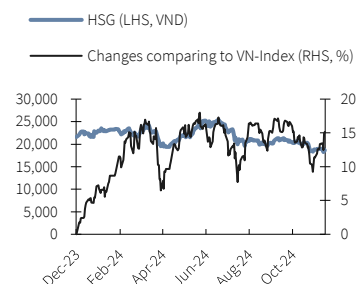
Target price	VND21,900
Upside	17.4%
Current price (Dec 6, 2024)	VND18,650
Consensus target price	VND23,500
Market cap (VNDtn/USDbn)	11.6/0.5

Trading data	
Free float	75.9%
3M avg trading value (VNDbn/USDmn)	159.2/6.4
Foreign ownership	39.0%
Major shareholder	Chairman Le Phuoc Vu (16.9%)

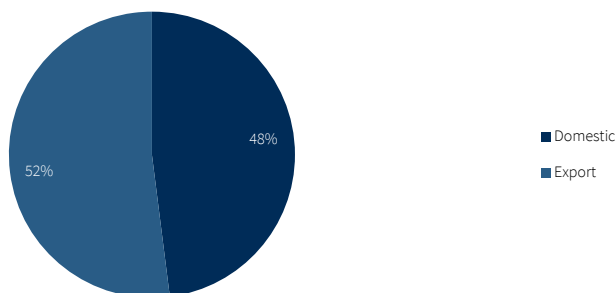
Share price performance				
(%)	1M	3M	6M	12M
Absolute	-7.7	-8.6	-20.6	-15.6
Relative	-9.1	-8.8	-19.3	-28.6

Forecast earnings & valuation

FY-end	FY2023	FY2024	FY2025	FY2026
Net revenue (VNDbn)	31,651	39,270	43,305	48,931
Operating income/loss (VNDbn)	74	499	1,046	1,343
NPAT-MI (VNDbn)	25	510	878	1,108
EPS (VND)	40	828	1,426	1,799
EPS growth (%)	-90%	1976%	72%	26%
P/E (x)	571.9	25.4	13.1	10.4
P/B (x)	1.3	1.2	1.0	0.9
ROE (%)	0%	5%	8%	9%
Dividend yield (%)	0%	5%	0%	0%



Revenue composition (2023)



Business operation

Hoa Sen Group (HSG) operates in the field of manufacturing galvanized steel, steel pipes, and plastic pipes with a capacity of more than 3.5 million tons/year. It holds the first and second positions in the galvanized steel and steel pipe market share in 2023, reaching 28% and 12% respectively.

Source: Hoa Sen Group, KB Securities Vietnam

Investment Catalysts

Notes

Consumption output is expected to increase by 8% in FY2025, driven by (1) expectations of a recovery in the real estate market and (2) anti-dumping tax on imported galvanized steel (AD19) approved in 1H25.

Please find more details [here](#)

FY25/FY26 estimated GPM are 11.8%/12.3%. KBSV expects that steel prices will remain flat in 2025, helping HSG maintain its GPM, while profits will improve thanks to the reversal of VND122 billion in inventory provisions made in Q4FY24.

Please see more details below

The Hoa Sen Homes retail system creates a competitive advantage in the domestic market. With a distribution system to end users, HSG can maintain a higher average product price compared to its competitors, helping to maintain a stable GPM.

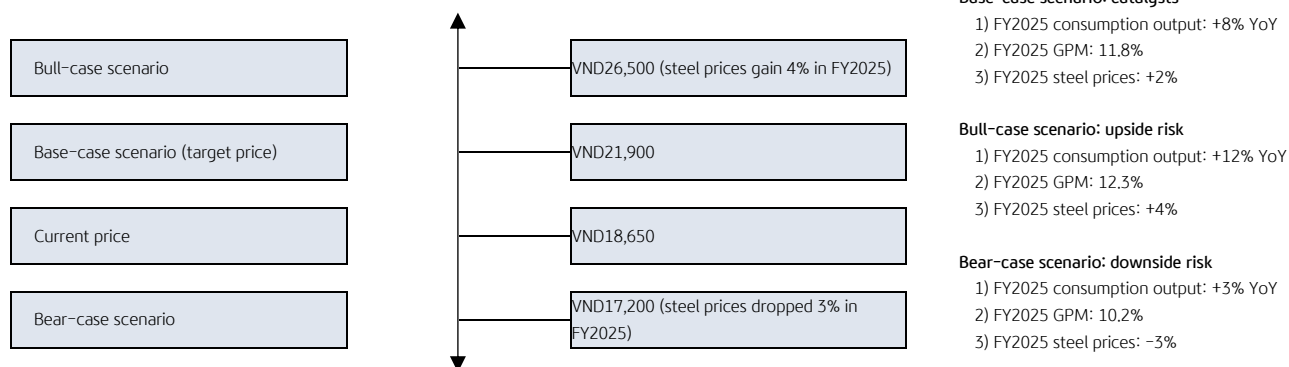
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	43,305	48,931	1.1%	-	43,874	48,864	-1.3%	0.1%
EBIT	1,025	1,517	-21.1%	-	1,002	1,477	2.4%	2.7%
NP after MI	878	1,108	2.6%	-	891	1,172	-1.4%	-5.4%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



3Q24 performance updates

Table 1. HSG – FY24 business results

(VNDbn, %)	4Q FY23	4Q FY24	+/-%YoY	FY20233	FY2024	+/-%YoY	Notes
Revenue	8,107	10,109	25%	31,651	39,270	24%	Sales volume gained 37% YoY.
Gross profit	1,075	849	-21%	3,031	4,252	40%	Provision for inventory depreciation reached VND122 billion in 4Q FY24 due to a sharp decline in HRC prices.
<i>Gross profit margin</i>	<i>13.3%</i>	<i>8.4%</i>	<i>-486bps</i>	<i>9.6%</i>	<i>10.8%</i>	<i>125bps</i>	
Financial income	115	129	12%	233	342	47%	HSG recorded VND218 billion in net exchange gain in FY2024.
Financial expenses	-61	-98	59%	-314	-254	-19%	Interest expense fell 32% thanks to lower interest rates.
Profits from affiliates	0	0		0	0		Export costs surged 80% YoY in FY2024.
SG&A	-636	-1,058	66%	-2,876	-3,840	34%	
Operating profit/loss	493	-178	-136%	74	499	571%	
Other income	5	2	-56%	66	41	-38%	
PBT	498	-176	-135%	140	540	285%	
NPAT	440	-186	-142%	25	510	1971%	
NP after MI	440	-186	-142%	25	510	1976%	HSG beat the full-year target for NP-MI by 2%.
<i>NPAT margin</i>	<i>5.4%</i>	<i>-1.8%</i>	<i>-727bps</i>	<i>0.1%</i>	<i>1.3%</i>	<i>122bps</i>	

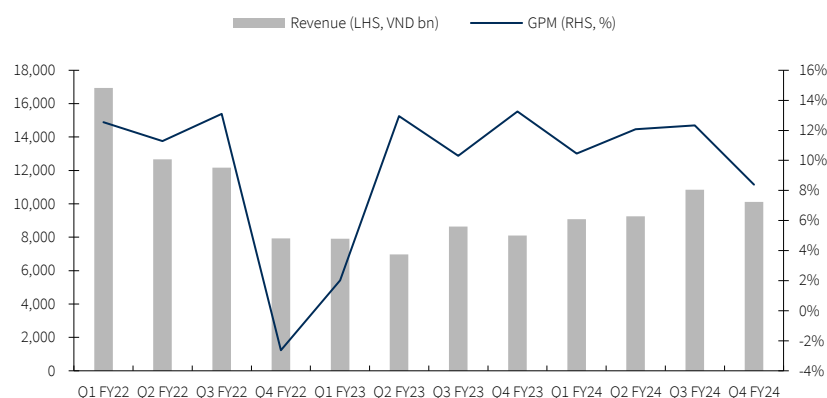
Source: Hoa Sen Group, KB Securities Vietnam

Table 2. HSG – Sales volume of products

(VNDbn)	4QFY23	4QFY24	+/-%YoY	FY20233	FY2024	+/-%YoY	Notes
Galvanized steel	313,889	399,568	27%	1,111,713	1,550,923	40%	Domestic consumption in F2024 gained 47% YoY.
Steel pipes	76,370	99,603	30%	286,915	359,130	25%	Domestic consumption in F2024 gained 46% YoY.
Total	390,259	499,171	28%	1,398,628	1,910,053	37%	

Source: Vietnam Steel Association, Hoa Sen Group, KB Securities Vietnam

Fig 3. HSG – Revenue & GPM (VNDbn, %)



Source: Hoa Sen Group, KB Securities Vietnam

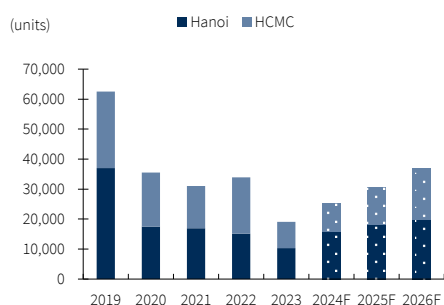
The recovery in domestic demand is the main growth driver in 2025/2026

As mentioned in the previous report, we believe that the growth momentum in the coming time for steel enterprises in general and HSG in particular will be the recovery of demand in the domestic market while the US, EU, and India are raising tax measures on imported steel products. The two main drivers for the the growth of consumption output are: (1) the recovery of the real estate market and (2) the approval of the anti-dumping tax on galvanized steel imported from China and Korea (AD19) in 2025.

CBRE forecasts that the supply of apartments in Hanoi and Ho Chi Minh City will increase by an average of 21%/year in 2025–2026, helping to stimulate domestic demand for steel and steel products. Recently, the Real Estate Law (amended) and the Land Law (amended) have also been passed, which are expected to support and shorten the time for legal completion for contractors, creating sustainable growth momentum for the market. In addition, the preliminary assessment results and temporary anti-dumping tax of AD19 are expected to be approved in 1Q25. According to our observations, in the period of 2016 – 2017, domestic consumption output has improved significantly after the temporary anti-dumping tax of AD02 was applied.

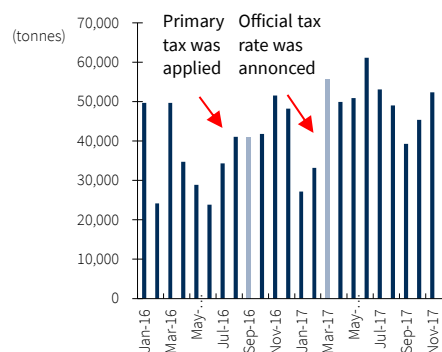
KBSV expects the total sales output of HSG to reach 2.06/2.26 million tons in FY2025/FY2026, rising 8%/10% YoY.

Fig 4. Hanoi & HCMC – Apartment supplies in 2025–2026 (unit)



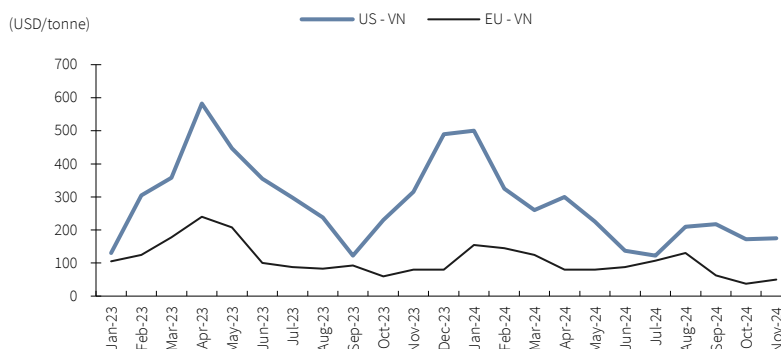
Source: CBRE, KB Securities Vietnam

Fig 5. Vietnam – Galvanized steel sales output in 2016–2017 (ton)



Source: KB Securities Vietnam

Fig 6. Global – HRC price gap between US-EU and Vietnam (USD/ton)



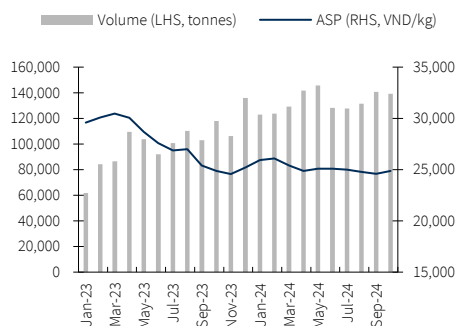
Source: Hoa Sen Group, KB Securities Vietnam

Anti-dumping measures against Vietnamese steel will have a negative impact on the export output of domestic producers. However, with a lower tax rate than China (25% compared to 50%), we believe that this is a distinct advantage that helps importers prioritize orders from Vietnamese producers. In addition, HRC prices in the US and EU continue to maintain a positive gap compared to prices in Vietnam, which will be a long-term competitive advantage in the export market. According to HSG, if anti-dumping measures are applied, its export output may decrease by an average of 5,000 tons/month.

Expectations of flat steel prices help maintain stable GPM

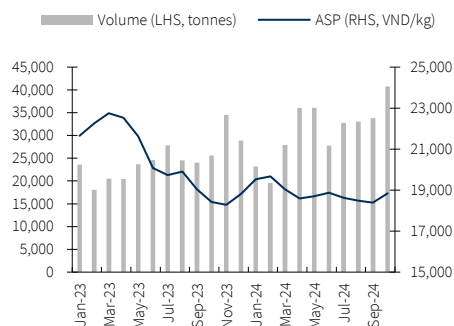
With the shift in demand to the domestic market, we expect domestic steel prices to remain stable in 2025. However, iron ore and coke prices may face pressure of decreasing in the coming time due to the forecasted decline in steel consumption in China, causing HRC prices to decrease accordingly. In case the anti-dumping tax on HRC imported from China and India (AD20) is approved, HSG will need to increase the use of HRC from domestic sources, Japan (prices are on average 5%/10% higher than China's). With the current HRC price in the range of USD500–550/ton, HSG's GPM can remain stable. If the average HRC price decreases within a narrow range, HSG can optimize its GPM by maintaining the raw material inventory turnover at an average of two months. KBSV forecasts the GPM of the steel manufacturer will reach 11.8%/12.3% in FY2025/FY2026, including VND122 billion in reversal from inventory price reduction provision that HSG made in 4Q FY24.

Fig 7. HSG – Galvanized steel sales volume & average price (ton, VND/kg)



Source: Hoa Sen Group, KB Securities Vietnam

Fig 8. HSG – Steel pipe sales volume & average price (ton, VND/kg)



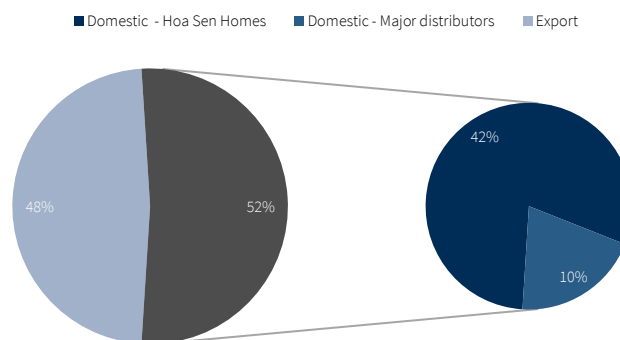
Source: Hoa Sen Group, KB Securities Vietnam

A wholly owned retail system creates competitive advantage in the domestic market

HSG owns more than 400 retail stores selling construction materials under the Hoa Sen Homes brand, focusing on distributing galvanized iron, steel pipes, plastic pipes (of HSG), and some other products. Currently, 120 stores are designed as showrooms combined with galvanized iron plants, and the remaining 280 stores are following the traditional showroom model. HSG plans to convert old showrooms to the HSH model at a rate of 12–18 stores/year. HSH contributes 80% of HSG's revenue in the domestic market, the remaining 20% comes from large distributors importing an average of 5,000 – 15,000 tons/month from HSG.

With the Hoa Sen Homes (HSH) domestic retail system, HSG can maintain higher galvanized steel prices than its competitors in the industry. As the competition on the domestic market is forecast to increase in the coming time, a self-sufficient distribution system will help the company maintain a higher GPM than other peers in the industry. HSH's GPM is estimated at 15–18%.

Fig 9. HSG – Sales proportion



Source: Hoa Sen Group, KB Securities Vietnam

Forecast & valuation

Table 14. HSG – 2024–2026F results

(VNDbn, %)	FY2024	FY2025	+/-%YoY	FY2026	+/-%YoY	Assumptions
Revenue	39,270	43,305	10%	48,931	13%	FY25 steel price and sales volume increase by 2%/8% YoY.
Gross profit	4,252	5,128	21%	6,019	17%	The gross profit includes VND122 billion in reversal of provision for inventory devaluation made in 4QFY24.
<i>Gross profit margin</i>	10.8%	11.8%	101bps	12.3%	46bps	
Deposits	2	2	1%	2	0%	
Interest expenses	-133	-182	37%	-176	-3%	Estimated interest expense increase by 37% due to higher short-term debt and interest rates.
Exchange gain/loss	218	200	-8%	0	-100%	VND continues to depreciate in 2025.
Profits from affiliates	0	0		0		
SG&A	-3,840	-4,102	7%	-4,502	10%	Selling expenses may have a slight increase of 7%, assuming export costs declining thanks to lower freight rates. However, advertising and sales promotion costs increase due to the increasing proportion of domestic sales.
Operating profit/loss	499	1,046	110%	1,343	28%	
Other income	41	0	-100%	0		
PBT	540	1,046	94%	1,343	28%	
NPAT	510	878	72%	1,108	26%	
NP after MI	510	878	72%	1,108	26%	
NPAT margin	1.3%	2.0%	73bps	2.3%	24bps	

Source: Hoa Sen Group, KB Securities Vietnam

Valuation: BUY rating – Target price VND21,900/share

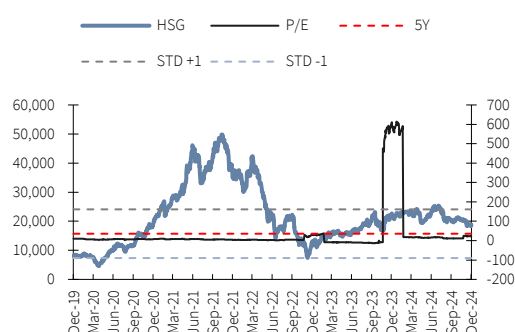
We determine the fair value of HSG at VND21,900/share (-3% compared to the previous period's valuation). The recent price movement of HSG shares has partly reflected the risk of lower steel prices. Although the current steel price trend is unclear, KBSV assesses that HSG's core business has a prominent competitive advantage in the domestic market (with the largest market share in the galvanized steel industry), so investors can start monitoring HSG and wait for a reasonable buying point. HSG is currently trading at a PBR of 1.06x. With the above target price, its forward FY25 PBR is 1.2x, corresponding to the current five-year average.

Table 15. HSG – Final valuation

Method	Multiple	Valuation	Weight	Target Price
EV/EBITDA	8	26,700	50%	13,350
P/E	12	17,100	50%	8,550
Target Price				21,900

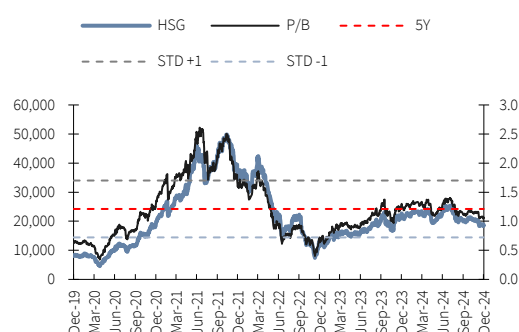
Source: KB Securities Vietnam

Fig 7. HSG – Galvanized steel sales volume & average price (ton, VND/kg)



Source: Hoa Sen Group, KB Securities Vietnam

Fig 8. HSG – Steel pipe sales volume & average price (ton, VND/kg)



Source: Hoa Sen Group, KB Securities Vietnam

HSG – 2022A–2025F financials

Income Statement (bn. VND)					Balance Sheet (bn. VND)				
(Standard Report)	FY2023	FY2024	FY2025	FY2026	(Standard Report)	FY2023	FY2024	FY2025	FY2026
Net Revenue	31,651	39,270	43,305	48,931	TOTAL ASSET	17,365	19,562	21,460	22,471
Cost of Goods Sold	-28,620	-35,018	-38,177	-42,913	CURRENT ASSETS	11,275	14,165	16,669	18,261
Gross Profit	3,031	4,252	5,128	6,019	Cash and cash equivalents	597	602	2,154	3,031
Financial Income	2	2	2	2	Short-term investments	26	31	31	31
Financial Expenditure	-195	-133	-182	-176	Accounts receivable	2,322	2,986	3,250	3,502
Including: Cost of Borrowing	113	218	200	0	Inventories	7,629	9,702	10,391	10,853
Profit/(loss) from affiliated companies	0	0	0	0	LONG-TERM ASSETS	6,090	5,397	4,791	4,210
SG&A	-2,876	-3,840	-4,102	-4,502	Long-term trade receivables	143	215	215	215
Profit/(loss) from operating	74	499	1,046	1,343	Fixed assets	5,020	4,111	3,505	2,924
Net Other Income	66	41	0	0	Long-term incomplete assets	530	664	664	664
Profit/(loss) from affiliated companies	0	0	0	0	Long-term investments	1	1	1	1
Profit/(loss) before tax	140	540	1,046	1,343	Good will (before 2015)	0	0	0	0
Tax	-116	-30	-167	-235	TOTAL LIABILITIES	6,585	8,649	9,670	9,572
Profit/(loss) after tax	25	510	878	1,108	Current liabilities	6,569	8,633	9,653	9,556
Minority Interest	0	0	0	0	Trade accounts payable	2,885	2,328	2,635	2,772
NPATMI	25	510	878	1,108	Short-term borrowings	2,936	5,364	6,054	5,791
EBIT	221	453	1,025	1,517	Other short-term liabilities	747	940	965	992
EBITDA	1,352	1,442	2,062	2,585	Long-term liabilities	16	16	16	16
					Long-term trade payables	0	0	0	0
					Other long-term liabilities	0	0	0	0
					Long-term borrowings	16	16	16	16
					OWNER'S EQUITY	10,780	10,912	11,791	12,899
					Paid-in capital	6,160	6,160	6,160	6,160
					Share premium	157	157	157	157
					Other funds	94	67	67	67
					Undistributed earnings	4,369	4,528	5,407	6,515
					State capital	0	0	0	0
					Interest of non-controlling shareholders	0	0	0	0
Operating Ratios					Main Ratios (x, %, VND)				
	FY2023	FY2024	FY2025	FY2026		FY2023	FY2024	FY2025	FY2026
Gross Profit Margin	9.6%	10.8%	11.8%	12.3%	Valuation Ratios				
EBITDA Margin	3.5%	3.2%	4.3%	4.9%	P/E	571.9	25.4	13.1	10.4
EBIT Margin	-0.1%	0.7%	2.0%	2.7%	P/E (diluted)	571.9	25.4	13.1	10.4
PBT Margin	0.4%	1.4%	2.4%	2.7%	P/B	1.3	1.2	1.0	0.9
Operating Profit Margin	0.2%	1.3%	2.4%	2.7%	P/S	0.4	0.3	0.3	0.2
Net Profit Margin	0.1%	1.3%	2.0%	2.3%	P/Tangible Book	2.9	3.3	3.5	4.2
					P/Cash Flow	8.0	-9.1	8.9	7.1
					EV/EBITDA	12.1	12.3	7.5	5.5
					EV/EBIT	74.2	39.2	15.0	9.4
Cash Flow Statement (Standard Report)					Management Efficiency				
	FY2023	FY2024	FY2025	FY2026		FY2023	FY2024	FY2025	FY2026
PBT	140	540	1,046	1,343	ROE%	0%	5%	8%	9%
Depreciation	1,131	990	1,037	1,068	ROA%	0%	3%	4%	5%
Profit/(loss) from investing	-10	-23	0	0	ROIC%	0%	3%	5%	6%
Cost of borrowing	195	133	182	176	Financial Ratios				
Profit/(loss) before changes in WC	811	1,863	2,264	2,587	Cash Ratio	0.1	0.1	0.2	0.3
(Increase)/decrease in receivables	-1,019	-334	-264	-252	Quick Ratio	0.4	0.4	0.6	0.7
(Increase)/decrease in inventory	360	-2,302	-689	-462	Current Ratio	1.7	1.6	1.7	1.9
Increase/(decrease) in payables	2,019	-294	306	138	Long-term borrowing/Owner's Equity	0.0	0.0	0.0	0.0
(Increase)/decrease in pre-paid expenses	19	49	0	0	Long-term borrowing/Total Asset	0.0	0.0	0.0	0.0
Sellable securities, cost of borrowing, tax	-443	-400	-324	-384	Short-term borrowing/Owner's Equity	0.3	0.5	0.5	0.4
Operating Cash Flow	1,746	-1,418	1,293	1,627	Short-term borrowing/Total Asset	0.2	0.3	0.3	0.3
Purchases of fixed assets and other long term assets	-295	-770	-431	-487	Short-term payables/Owner's Equity	0.3	0.3	0.3	0.3
Proceeds from disposal of fixed assets	19	52	0	0	Short-term payables/Total Asset	0.2	0.2	0.2	0.2
Loans granted, purchases of debt instruments	-20	-6	0	0	Total payables/Owner's Equity	0.3	0.3	0.3	0.3
Collection of loans, proceeds from sales of debts instruments	19	6	0	0	Total payables/Total Asset	0.2	0.2	0.2	0.2
Investments in other entities	0	0	0	0	Operating Ratios				
Proceeds from divestment in other entities	0	0	0	0	Receivables turnover	16.8	14.8	13.9	14.5
Dividends and interest received	3	2	0	0	Inventory turnover	3.8	4.0	3.8	4.0
Investing Cash Flow	-274	-716	-431	-487	Payables turnover	17.8	14.6	15.4	15.9
Proceeds from issue of shares	0	22	0	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	21,880	31,980	689	0					
Repayment of borrowings	-23,131	-29,553	0	-262					
Finance lease principal payments	0	0	0	0					
Dividends paid	0	-308	0	0					
Interests, dividends, profits received	0	0	0	0					
Financing Cash Flow	-1,251	2,142	689	-262					
Net increase in cash and cash equivalents	222	8	1,552	878					
Cash and cash equivalents at the beginning o period	330	597	602	2,154					
Cash and cash equivalents at the end of period	597	602	2,154	3,031					

Source: Hoa Sen Group, 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

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