

Hoa Sen Group (HSG)

Overcoming obstacles

August 29, 2024

Analyst Nguyen Duong Nguyen
nguyend@kbsec.com.vn

3Q FY24 NPAT made an 18-fold YoY increase to reach VND273 billion

Hoa Sen Group (HSG) posted VND273 billion in 3Q FY24 (+18x YoY) thanks to (1) a 38% YoY increase in sales volume and (2) a 201bps increase in GPM thanks to stockpiling inventory in 1H24.

HRC prices fell below the mid-term lows in the past, hitting 4Q24 GPM

HRC prices have dropped 11% since the beginning of 3Q FY24, which caused HSG to incur inventory provisioning costs and record lower GPM in 4Q FY24.

Consumption growth is supported by domestic demand

KBSV expects domestic sales volume of the group to continue to improve in the coming time thanks to the gradual recovery of the real estate market and increased demand during the year-end construction season. In addition, we believe that anti-dumping tax on galvanized steel imported from China and South Korea will be approved and applied soon, supporting HSG's consumption output.

Export outlook is less positive in the short term due to the trend of anti-dumping and trade defense tariffs in the US and EU

In the short term, HSG's export output may be adversely affected when the demand for imported steel and galvanized steel weakens after the application of defense measures in the US and EU markets, raising the costs for steel exporters like HSG. In the long term, the impacts will fade away as (1) the difference in HRC prices in the US and EU compared to Vietnam maintained at 10% or more; and (2) the import tax on steel from Vietnam is lower than China, creating an incentive to promote galvanized steel exports.

Valuation: NEUTRAL rating – Target

We gave a NEUTRAL rating to HSG with the target price of VND22,600/share, 9% higher than the closing price on August 29, 2024.

Neutral change

Target price VND22,600

Upside	9%
Current price (Aug 29, 2024)	VND20,800
Consensus target price	VND24,900
Market cap (VNDtn/USDbn)	12.9/0.5

Trading data

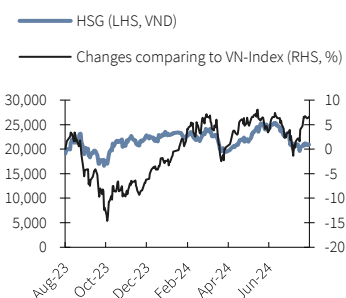
Free float	82%
3M avg trading value (VNDbn/USDmn)	312.1/12.3
Foreign ownership	14.3%
Major shareholder	Chairman Le Phuoc Vu (17.5%)

Share price performance

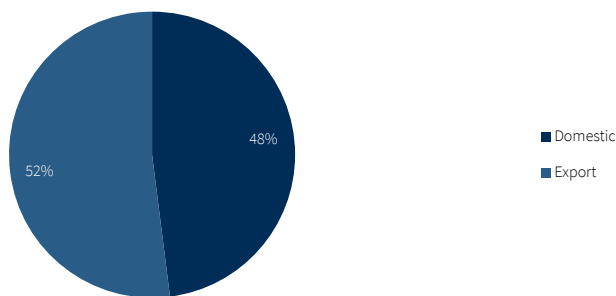
(%)	1M	3M	6M	12M
Absolute	-8.7	-4.3	-8.7	6.1
Relative	-11.8	-5.2	-11.1	0.3

Forecast earnings & valuation

FY-end	FY2022	FY2023	FY2024	FY2025
Net revenue (VNDbn)	49,711	31,651	39,060	42,820
Operating income/loss (VNDbn)	331	74	705	1,020
NPAT-MI (VNDbn)	251	25	728	856
EPS (VND)	419	40	1,182	1,390
EPS growth (%)	-95%	-90%	2865%	18%
P/E (x)	27.6	571.9	17.6	15.0
P/B (x)	0.6	1.3	1.1	1.0
ROE (%)	2%	0%	7%	7%
Dividend yield (%)	0.0%	0.0%	0.0%	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

Domestic consumption continues to recover. KBSV expects HSG's domestic consumption output to continue to improve in the coming time thanks to (1) the gradual recovery of the real estate market and (2) high demand for steel during the year-end construction season. In addition, the approval of anti-dumping tax on galvanized steel imported from China and Korea will boost domestic galvanized steel consumption for HSG.

Raw material prices decrease faster than selling prices, helping HSG maintain a GPM of 11-12%. Galvanized steel and HRC prices have decreased by 2%/11% YTD. The average prices have decreased slower than input material prices, allowing HSG to continue to reduce product prices to improve consumption output, expecting a FY24/FY25 GPM of 11.3%/12.1%.

Notes

Please find more details [here](#)

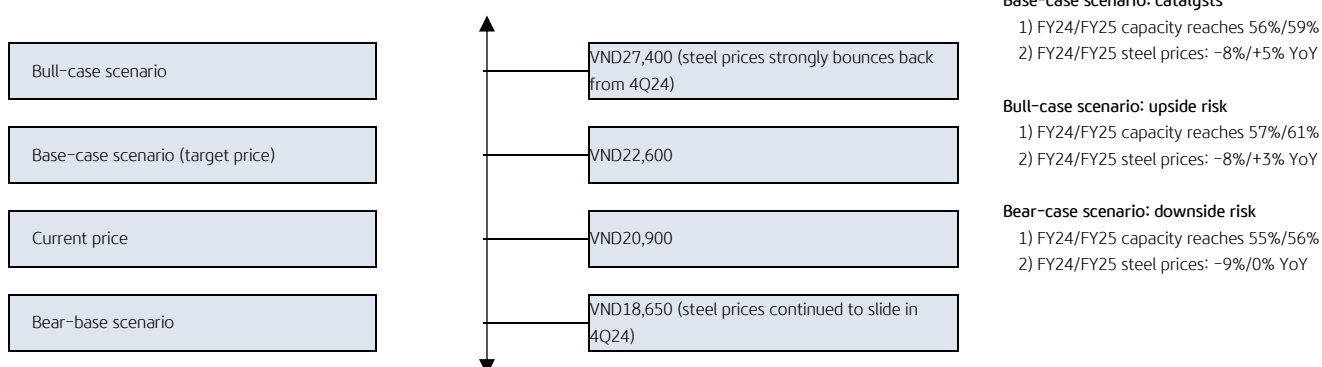
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	39,060	42,820	-1%	4%	38,222	41,962	2%	2%
EBIT	942	1,299	-10%	-10%	867	1,062	9%	22%
NP after MI	728	856	-9%	-18%	764	866	-5%	-1%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



3Q FY24 performance updates

Table 1. HSG – 9M FY24 business results

(VNDbn, %)	3Q FY23	3Q FY24	+/-%YoY	9M FY23	9M FY24	+/-%YoY	Notes
Revenue	8,646	10,840	25%	23,544	29,162	24%	Revenue in 3Q increased by 25% YoY, driven by a 38% improvement in consumption volume vs 3Q FY23.
Gross profit	892	1,337	50%	1,956	3,404	74%	
<i>Gross profit margin</i>	10.3%	12.3%	201bps	8.3%	11.7%	336bps	3Q GPM rose 201bps as the company proactively stockpiled inventory at low prices in 1H24.
Financial income	13	31	141%	118	213	81%	
Financial expenses	-64	-65	1%	-252	-157	-38%	
Profits from affiliates	0	0		0	0		
SG&A	-836	-1,030	23%	-2,239	-2,782	24%	3Q SG&A rose 23% YoY due to export and transportation costs increasing by 75% YoY.
Operating profit/loss	5	273	5730%	-418	677		
Other income	8	14	89%	61	38	-37%	
PBT	12	287	2253%	-358	716		
NPAT	14	273	1831%	-415	696		
NP after MI	14	273	1833%	-416	696		This is equal to 139% of the 2024 full year target.
NPAT margin	0.2%	2.5%	236bps	-1.8%	2.4%	415bps	

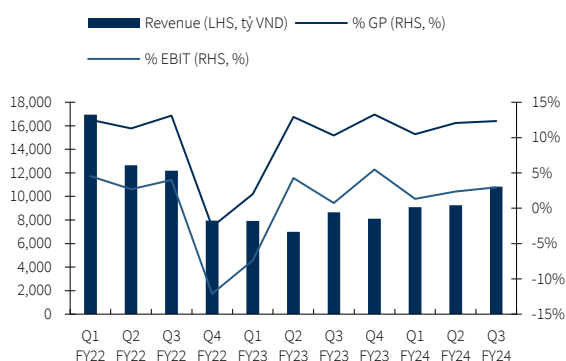
Source: Hoa Sen Group, KB Securities Vietnam

Table 2. HSG – Sales volume of products

(VNDbn)	3Q FY23	3Q FY24	+/-%YoY	9M FY23	9M FY24	+/-%YoY	Notes
Galvanized steel	305,136	415,378	36%	797,824	1,151,355	44%	Domestic consumption increased by 50% QoQ, while demand from export channels decreased by 7% QoQ
Steel pipes	68,751	99,889	45%	210,545	259,527	23%	Domestic consumption increased by 51% QoQ or 41% YoY.
Total	373,887	515,267	38%	1,008,369	1,410,882	40%	

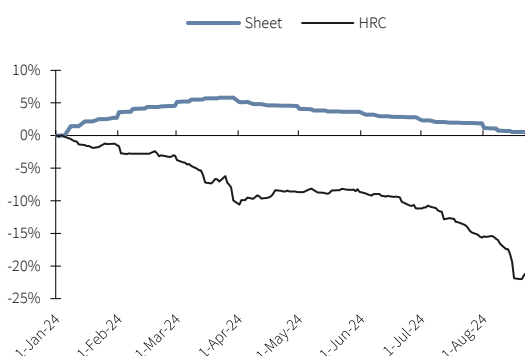
Source: Vietnam Steel Association, Hoa Sen Group, KB Securities Vietnam

Fig 3. HSG – Revenue, GPM, EBIT margin (VNDbn, %)



Source: Hoa Sen Group, KB Securities Vietnam

Fig 4. HSG – Changes in sheet and HRC price YTD (%)



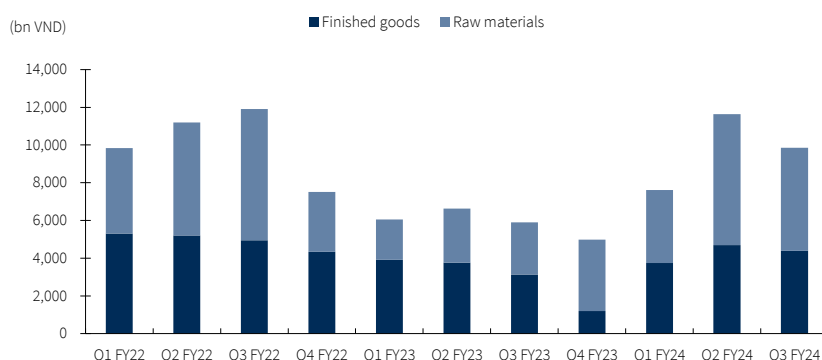
Source: Hoa Sen Group, KB Securities Vietnam

4Q FY24 GPM may decline due to inventory provisioning

HSG's 3Q inventory decreased by 15% QoQ. We believe that HSG's inventory risk at the moment is lower than that in 2022, based on (1) the current domestic demand is recovering, while in 2H22, the demand plunged; and (2) galvanized steel and HRC prices have decreased by an average of 5%/14% YTD, much lower than the decrease of 18%/26% in 2H22. The output prices decrease more slowly than input material prices, which will help HSG control GPM in the medium term.

HSG's 3Q inventory decreased by 15% QoQ. Raw materials in transit fell 73%, showing initiative and efforts of the group in controlling input material costs. In the 2Q FY24 update report, we mentioned that HSG increased its stockpiling of cheap raw materials in 1H24 when HRC prices fluctuated around the bottom from 3Q22 (USD500-520/ton). However, after HRC prices fell below the above level, we believe that HSG will incur inventory provision costs in 4Q FY24.

Fig 5. HSG - Inventory over the quarters (VNDbn)

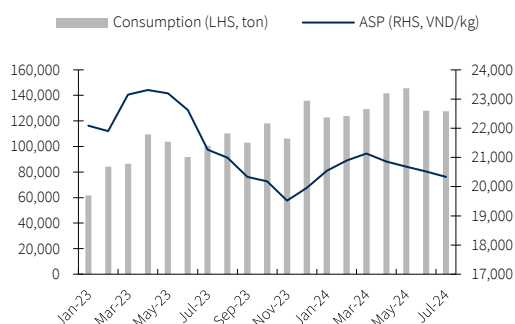


Source: Hoa Sen Group, KB Securities Vietnam

Domestic consumption output should keep increasing thanks to the recovery of residential real estate and the approval of anti-dumping taxes on galvanized steel (AD19)

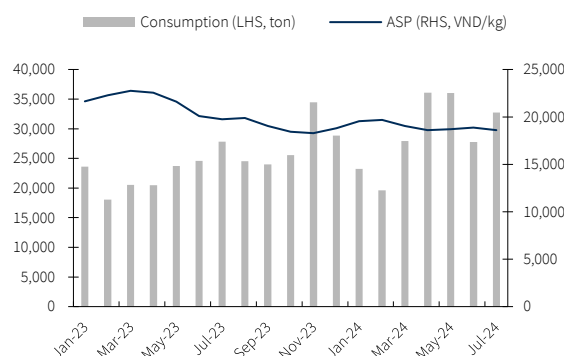
We believe that the domestic market will be the main driving force for HSG's consumption growth in the coming time with (1) the gradual recovery of the residential real estate market and (2) higher construction demand at the end of the year. With HRC prices falling faster than the average price (Figure 4), HSG should further lower its product prices to improve consumption output while maintaining a GPM of 11-12% in the medium term. In addition, as mentioned in the 2Q24 report, we also expect the anti-dumping tax on galvanized steel imported from China and Korea to be approved in the coming time, helping to improve domestic galvanized steel sales volume. HSG will benefit the most thanks to maintaining the largest market share of galvanized steel in the domestic market (28.4% by the end of 2023) and its output for FY24/FY25 may hit 1.89/1.98 million tons.

Fig 6. HSG - Galvanized steel sales volume & average price (ton, VND/kg)



Source: Hoa Sen Group, KB Securities Vietnam

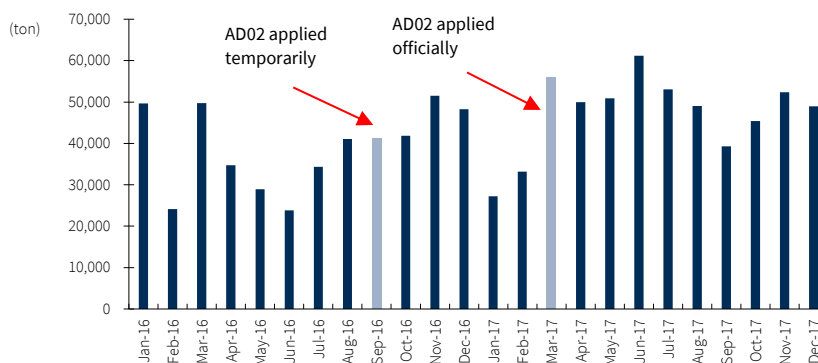
Fig 7. HSG - Steel pipe sales volume & average price (ton, VND/kg)



Source: Hoa Sen Group, KB Securities Vietnam

Fig 8. HSG – Domestic sales volume (ton)

HSG's domestic consumption output has improved since the preliminary conclusion and temporary application of the anti-dumping taxes from September 2016.



Source: Hoa Sen Group, KB Securities Vietnam

Export output may decline in the short term

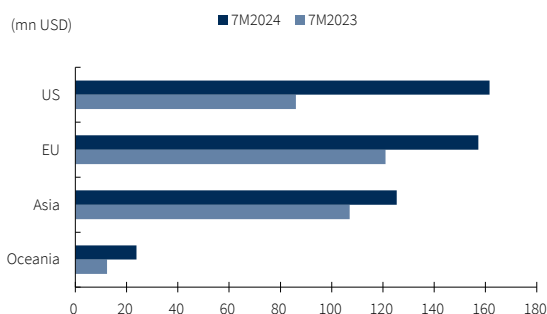
The increase in trade defense measures from HSG's main export markets such as the US and EU will have a negative impact on the group's export output in the short and medium term. However, in the long term, we believe that Vietnamese steel producers will still have some competitive advantages in the export market since (1) the price gap in the US and EU continues to be maintained; and (2) the tax rate applied to steel products imported from Vietnam is lower than the tax rate applied to China.

Table 9. HSG – Comparison of current tax rates applied to steel and aluminum imported from Vietnam and China into the US market

	Section 301 of the Trade Act	Section 232 of the Expanded Trade Act
Contents	The US raises tariffs on certain products and sectors (including steel and aluminum, semiconductors, electric vehicles, minerals, and solar panels) imported from China at low prices.	The US imposes tariffs on steel and aluminum products imported from Mexico that are heated, molded, and have raw materials from countries other than Mexico and Canada.
Effectiveness	May 2024	July 2024
Vietnam	0%	25%
China	25%	25%

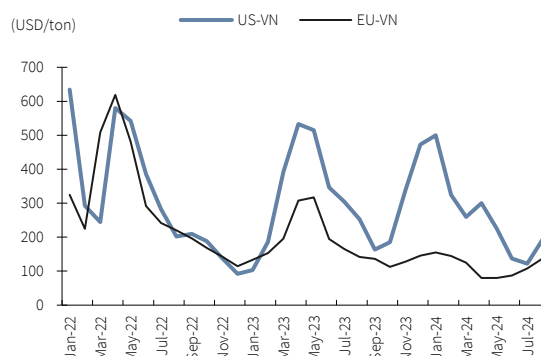
Source: Hoa Sen Group, KB Securities Vietnam

Fig 10. HSG – Export markets (USDmn)



Source: Hoa Sen Group, KB Securities Vietnam

Fig 11. Vietnam, US, EU – HRC price gap between US, EU vs Vietnam (USD/ton)

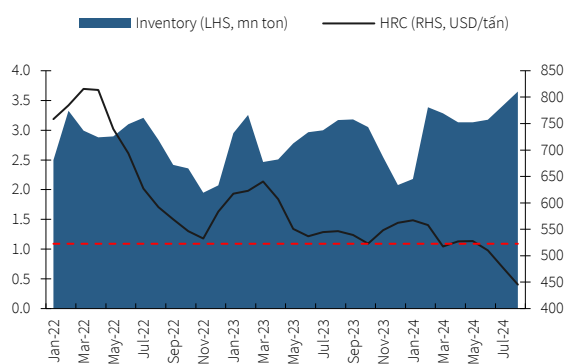


Source: Bloomberg, KB Securities Vietnam

High inventories in China put pressure on steel prices

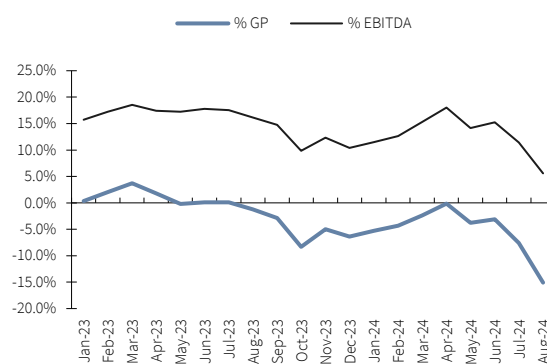
China's steel export prospects are expected to decline in the coming time as major markets such as the US and EU increase trade defense measures. This has caused steel prices in China to fall by an average of 11% since the beginning of 3Q24 to stimulate domestic consumption demand amid high steel inventories (estimated figures for August 2024 are 13.6 million tons, down 5% MoM but up 6%/4% YoY). With high inventories and lower EBITDA margins, we believe that manufacturers will prioritize inventory reduction and capacity optimization in the coming time, which could put further pressure on steel prices in the short term. However, steel prices may stabilize later when supply and demand in China's domestic steel market rebalance.

Fig 12. China – HRC inventories & prices



Source: Bloomberg, KB Securities Vietnam

Fig 13. China – GPM & EBITDA margins of BOFs (%)



Source: Hoa Sen Group, KB Securities Vietnam

Forecast & valuation

Table 14. HSG – 2024–2025F results

(VNDbn, %)	FY2023	FY2024	+/-%YoY	FY2025	+/-%YoY	Notes
Revenue	31,651	39,060	23%	42,820	10%	FY24/FY25 capacity is expected to reach 56%/59%, and FY24/FY25 steel price should gain 8%/3% YoY.
Gross profit	3,031	4,423	46%	5,175	17%	
<i>Gross profit margin</i>	9.6%	11.3%	175bps	12.1%	76bps	HSG's gross profit margin should rise 76bps in FY25 due to input material prices decreasing faster than average output prices
Deposits	0	2	213%	2	1%	
Interest expenses	-195	-140	-28%	-218	56%	FY25 interest expense may gain 56% due to (1) lending rates gradually increasing again and (2) steel prices recovering in 2025, HSG increasing debt to build inventory.
Exchange gain/loss	113	122	8%	0	-100%	Assuming stable USD/VND exchange rate, HSG does not incur exchange gain/loss.
Profits from affiliates	0	0		0		
SG&A	-2,876	-3,703	29%	-3,939	6%	SG&A increases by 6% in FY25 due to HSG increasing sales support activities in the domestic market.
Operating profit/loss	74	705	848%	1,020	45%	
Other income	66	51	-23%	50	-1%	
PBT	140	756	439%	1,070	42%	
NPAT	25	728	2858%	856	18%	
NP after MI	25	728	2865%	856	18%	
NPAT margin	0.1%	1.9%	179bps	2.0%	14bps	

Source: Hoa Sen Group, KB Securities Vietnam

**Valuation: NEUTRAL rating –
Target price VND22,600/share**

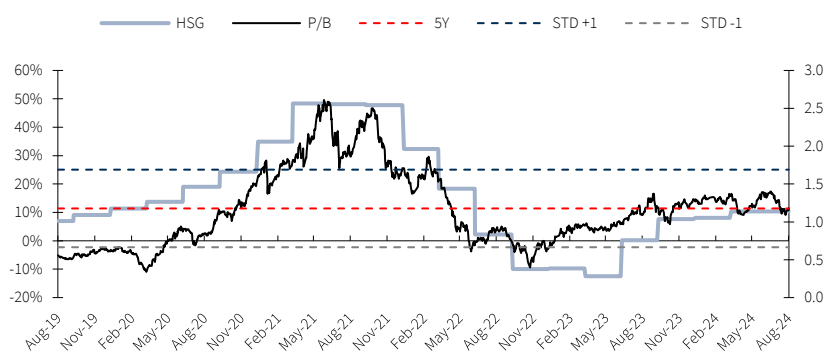
HSG's share price has gained by 15% since 2Q FY24 update report, reflecting expectations of (1) a recovery in domestic consumption output and (2) the application of anti-dumping tax on galvanized steel with China and Korea, before experiencing corrections due to unfavorable developments in steel prices. We changed our forecast model, reducing HSG's FY24/FY25 net profit by -8.2%/-16.3% compared to the previous period to reflect the impact of declining HRC prices, which will raise HSG's provisioning costs in the short term. Applying two valuation methods, EV/EBITDA and P/E, with targets of 8x/12x respectively, we determine the fair value of HSG for FY2025 at VND22,600/share (P/E and P/B forward FY2025 are 16x/1.1x), corresponding to a return of 9% compared to the closing price on August 29, 2024.

Table 15. HSG – Final valuation

Method	Multiple	Valuation	Weight	Target Price
EV/EBITDA	8	28,612	50%	14,306
P/E	12	16,679	50%	8,339
Target Price				22,600

Source: KB Securities Vietnam

Fig 16. HSG – ROE & P/B (% , x)



Source: FiinProX, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research

binhnx@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Manager

ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst

giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst

hieupm@kbsec.com.vn

Research Division

research@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of Macro & Strategy

anhtd@kbsec.com.vn

Vu Thu Uyen – Analyst

uyenvt@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienss@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannd@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

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.