

# Nam Kim Steel (NKG)

## Expecting benefits from export markets

March 24, 2023

Analyst Nguyen Duong Nguyen  
nguyend1@kbsec.com.vn

**NKG recorded a loss of VND67 billion (-103% YoY) amid the industry's difficulties in 2H22**

In 2H22, Nam Kim Steel (NKG) posted a loss of VND67 billion as a sharp decline in consumption demand in the foreign market under the impacts of interest rate hikes caused (1) interest rates on home loans to increase and (2) real estate and construction businesses to limit the business.

**HRC price surpassed USD1,000 USD/ton**

Higher HRC prices in the second half of 1Q22 helped NKG raise the prices of galvanized steel sheet and steel pipe. NKG may record a slight profit in 1Q22 while the prices of raw materials and finished products is already low in 4Q.

**The shortage of HRC in the US and Europe may last until the end of 2Q23, and businesses are looking to steel exporters in Asia**

The supply of iron and steel, galvanized steel in the US and European markets is limited because (1) manufacturers in the US are only maintaining their capacity at 75%; and (2) the supply of HRC from Turkey is interrupted, so the prospect of increasing export revenue of steel producers in Asia in 2Q23 is improving thanks to abundant supply and competitive prices.

**The domestic consumption market needs time to recover**

We believe that the consumption of steel and galvanized steel in the domestic market will be flat YoY as the real estate market has not shown any signs of recovery.

**HOLD recommendation with target price of VND18,000/share**

Applying two valuation methods P/E and P/B, we determine the fair value of NKG at VND18,000/share (corresponding to a 13% upside compared to the price on March 23, 2023).

**Hold** maintain

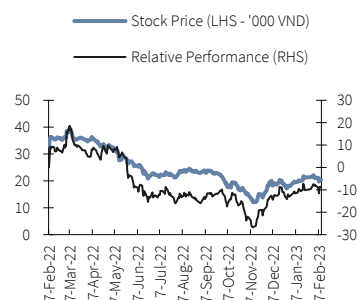
<b>Target price</b>	<b>VND18,000</b>
Upside	13%
Current price (Mar 23, 2023)	VND15,900
Consensus target price	VND14,200
Market cap (VNDtn/USDbn)	4.27/0.18

<b>Trading data</b>	
Free float	94%
3M avg trading value (VNDbn/USDmn)	174/220
Foreign ownership	12.8

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	6.7%	29.0%	-24.3%	-60.7%
<b>Relative</b>	7.5%	26.6%	-11.2%	-30.5%

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	28,173	23,071	15,856	19,792
Net operating income (VNDbn)	2,551	-46	112	560
NPAT (VNDbn)	2,225	-67	90	448
EPS (VND)	10,189	-253	340	1,702
EPS growth (%)	5.3	-1.0	-2.3	4.0
P/E (x)	3.2	16.4	8.8	7.4
P/B (x)	1.3	1.4	1.0	0.9
ROE (%)	50%	-1%	2%	8%
Dividend yield (%)	10%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

## Business performance updates

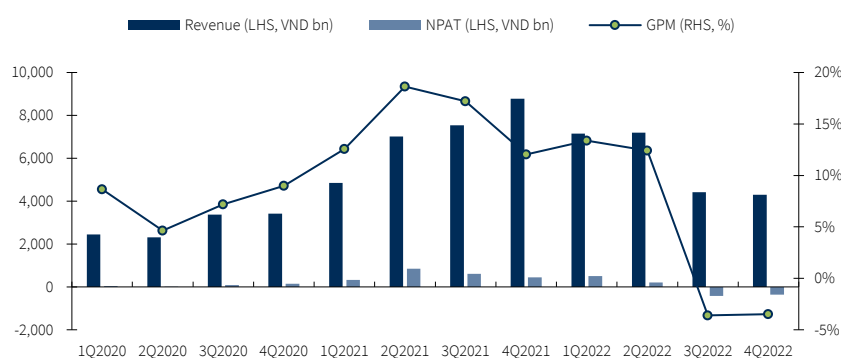
**4Q22 revenue reached VND4,300 billion (-51% YoY) and there was a loss of VND356 billion in profit (-179% YoY)**

NKG's business performance in 4Q22 improved thanks to (1) a slight increase in GPM of 0.13% and (2) a decrease in SG&A expenses of VND72 billion (SG&A margin decreased by 1.5% QoQ). As a result, although net revenue in 4Q22 declined compared to 3Q22, NKG's NPAT improved thanks to the company's optimizing inventory and operating expenses.

The consumption of galvanized steel in 4Q22 reached 139,200 tons (+6% QoQ), while consumption of steel pipes was flat. Consumption in the domestic market declined when real estate businesses faced difficulties in capital sources under the impact of due bond repayment obligations. Meanwhile, in foreign markets such as the US and Europe, interest rate hikes from the beginning of the year had a direct impact on the real estate market as (1) home loan interest rates surged; and (2) real estate businesses face difficulties when borrowing costs for project implementation increase. The number of new constructions permits in the US in 4Q22 declined 4% QoQ to 4,193.

Therefore, although HRC prices fell 8% in 4Q22, NKG's galvanized steel sheet and steel pipe prices were adjusted accordingly to compete with other products on the market and accelerate inventory turnover to optimize COGS.

**Fig 1. NKG - NPAT, revenue & GPM (VNDbn, %)**

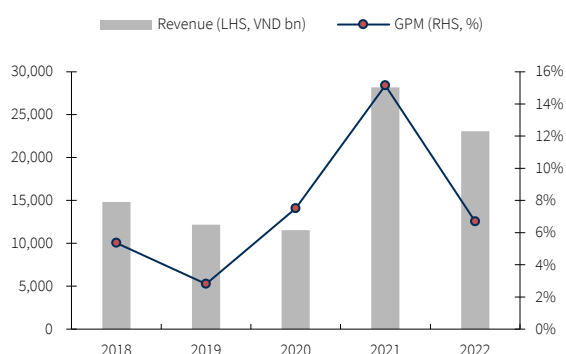


Source: Nam Kim Steel, KB Securities Vietnam

**In 2022, NKG recorded a revenue of VND23,071 billion (-18% YoY) with a loss of VND67 billion in NPAT (-103% YoY)**

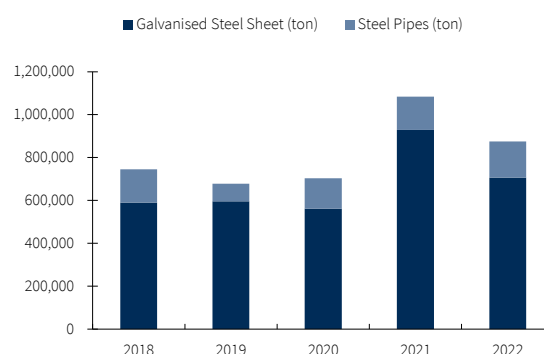
NKG's business results were strongly affected in 2H22. To be more specific, revenue and NPAT respectively decreased 39% and 209% YoY to VND8,724 billion and - VND775 billion. Accumulated for the whole year, the consumption volume of galvanized steel sheet and steel pipe was 706,673 tons (-24% YoY) and 168,558 tons (+9%), respectively, of which, 60% of consumption volume was concentrated in 1H22.

Fig 2. NKG – Revenue & GPM (VNDbn, %)



Source: Nam Kim Steel, KB Securities Vietnam

Fig 3. NKG – Consumed galvanized steel & steel pipe (ton)



Source: Nam Kim Steel, KB Securities Vietnam

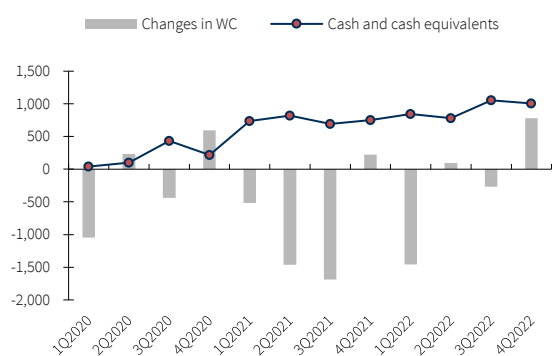
**NKG actively optimizes inventory in 4Q22 to optimize COGS and limit COGS**

The prices of HRC decreased from 2Q22 until the end of the year, causing the prices of galvanized steel and steel pipes to decline. However, the inventories of steel companies all reached their highest value ever in 2Q22 and 3Q22, leading to the situation of finished product inventories at high prices while selling prices continuously decreased when facing output competition amid frozen real estate market.

The cost of NKG's inventory reached VND8,838 billion in 3Q22 (+7% compared to 2Q22 and also the highest value ever), of which finished products were valued at nearly VND4,000 billion, and raw materials reached VND4,834 billion. In 4Q22, the value of finished products was VND3,464 billion (-13% QoQ), while the value of raw materials was VND3,540 billion (-27% QoQ).

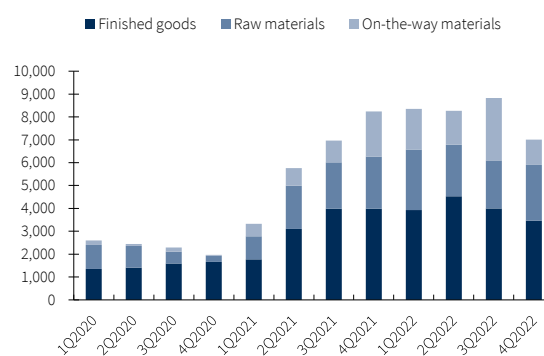
Thanks to the restriction of buying new materials, NKG's operating cash flow in 4Q22 gained VND780 billion in the context of difficulties for the steel industry in general.

Fig 4. NKG – Working capital (VNDbn)



Source: Nam Kim Steel, KB Securities Vietnam

Fig 5. NKG – Inventory value (VNDbn)



Source: Nam Kim Steel, KB Securities Vietnam

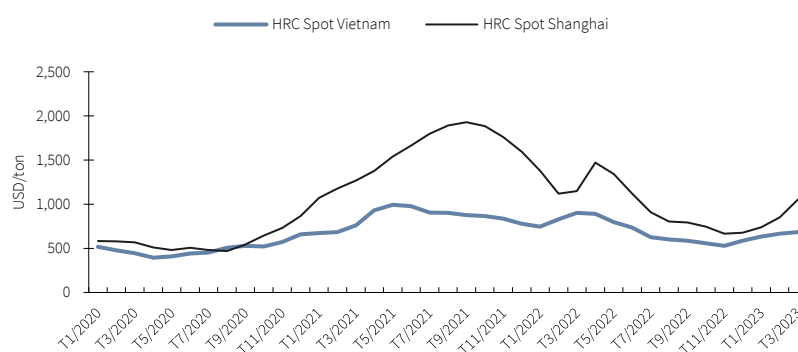
## Investment catalysts

### HRC prices spiked in the second half of 1Q23 and might continue the rising momentum in 2Q23

In the US, HRC steel prices spiked and surpassed USD1,000/ton in February and March 2023 when the demand increased and lasted in 1Q23 while supply was not guaranteed. The reason is that (1) manufacturers in the US have maintained capacity at 75% or less throughout the past time; (2) inventories are low; and (3) steel & iron imports continuously decreased in the past nine months. The disruption in HRC production in Turkey also caused EU countries to find supplies from Asian markets recently.

We believe that HRC prices will continue to be high in 2Q23 because (1) the shortage of supply will continue in the US as manufacturers have closed orders until the end of May 2023; and (2) the restoration of production in Turkey will take time, so the European market will continue to lack supply until the end of 2Q23.

Fig 6. Vietnam & China – HRC prices (USD/ton)



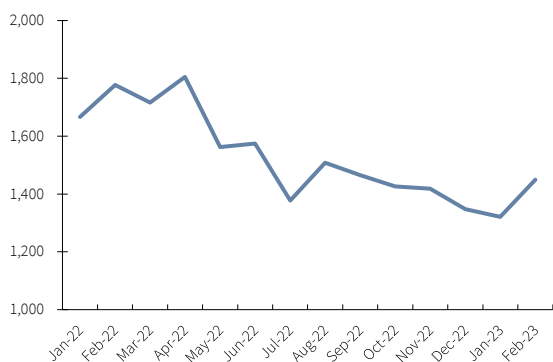
Source: Bloomberg, KB Securities Vietnam

### Expectations for an improvement in consumption volume in the US market

Data on the number of new building permits in the US reached 1,450,000 in February 2023 and officially ended five consecutive months of decline. Besides, in the context of a decline in home loan interest rates from October 2022 until now, the number of home loan applications rebounded (up 3% MoM) for the first time in February.

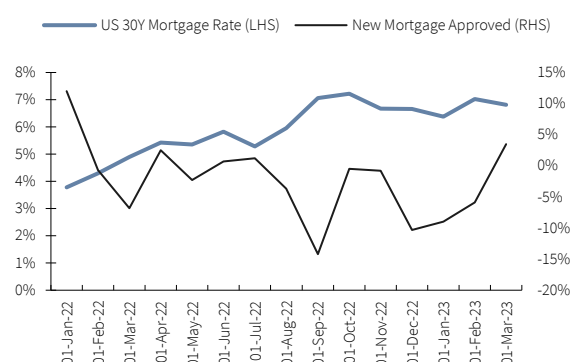
Although there are still risks related to SVB and Signature Bank, we assess this as a temporary disruption in the liquidity of the banking system in the US. In the base case, we expect the Fed's rate cut process will not be affected and the recovery of the real estate sector will be clearer in 2Q23. Thereby, iron and steel consumption in the US will also be improved, and steel exports will also prosper.

Fig 7. US – Building permits in 2022–2023 (permit)



Source: Bloomberg, KB Securities Vietnam

Fig 8. US – Home loans & house buying



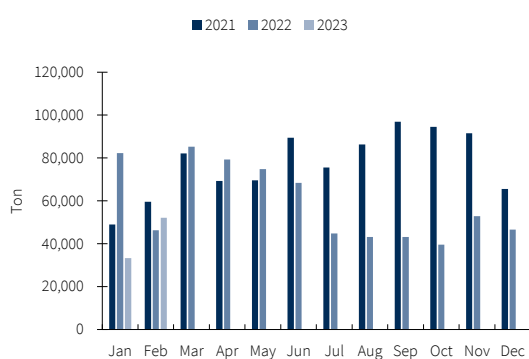
Source: Bloomberg, KB Securities Vietnam

**Consumption volume in Vietnam market is expected to recover from 3Q23**

In the base scenario, we expect the real estate market to recover from 3Q23, which will help the demand for steel on the domestic improve more strongly. Accumulated in 2022, domestic revenue reached VND9,524 billion, accounting for 41% of the revenue structure of NKG (up 9% compared to 2021) when export revenue was affected by the decline in consumption demand in foreign markets.

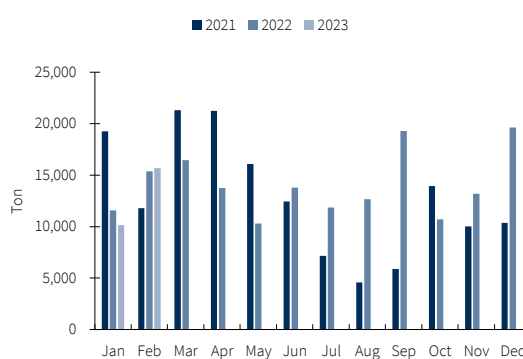
We believe that export turnover will be the main driver for the company’s revenue in 1H23 before the domestic consumption market recovers in 1H23. It is estimated that export revenue will account for 65% of total revenue in 2023, equivalent to a value of VND10,514 billion (22% YoY).

Fig 9. NKG – Galvanized steel consumption volume (ton)



Source: Nam Kim Steel, KB Securities Vietnam

Fig 10. NKG – Steel pipe consumption volume (ton)



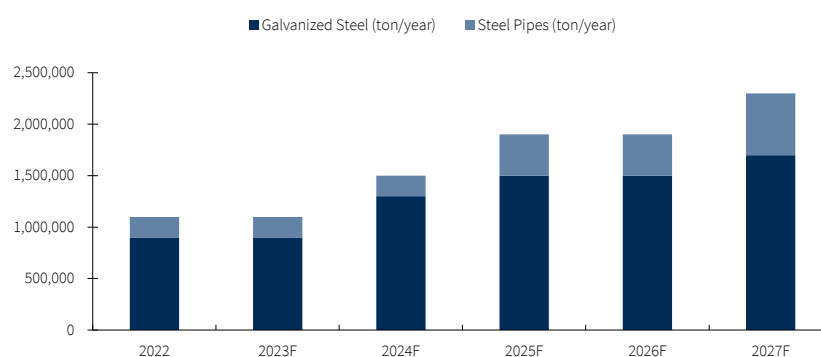
Source: Nam Kim Steel, KB Securities Vietnam

**NKG delayed the implementation of Nam Kim Phu My project to 2024, which is expected to be completed in 2026**

According to NKG, it will delay the implementation of Nam Kim Phu My project in 2023 due to concerns over low consumption. We believe that this decision is in line with the current context of the steel industry in general. The project should be implemented between 2023 and 2027.

For Nam Kim Phu My project, in the base scenario, we estimate that the project will be implemented with an equity to debt ratio of 50-50. NKG has actively raised capital by paying a stock dividend at the ratio of 100:20 in 2022, thereby adding an additional VND449 billion to the contributed capital. The undistributed profit was also large at VND1,686 billion in 2022.

**Fig 21. NKG - 2023-2027F galvanized steel & steel pipe capacity (ton/year)**



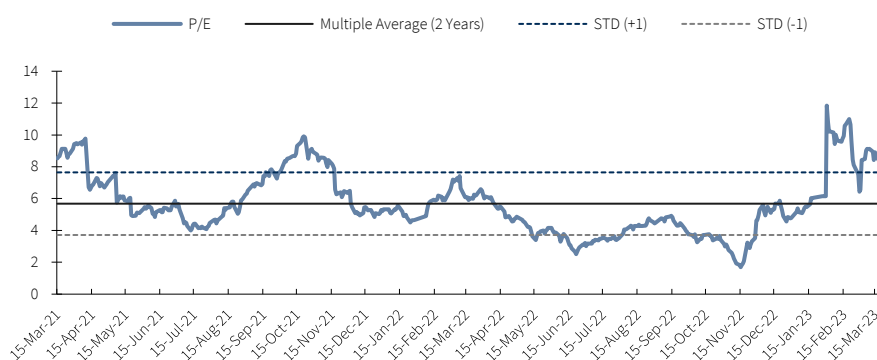
Source: KB Securities Vietnam

## Valuation

**HOLD recommendation for NKG stock with reasonable valuation at VND18,000/share**

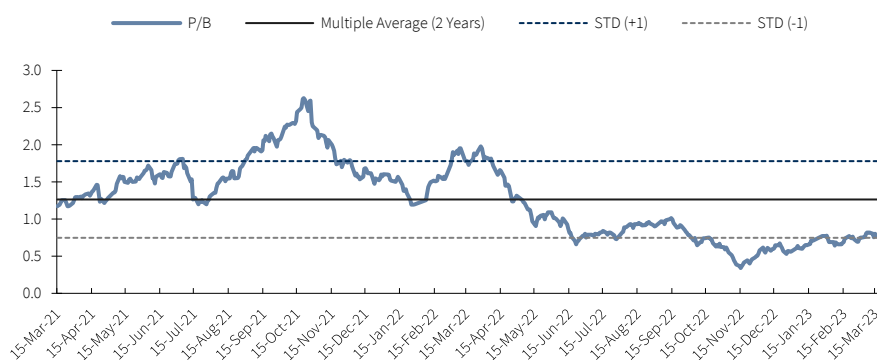
Applying two methods P/E and P/B with ratio 50-50, P/E and target P/B are 6x and 1.2x respectively, we determine the fair value of NKG at VND18,000/ share, corresponding to an upside 13% compared to the closing price on March 23, 2023.

Fig 11. NKG – P/E valuation



Source: Bloomberg, KB Securities Vietnam

Fig 12. NKG – P/B valuation



Source: Bloomberg, KB Securities Vietnam

## NKG – 2021A–2024F financials

Income Statement (bn. VND)					Balance Sheet (bn. VND)				
	2021	2022	2023F	2024F		2021	2022	2023F	2024F
<b>(Standard Report)</b>					<b>(Standard Report)</b>				
Net Revenue	149,680	141,409	126,770	133,430	TỔNG CỘNG TÀI SẢN	178,236	170,336	207,303	223,734
Cost of Goods Sold	-108,571	-124,646	-117,131	-114,120	CURRENT ASSETS	94,155	80,515	98,777	98,047
Gross Profit	41,108	16,763	9,640	19,310	Cash and cash equivalents	22,471	8,325	33,426	26,563
Financial Income	3,071	3,744	3,806	5,074	Short-term investments	18,236	26,268	26,268	26,268
Financial Expenditure	-3,732	-7,027	-4,539	-5,647	Accounts receivable	7,663	9,893	7,855	8,157
Including: Cost of Borrowing	-2,526	-3,084	-4,539	-5,647	Inventories	42,134	34,491	29,690	35,521
Profit/(loss) from affiliated companies	4	-1	0	0	LONG-TERM ASSETS	84,082	89,821	108,526	125,686
Selling expenditures	-2,120	-2,666	-2,958	-2,669	Long-term trade receivables	809	894	894	894
General and administrative expenditures	-1,324	-1,019	-1,479	-1,334	Fixed assets	69,281	70,833	89,539	106,699
Profit/(loss) from operating	37,008	9,794	4,470	14,735	Long-term incomplete assets	9,699	13,363	13,363	13,363
Other income	797	872	0	0	Long-term investments	7	1	1	1
Other expenditures	-748	-743	0	0	Good will (before 2015)	0	0	0	0
Net Other Income	48	129	0	0	NỢ PHẢI TRẢ	87,456	74,223	107,391	111,297
Profit/(loss) from affiliated companies	0	0	0	0	Current liabilities	73,459	62,385	57,657	60,014
Profit/(loss) before tax	37,057	9,923	4,470	14,735	Trade accounts payable	23,729	11,107	19,347	14,889
Tax	-2,536	-1,479	-670	-2,210	Short-term borrowings	43,748	46,749	32,699	41,397
Profit/(loss) after tax	34,521	8,444	3,799	12,525	Other short-term liabilities	5,983	4,530	5,612	3,728
<b>Operating Ratios</b>					<b>LONG-TERM LIABILITIES</b>				
	2021	2022	2023F	2024F	Long-term liabilities	13,996	11,837	49,733	51,282
Gross Profit Margin	27.5%	11.9%	7.6%	14.5%	Long-term trade payables	0	0	0	0
EBITDA Margin	30.5%	13.9%	14.2%	23.6%	Other long-term liabilities	532	686	686	686
EBIT Margin	26.4%	9.1%	7.1%	15.3%	Long-term borrowings	13,465	11,152	49,048	50,597
PBT Margin	24.8%	7.0%	3.5%	11.0%	OWNER'S EQUITY	90,781	96,113	99,912	112,437
Operating Profit Margin	24.7%	6.9%	3.5%	11.0%	Paid-in capital	44,729	58,148	58,148	58,148
Net Profit Margin	23.1%	6.0%	3.0%	9.4%	Share premium	3,212	3,212	3,212	3,212
					Other funds	1,076	920	920	920
					Undistributed earnings	41,763	33,834	37,633	50,158
<b>Cash Flow Statement (Standard Report)</b>					<b>Main Ratios (%, VND)</b>				
	2021	2022	2023F	2024F	<b>Valuation Ratios</b>				
PBT	37,057	9,923	4,470	14,735	P/E	6.6	13.8	31.8	9.7
Depreciation	6,077	6,814	8,994	11,173	P/E (diluted)	6.6	13.8	31.8	9.7
Profit/(loss) from investing	-1,661	-1,822	0	0	P/B	2.5	1.2	1.2	1.1
Cost of borrowing	2,526	3,084	4,539	5,647	P/S	1.5	0.8	1.0	0.9
Profit/(loss) before changes in WC	44,209	19,199	18,002	31,555	P/Tangible Book	3.1	1.7	1.7	1.7
(Increase)/decrease in receivables	-3,039	4,723	2,038	-302	P/Cash Flow	8.3	9.6	42.8	108.3
(Increase)/decrease in inventory	-16,949	8,022	4,801	-5,831	EV/EBITDA	6.0	8.4	7.9	5.1
Increase/(decrease) in payables	9,250	-14,681	8,240	-4,458	EV/EBIT	6.3	13.0	18.8	9.1
(Increase)/decrease in pre-paid expenses	-814	-19	0	0	<b>Management Efficiency</b>				
Sealable securities, cost of borrowing, tax	0	0	0	0	ROE%	46%	9%	4%	12%
Operating Cash Flow	26,721	12,192	28,954	11,223	ROA%	22%	5%	2%	6%
Purchases of fixed assets and other long term	-11,621	-17,966	-27,700	-28,333	ROIC%	25%	8%	2%	6%
Proceeds from disposal of fixed assets	49	14	0	0	<b>Financial Ratios</b>				
Loans granted, purchases of debt instruments	-41,061	-55,506	0	0	Cash Ratio	0.3	0.1	0.6	0.4
Collection of loans, proceeds from sales of det	31,076	47,413	0	0	Quick Ratio	0.7	0.7	1.2	1.0
Investments in other entities	0	-372	0	0	Current Ratio	1.3	1.3	1.7	1.6
Proceeds from divestment in other entities	834	0	0	0	Long-term borrowing/Owner's Equity	0.1	0.1	0.5	0.5
Dividends and interest received	1,054	1,706	0	0	Long-term borrowing/Total Asset	0.1	0.1	0.2	0.2
Investing Cash Flow	-19,669	-24,712	-27,700	-28,333	Short-term borrowing/Owner's Equity	0.5	0.5	0.3	0.4
Proceeds from issue of shares	11	4	0	0	Short-term borrowing/Total Asset	0.2	0.3	0.2	0.2
Payments for share returns and repurchases	0	0	0	0	Short-term payables/Owner's Equity	0.3	0.1	0.2	0.1
Proceeds from borrowings	125,075	135,257	159,103	169,350	Short-term payables/Total Asset	0.1	0.1	0.1	0.1
Repayment of borrowings	-121,653	-134,631	-135,257	-159,103	Total payables/Owner's Equity	0.3	0.1	0.2	0.1
Finance lease principal payments	0	0	0	0	Total payables/Total Asset	0.1	0.1	0.1	0.1
Dividends paid	-1,693	-2,247	0	0	<b>Operating Ratios</b>				
Interests, dividends, profits received	0	0	0	0	Receivables turnover	33.6	35.7	35.7	30.4
Financing Cash Flow	8,792	-14,137	25,101	-6,862	Inventory turnover	3.2	3.3	3.7	3.5
Net increase in cash and cash equivalents	13,696	22,471	8,325	33,426	Payables turnover	7.2	6.7	7.7	6.7
Cash and cash equivalents at the beginning of pe	-16	-10	0	0					
Cash and cash equivalents at the end of period	22,471	8,325	33,426	26,563					

Source: Nam Kim Steel, KB Securities Vietnam



## KB SECURITIES VIETNAM RESEARCH

---

**Nguyen Xuan Binh – Head of Research**  
binhnx@kbsec.com.vn

### Equity

**Duong Duc Hieu – Head of Equity Research**  
hieudd@kbsec.com.vn

### Banks, Insurance & Securities

**Nguyen Anh Tung – Senior Analyst**  
tungna@kbsec.com.vn

**Nguyen Duc Huy – Analyst**  
huynd1@kbsec.com.vn

### Real Estate, Construction & Materials

**Pham Hoang Bao Nga – Senior Analyst**  
ngaphb@kbsec.com.vn

**Nguyen Duong Nguyen – Analyst**  
nguyennd1@kbsec.com.vn

### Industrial Real Estate, Logistics

**Nguyen Thi Ngoc Anh – Analyst**  
anhntn@kbsec.com.vn

### Retails & Consumers

**Pham Phuong Linh – Analyst**  
linhpp@kbsec.com.vn

### Oil & Gas, Utilities

**Nguyen Dinh Thuan – Analyst**  
thuand@kbsec.com.vn

**Research Division**  
research@kbsec.com.vn

### Macro/Strategy

**Tran Duc Anh – Head of Macro & Strategy**  
anhtd@kbsec.com.vn

### Macroeconomics & Banks

**Le Hanh Quyen – Analyst**  
quyenlh@kbsec.com.vn

### Strategy, Chemicals

**Thai Huu Cong – Analyst**  
congth@kbsec.com.vn

### Strategy, Fishery & Textiles

**Tran Thi Phuong Anh – Analyst**  
anhhttp@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](mailto:ccc@kbsec.com.vn)

Website: [www.kbsec.com.vn](http://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.