

# Hoa Phat Group (HPG)

## Entering a new cycle of resurgence

March 20, 2024

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### NPAT troughed in 2023 and should grow again from 2024

For 2023 as a whole, Hoa Phat Group (HPG) achieved net revenue and NPAT of VND118,953 billion (down 16% YoY) and VND6,800 billion (down 19% YoY), respectively. Specifically, HPG's production capacity has gradually increased since 2Q2023, aiding NPAT in showing a quarterly recovery trend. We assess that HPG's NPAT bottomed out in 2023 and will slowly rebound from 2024 onwards on (1) improved consumption; (2) rising utilization rate; and (3) reduced inventory days.

### A new cycle of resurgence is expected for the steel industry

We anticipate that the steel sector will enter a new cycle of resurgence in 2H2024 after the steel price retreat seen in 1H2024, supported by the expected recovery in the housing market.

### Dung Quat 2 will drive growth in the long term

Dung Quat 2 may start commercial operations from 1Q2025, raising HPG's crude steel production by an additional 8.6 million tons/year with the main product being HRC. We foresee that HPG will expand its presence in the Southern market as well as promote exports when Dung Quat 2 operates steadily. Moreover, Vietnam's HRC export prices will increasingly narrow the gap with China's as the Chinese government aims to raise the share of EAF-produced steel from the current 10% to 15%, thus sending production costs higher.

### We recommend BUY for HPG with a target price of VND35,800/share

We recommend BUY for HPG with a target price of VND35,800/share, representing an expected return of 19% compared to the closing price on March 20, 2024.

## Buy

maintain

<b>Target price</b>	<b>VND35,800</b>
Upside	19%
Current price (Mar 20, 2024)	VND30,000
Consensus target price	VND34,000
Market cap (VNDtn/USDbn)	17.4/7.1

#### Forecast earnings & valuation

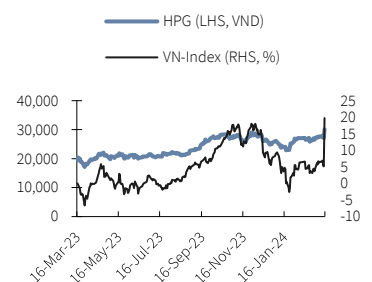
FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	141,409	118,953	141,666	158,094
Operating income/loss (VNDbn)	9,794	7,651	12,122	15,604
NPAT-MI (VNDbn)	8,484	6,835	10,214	13,263
EPS (VND)	1,459	1,175	1,757	2,281
EPS growth (%)	-81%	-19%	49%	30%
P/E (x)	12.3	23.8	17.1	13.2
P/B (x)	1.1	1.6	1.6	1.5
ROE (%)	9%	7%	10%	12%
Dividend yield (%)	3.9%	0.0%	0.0%	0.0%

#### Trading data

Free float	55%
3M avg trading value (VNDbn/USDmn)	757.4/30.7
Foreign ownership	25.2%
Major shareholder	Tran Dinh Long (25.8%)

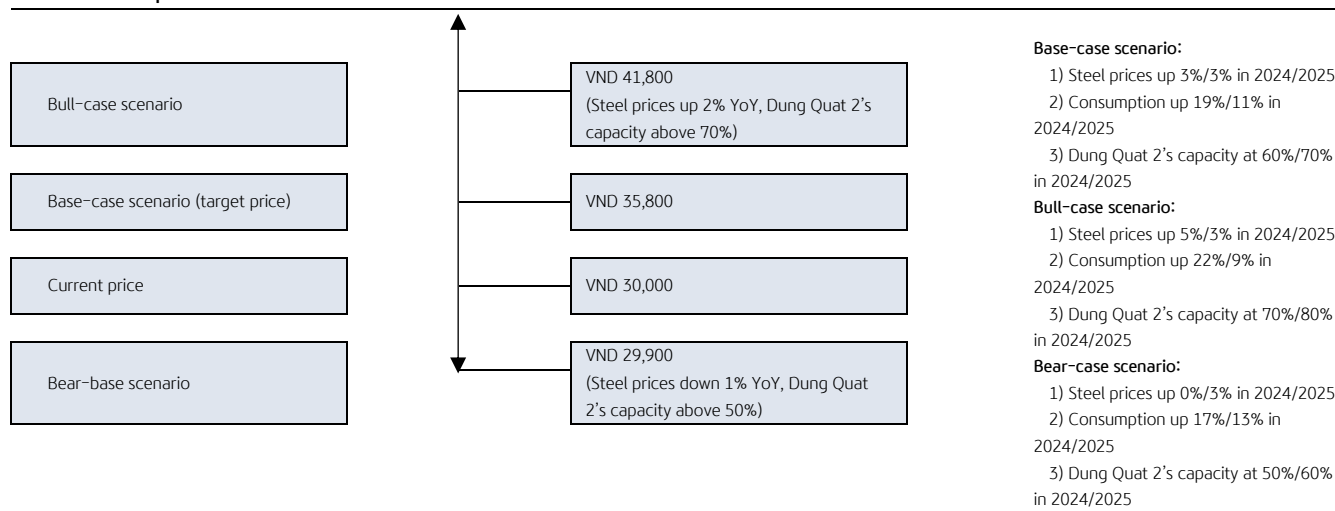
#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	4.9	11.3	8.3	44.4
<b>Relative</b>	-0.2	-2.6	5.0	23.7



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

## Business performance

**Table 1. HPG – 2022A–2023A consumption of steel products**

(ton)	4Q2022	4Q2023	+/-%YoY	2022	2023	+/-%YoY	KBSV's comments
Construction steel	820,000	1,212,796	48%	4,279,754	3,785,819	-12%	Construction steel sales volume recovered in 4Q2023 and beat expectations thanks to the acceleration of public spending disbursement in November–December 2023.
HRC	591,000	813,133	38%	2,624,118	2,795,123	7%	HRC orders reached 100% of HPG's production capacity.
Steel pipes	184,000	195,995	7%	750,000	682,947	-9%	
Galvanized steel sheets	79,000	85,071	8%	328,000	329,417	0%	
Steel billet	82,000	80,000	-2%	298,128	142,000	-52%	
<b>Total</b>	<b>1,756,000</b>	<b>2,386,995</b>	<b>36%</b>	<b>8,280,000</b>	<b>7,735,306</b>	<b>-7%</b>	

Source: Hoa Phat Group, KB Securities Vietnam

**Table 2. HPG – 2022A–2023A business results**

(VNDbn)	4Q2022	4Q2023	+/-%YoY	2022A	2023A	+/-%YoY	KBSV's comments
<b>Revenue</b>	25,826	34,384	33%	141,409	118,953	-16%	4Q2023 revenue increased by 33% YoY thanks to a 33% rise in production output over the same period.
Cost of goods sold	-26,711	-29,912	12%	-124,646	-106,015	-15%	
<b>Gross profit</b>	<b>-885</b>	<b>4,472</b>		<b>16,763</b>	<b>12,938</b>	<b>-23%</b>	
Gross profit margin	-3%	13%	1,643 bps	12%	11%	-98 bps	Gross profit margin increased by 38% QoQ thanks to a 3% increase in steel prices.
Financial income	1,541	732	-52%	3,744	3,173	-15%	
Financial expenses	-1,688	-1,127	-33%	-7,027	-5,192	-26%	Financial expenses decreased by 26% YoY due to foreign exchange losses down 90% YoY thanks to limiting high-priced inventory and optimizing inventory turnover.
Borrowing costs	-933	-711	-24%	-3,084	-3,585	16%	
Shared profits from associates	0	0		-1	0		
SG&A	-1,059	-761	-28%	-3,685	-3,269	-11%	
SG&A margin	4%	2%	-189 bps	3%	3%	14 bps	
<b>Operating income/loss</b>	<b>-2,091</b>	<b>3,316</b>		<b>9,794</b>	<b>7,651</b>	<b>-22%</b>	
Net other income	13	69	434%	129	142	10%	
<b>PBT</b>	<b>-2,079</b>	<b>3,385</b>		<b>9,923</b>	<b>7,793</b>	<b>-21%</b>	
PBT margin	-8%	10%	1,789 bps	7%	7%	-47 bps	
Corporate income tax	80	-416	-621%	-1,479	-992	-33%	
<b>NPAT</b>	<b>-1,999</b>	<b>2,969</b>		<b>8,444</b>	<b>6,800</b>	<b>-19%</b>	
NPAT margin	-8%	9%	1,637 bps	6%	6%	-25 bps	
<b>NPAT-MI</b>	<b>-1,992</b>	<b>2,973</b>		<b>8,484</b>	<b>6,835</b>		
NPAT-MI margin	-8%	9%	1,636 bps	6%	6%	-25 bps	

Source: Hoa Phat Group, KB Securities Vietnam

## Investment catalysts

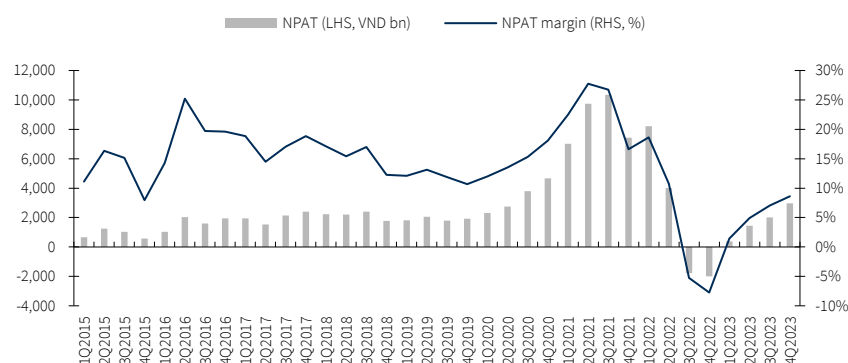
### 1. Financial performance troughed in 2023

#### NPAT troughed in 2023 and should grow again from 2024

HPG's NPAT recorded losses in 2H2022 and gradually recovered in 2023 thanks to (1) promoting exports in the context of slow recovery of domestic consumption and (2) inventory days in 2023 declining by 14 days compared to 2022, helping to optimize input costs.

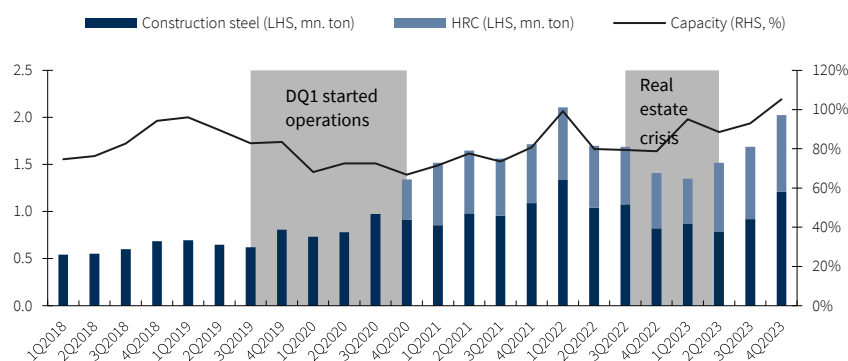
We assess that HPG's NPAT troughed in 2023 and will return to its growth trajectory from 2024 onwards on (1) continued recovery in steel consumption and (2) stable production after being negatively impacted by a frozen property market in late 2022. HPG's crude steel production has now been restored following the resumption of blast furnaces at the Hai Duong and Dung Quat steel complexes. With the utilization rate maintained above 85% annually, we expect HPG's gross profit margin to be sustained at a minimum of 12–13%. Moving into the 2024–2025 period, we estimate HPG's crude steel sales volume to increase by 22%/12%, assuming growing demand from the residential real estate sector from 2H2024 onwards.

Fig 3. HPG – NPAT, NPAT margin (VNDbn, %)



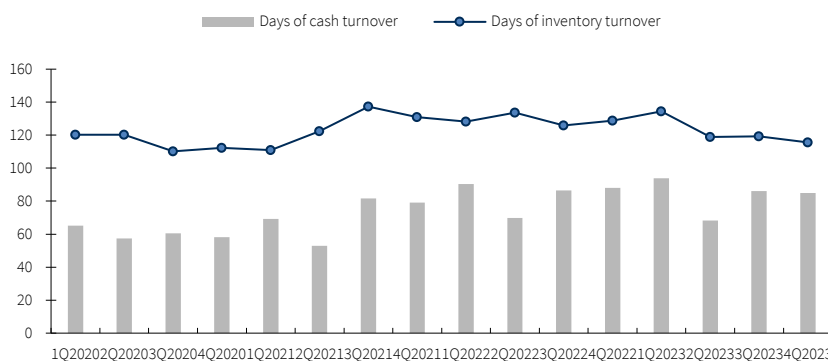
Source: Hoa Phat Group, KB Securities Vietnam

Fig 4. HPG – Crude steel production (million tons)



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

Fig 5. HPG – Cash turnover ratio, inventory days (days)



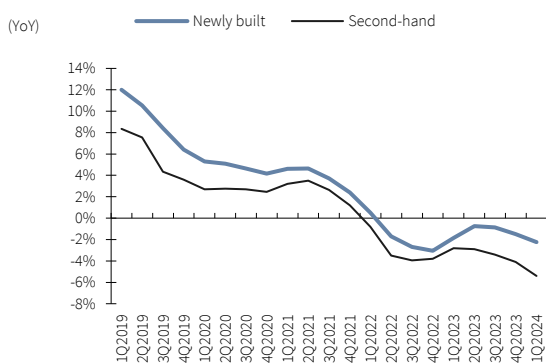
Source: Hoa Phat Group, Vietnam Steel Association, KB Securities Vietnam

## 2. The steel sector will enter a new cycle of resurgence

### Steel prices retreated on slower-than-expected recovery in the Chinese real estate market

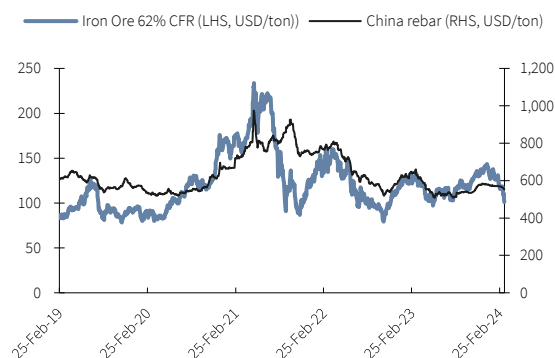
The prices of construction steel and iron ore in China have declined by 16% and 18% since early 2024 due to soft local demand following falling prices of new and second-hand homes in 1Q2024 (down 2.3% and 5.4% YoY respectively) along with low transaction volumes. We find this steel price adjustment reasonable as steel and raw material prices remain elevated, with historical figures showing corrections to the lower end of the cycle before entering a new uptrend.

Fig 6. China – New & second-hand home price developments (%YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 7. China – Iron ore & rebar prices (USD/ton)

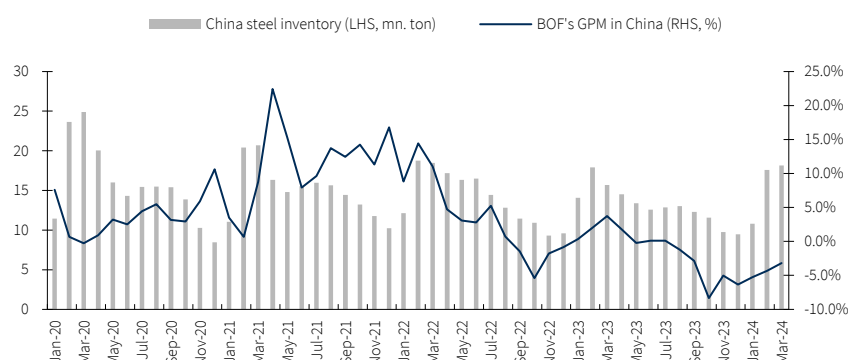


Source: Bloomberg, KB Securities Vietnam

**Manufacturers' profits are showing signs of recovery, lowering the risk of price decreases**

A bright spot in the Chinese steel industry landscape comes from improved crude steel inventories in 1Q2024 coupled with higher gross margins among producers (Fig 8), indicating growing demand following the government's efforts to revitalize the property market. We believe supportive policies will remain to foster the economic recovery and particularly the real estate market, thereby maintaining the recovery trend of steelmakers' production in 2024, lowering the risk of price decreases amidst slow consumption recovery.

**Fig 8. China – Steel inventories, BOF's GPM (million tons, %)**



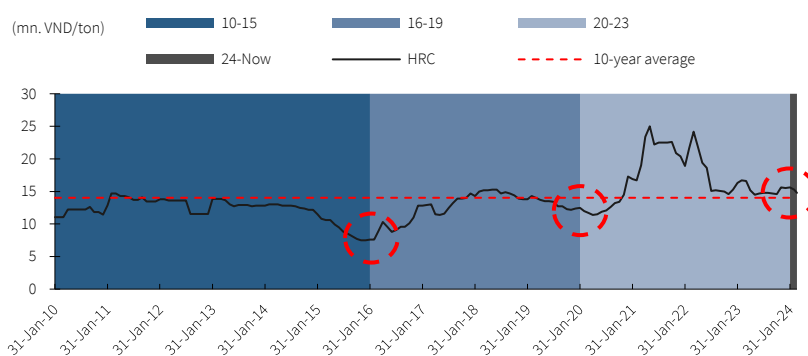
Source: Bloomberg, KB Securities Vietnam

**A new cycle of resurgence is expected for the steel industry**

In the base-case scenario, we anticipate 2024 to be a pivotal year for the onset of a new price hike cycle (expecting average steel prices to increase by 3%/3% in 2024/2025) in the steel industry due to (1) gradual improvement in steel consumption in China in 2024; (2) domestic consumption starting to rise from 2H2024 following the recovery of construction activities and project implementation; and (3) consumption benefiting partly from the acceleration of public investment projects as funds allocated for projects this year are heavily focused on construction activities.

Current domestic steel prices are sitting at the 10-year average. We foresee that steel prices are under pressure from the Chinese market. However, in the base-case, we believe rising demand will reduce the risk of price decreases in 2024.

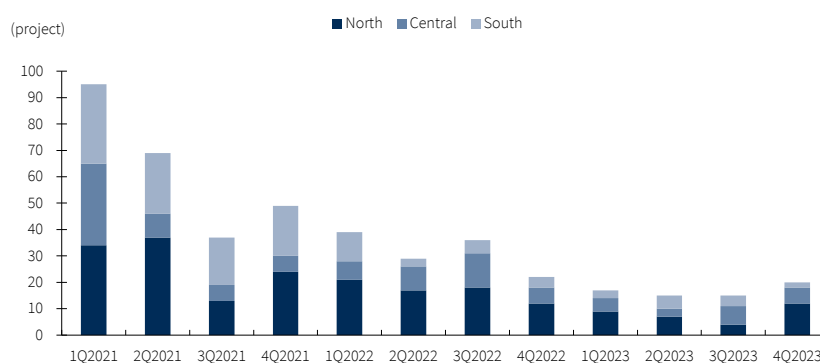
**Fig 9. Vietnam – Steel price cycle from 2010 until now (VNDmn/ton)**



Source: Bloomberg, KB Securities Vietnam

The number of newly licensed real estate projects rose again for the first time in four quarters.

**Fig 10. Vietnam – Number of newly licensed real estate projects**



Source: MOC, KB Securities Vietnam

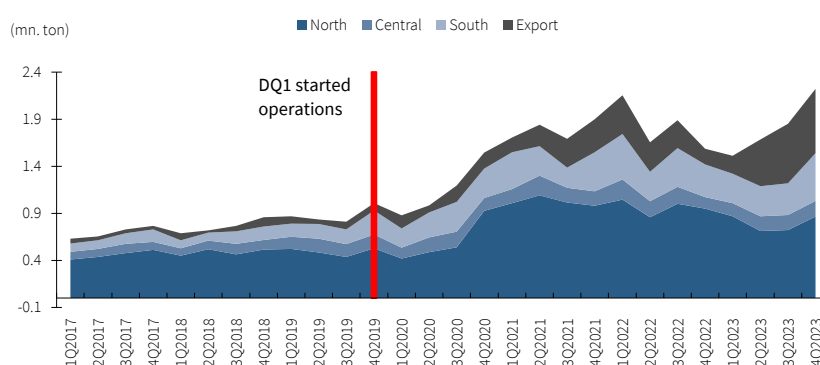
**HPG may expand its presence in the Southern market and promote exports when Dung Quat 2 operates stably**

### 3. Dung Quat 2 will drive long-term growth

By the end of 2023, Dung Quat 2 had reached 45% progress, with the first blast furnace expected to commence operations from 1Q2025. Looking at the historical data, HPG's market share in the Southern market has significantly increased (approximately 30% by the end of 2023) since Dung Quat 1 started operations at the end of 2019 (Fig 11). We believe HPG will continue to focus more on the Southern market once Dung Quat 2 is operational, as the estimated sales volume of HRC here accounts for over 70% of domestic consumption. The increase in market share in the Southern region from 2020 to date will be an advantage for HPG in future product distribution. Additionally, the export channel will also be a potential market for HPG in the future, as the export volume of HRC in 2023 contributed 30% to the total export volume of HRC in the industry (compared to only 5% in 2022). We expect Dung Quat 2, when fully operational with a utilization rate of over 80%, to contribute VND70–80 trillion per year to HPG's revenue, corresponding to NPAT of approximately VND11– VND12 trillion per year (assuming a NPAT margin of 16%, equaling the average of the 2016–2019 cycle).

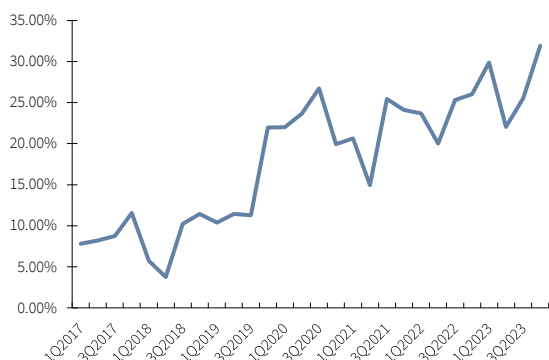
Dung Quat 1 went into commercial operations in late 2019, just in time to satisfy surging steel demand in 2020.

**Fig 11. Vietnam – Steel demand nationwide (million tons)**



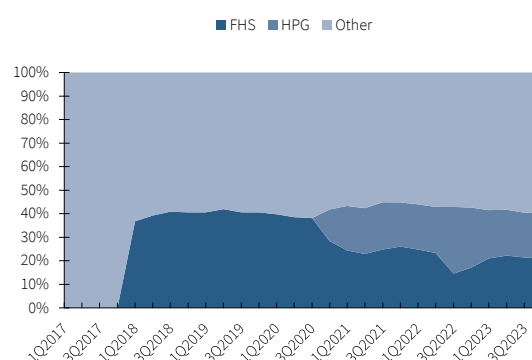
Source: Vietnam Steel Association, KB Securities Vietnam

Fig 12. HPG – Market share in Southern Vietnam



Source: Bloomberg, KB Securities Vietnam

Fig 13. HPG, FHS\* – HRC market share

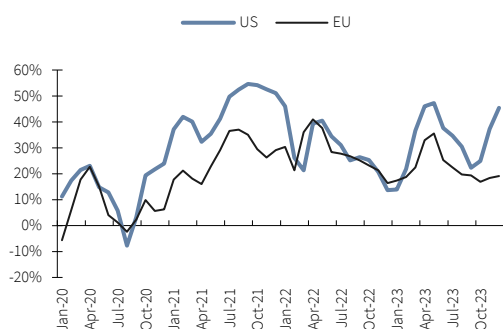


Source: Bloomberg, KB Securities Vietnam  
FHS\* stands for Formosa

**Vietnam’s HRC export prices will increasingly narrow the gap with China’s**

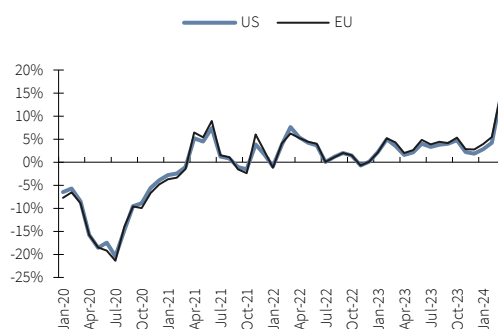
In order to fulfill environmental protection goals, the Chinese government may constrain crude steel production through annual cuts (estimated at 0.5-1% annually). Additionally, China plans to increase the proportion of production from EAF furnaces to 15% by 2025 (from 10% at the end of 2023). The use of EAF furnaces will trigger production cost increases for steel mills, compelling Chinese manufacturers to raise output prices. We believe Vietnam’s HRC export prices will increasingly narrow the gap with China’s, and HPG will benefit from China’s pivotal shift towards lower-carbon production, especially when Dung Quat 2 becomes operational.

Fig 14. Vietnam – HRC prices exported to the US & EU



Source: Bloomberg, KB Securities Vietnam

Fig 15. Vietnam-China HRC export price gap in the US & EU



Source: Bloomberg, KB Securities Vietnam



## Forecast & Valuation

Table 16. HPG – 2023A–2025F business results

(VNDbn)	2023A	2024F	+/-%YoY	2025F	+/-%YoY	KBSV's comments
<b>Revenue</b>	<b>118,953</b>	<b>141,666</b>	<b>19%</b>	<b>158,094</b>	<b>12%</b>	Revenue should increase thanks to sales volume up 19%/11% in 2024/2025.
Cost of goods sold	-106,015	-123,940	17%	-136,244	10%	
<b>Gross profit</b>	<b>12,938</b>	<b>17,726</b>	<b>37%</b>	<b>21,850</b>	<b>23%</b>	
Gross profit margin	11%	13%	164 bps	14%	131 bps	In 2024, gross profit margin is expected to expand by 164 bps YoY thanks to stable operation of blast furnaces and expectations of average steel prices up 3% in 2024.
Deposit interest	2,588	2,589	0%	3,004	16%	
Borrowing expenses	-3,585	-3,344	-7%	-4,507	35%	Interest rates are expected to remain low, helping borrowing costs to drop by 7% YoY in 2024.
Foreign exchange gain/loss	-184	-599	225%	0	-100%	
Shared profits from associates	0	0		0		
SG&A	-3,269	-4,250	30%	-4,743	12%	
SG&A margin	3%	3%	25 bps	3%		
<b>Operating income/loss</b>	<b>7,651</b>	<b>12,122</b>	<b>58%</b>	<b>15,604</b>	<b>29%</b>	
Net other income	142	0	-100%	0		
<b>PBT</b>	<b>7,793</b>	<b>12,122</b>	<b>56%</b>	<b>15,604</b>	<b>29%</b>	
PBT margin	7%	9%	201 bps	10%	131 bps	
Corporate income tax	-992	-1,908	92%	-2,341	23%	
<b>NPAT</b>	<b>6,800</b>	<b>10,214</b>		<b>13,263</b>	<b>30%</b>	
NPAT margin	6%	7%	149 bps	8%	118 bps	
<b>NPAT-MI</b>	<b>6,835</b>	<b>10,214</b>		<b>13,263</b>	<b>30%</b>	
NPAT-MI margin	6%	7%	146 bps	8%	118 bps	

Source: KB Securities Vietnam

**We recommend BUY for HPG with a target price of VND35,800/share**

HPG's stock price has increased by 9% since the beginning of 2024, which we believe partly reflected the prospects of (1) more positive business results in 2024 and (2) market expectations regarding Dung Quat 2.

We have raised the target EV/EBITDA ratio to 11x with the rationale that (1) financial performance will pick up in 2024 and (2) commercial operations of Dung Quat 2 will drive HPG's long-term growth.

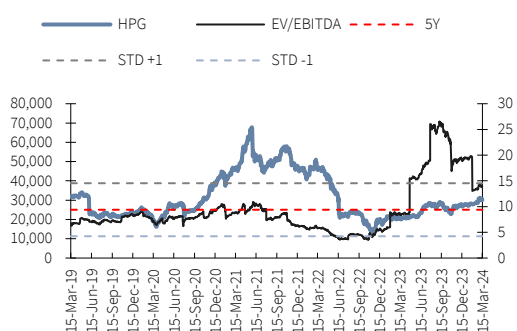
We recommend BUY for HPG with a target price of VND35,800/share, equaling an expected return of 19% compared to the closing price on March 20, 2024, suitable for medium- to long-term investment.

Table 17. HPG – Valuation results

Valuation method	Target coefficient	Weighting	Weighted price
EV/EBITDA	11.0x	50%	VND 19,100
P/B	1.8x	50%	VND 16,700
Target price		100%	VND 35,800
2024 forward P/E	17.1x		
2024 forward P/B	1.6x		
2024 forward EV/EBITDA	8.7x		

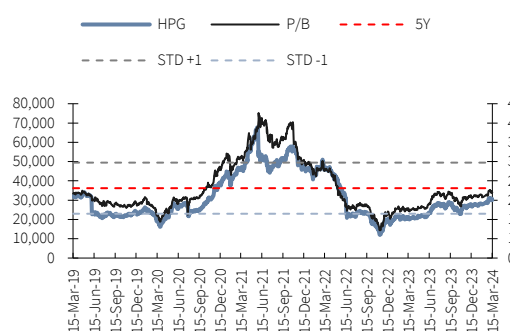
Source: KB Securities Vietnam

Fig 18. HPG – Historical EV/EBITDA (x)



Source: Fiiipro, KB Securities Vietnam

Fig 19. HPG – Historical P/B (x)



Source: Fiiipro, KB Securities Vietnam



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## Investment ratings & definitions

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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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