

Hoa Phat Group (HPG)

Maintained stable growth

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1Q24 NPAT was beyond expectations thanks to high GPM

In 1Q24, Hoa Phat Group (HPG) recorded VND2,869 billion in NPAT (-3% QoQ, +622% YoY) thanks to (1) sales volume gaining 29% YoY, underpinned by exports and (2) GPM increasing 716bps from the low base of 1Q23 with the company's effective inventory management. The inventory turnover in the quarter was 120 days (compared to 134 days in 1Q last year).

Domestic demand should rebound stronger from 2H24

April data shows that domestic demand is recovering as consumption of construction steel and steel pipes increased by 51%/78% MoM respectively. We expect this to be the main driver of HPG's profit growth when the residential real estate sector gradually rebounds from 2H24. Steel sales volume of HPG should gain 18%/12% in 2024/2025.

Steel prices are expected to return to an uptrend in 2H24

KBSV believes that the steel industry is in the early stages of a new cycle and steel prices will increase from 2H24, based on (1) domestic demand recovering and (2) Chinese real estate surpassing the most difficult period with rising steel demand.

Dung Quat 2 should come into operation from 1Q25

The current construction progress of Dung Quat 2 (DQ2) is still on schedule, and the complex should start operating from 1Q25. The first blast furnace should come into operation with a designed capacity of 2.3 million tons/year.

Valuation: BUY rating – Target price VND34,300

We maintain our BUY rating for HPG, the target price is VND34,300, and 2025 P/B forward is 1.6x (lower than the five-year average). With solid medium and long-term growth prospects, 2024 –2026 NPAT CAGR may reach 21%/year.

Buy change

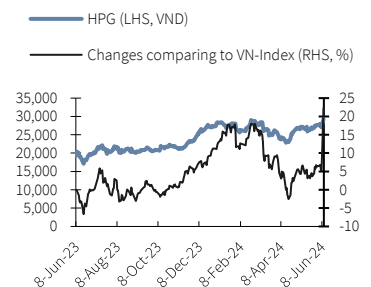
Target price	VND34,300
Upside	17%
Current price (Jun 11, 2024)	VND29,300
Consensus target price	VND34,700
Market cap (VNDtn/USDbn)	525.6/206.8

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	20.3/0.8
Foreign ownership	25.2%
Major shareholder	Chairman Tran Dinh Long (25.8%)

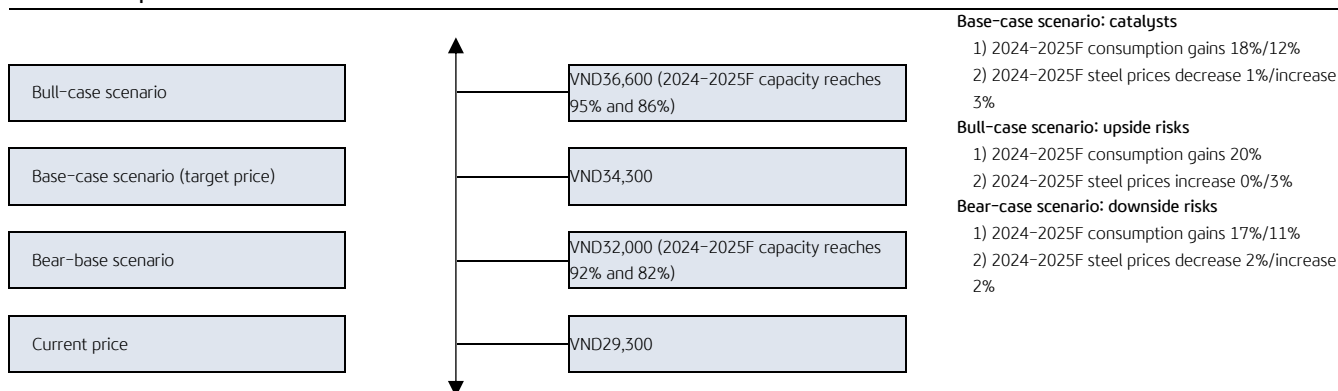
Share price performance				
(%)	1M	3M	6M	12M
Absolute	5.8	6.4	16.4	40.7
Relative	2.2	2.9	1.6	24.2

Forecast earnings & valuation

FY-end	FY2022	FY2023	FY2024	FY2025
Net revenue (VNDbn)	141,409	118,953	133,374	153,377
Operating income/loss (VNDbn)	9,794	7,651	11,618	16,358
NPAT-MI (VNDbn)	8,484	6,835	10,218	13,904
EPS (VND)	1,459	1,175	1,598	2,174
EPS growth (%)	-81%	-19%	36%	36%
P/E (x)	12.3	25.7	18.3	13.5
P/B (x)	1.1	1.7	1.7	1.6
ROE (%)	9%	7%	10%	12%
Dividend yield (%)	3.9%	0.0%	9.1%	0.0%



Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	141,666	158,094	133,374	153,377	-5.85	-2.98
EBIT	13,476	17,107	17,912	23,221	32.92	35.74
NP after MI	10,214	13,263	10,218	13,904	0.04	4.83

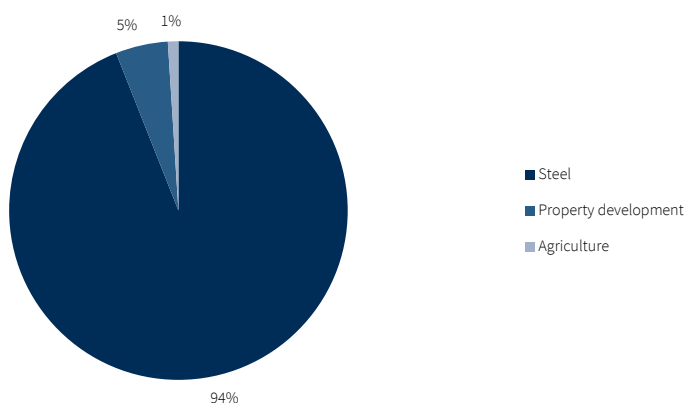
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	133,374	153,377	137,629	174,210	-3.09	-11.96
EBIT	17,912	23,221	16,212	22,993	10.49	0.99
NP after MI	10,218	13,904	12,357	17,751	-17.31	-21.67

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Hoa Phat Group, KB Securities Vietnam

Business operation

Hoa Phat Group (HPG) is a multi-industry enterprise, operating mainly in the field of iron and steel production. It holds the No. 1 market share in domestic construction steel and steel pipe production. HPG is also one of only two enterprises in Vietnam that can produce HRC with a current capacity of 3 million tons/year.

1Q24 performance updates

Table 1. HPG – 1Q24 business results

(VNDbn, %)	1Q23	1Q24	+/-%YoY	Notes
Revenue	26,589	30,852	16%	Revenue increased 16% YoY thanks to consumption rising 29% YoY.
Gross profit	1,676	4,154	148%	
<i>Gross profit margin</i>	6%	13%	716 bps	Gross profit margin increased by 716bps from a low base over the same period in 2023 thanks to (1) handling all high-priced inventory in 2023, inventory turnover in 1Q24 decreasing to 120 days (compared to 134 days in 1Q23) and (2) all blast furnaces returning to operation with an average capacity of 83%.
Financial income	903	752	-17%	
Financial expenses	-1,331	-1,061	-20%	Interest expenses decreased by 36% YoY thanks to low interest rates.
Profit from affiliates	0	0		
SG&A	-757	-958	26%	Transportation costs increased 18% YoY due to increased export orders.
Operating profit/loss	492	2,888	487%	
Other income	40	374	830%	Other income made an eight-fold increase thanks to HPG's liquidating fixed assets.
PBT	532	3,261	513%	
NPAT	383	2,869	649%	
NP after MI	397	2,871	622%	
<i>NPAT margin</i>	1%	9%	781 bps	

Source: Hoa Phat Group, KB Securities Vietnam

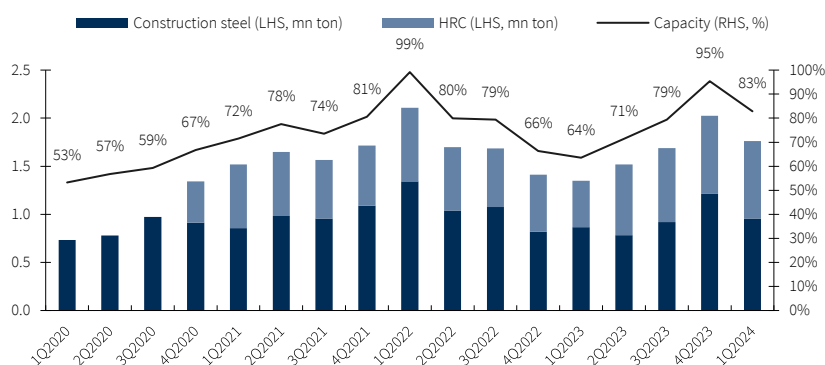
Table 2. HPG – Steel consumption (ton)

(ton)	1Q23	1Q24	+/-%YoY	Notes
Construction steel	868,000	956,414	10%	Construction steel exports increased 157% YoY.
HRC	482,000	805,556	67%	HRC exports made a five-fold increase YoY.
Steel pipes	160,000	129,682	-19%	
Galvanized steel	70,000	97,963	40%	
Steel billets	28,000	87,000	211%	
Total	1,608,000	2,076,615	29%	

Source: Hoa Phat Group, KB Securities Vietnam

Fig 3. HPG – Production capacity (million tons)

HPG's upstream capacity is estimated at 83% (compared to 64% in 1Q23)

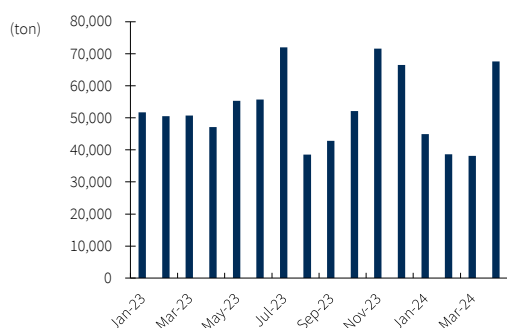


Source: Vietnam Steel Association, Hoa Phat Group, KB Securities Vietnam

Domestic steel consumption is expected to recover

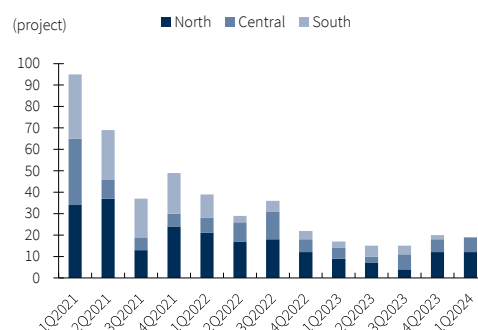
Sales volume of HPG steel pipes on the domestic market in April reached more than 81,000 tons (+66% MoM), reflecting a recovery thanks to increased demand from public investment and residential project construction. In addition, the number of new projects licensed for construction has shown signs of bottoming out in the late 2023 period. We expect the residential real estate sector to have a stronger recovery from 2H24, thereby stimulating domestic steel demand in the following quarters. KBSV estimates that total steel consumption output of HPG will reach 9.1/10.2 million tons in 2024/2025, an increase of 18%/12% YoY.

Fig 4. HPG – Domestic consumption of steel pipes (ton)



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

Fig 5. Vietnam – Number of new projects granted construction license (project)



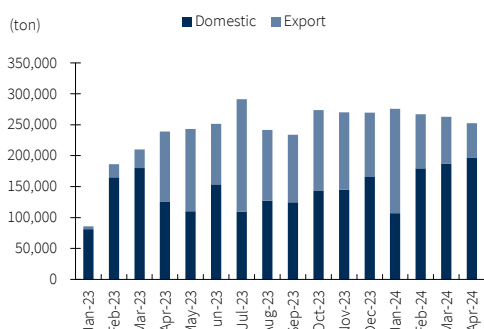
Source: Ministry of Construction, KB Securities Vietnam

The EU may apply HRC import ceilings to some countries, including Vietnam

The EU is considering applying a ceiling on HRC imports (142,000 tons/quarter) from other countries (including Vietnam), possibly starting from July 1, 2024. This will limit HPG's HRC export output to the EU.

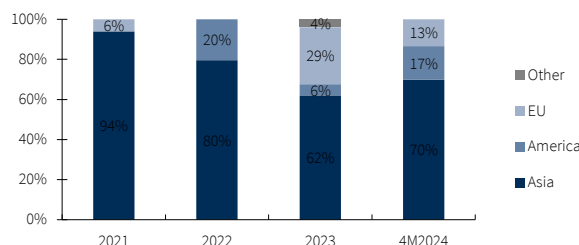
We believe that HPG's sales volume will not be much affected because (1) export output has tended to decline since February 2024 (Figure 6), while domestic consumption tends to increase thanks to improved demand. With the prospect of domestic consumption recovering in 2H24, we believe that HPG's HRC sales volume will still be guaranteed. Besides, (2) HPG's main HRC export market is ASEAN (accounting for 70% of export value in 4M24), in which consumption demand from Malaysia and India tends to rise YoY, helping maintain export prospects to neighboring markets. HRC consumption of HPG has also declined its dependency on the EU market since the beginning of the year (Figure 7). In the bad scenario, we forecast HRC sales volume of HPG will average 700,000 tons/quarter (corresponding to 93% capacity) in 2H24.

Fig 6. HPG – HRC domestic & export sales volume (ton)



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

Fig 7. HPG – Export market breakdown (%)



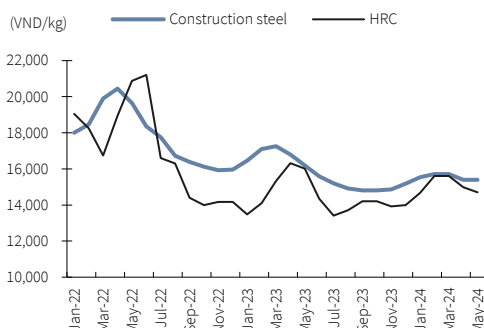
Source: KB Securities Vietnam

Steel prices fluctuated in a narrow range, and input material prices have been declining

In May, HPG raised the price of rolled coil by VNDY100/kg to balance the previous sharp decline. Inventory of the steel giant increased by 24% QoQ (of which, raw materials increased by 15% QoQ) in the context of coke and iron ore prices tending to decrease from the beginning of the year due to low steel consumption in China. KBSV estimates HPG's GPM at 12.9%/15% (up 197/215bps YoY) in 2024/2025, considering (1) low input costs in 1H24 and (2) steel prices increasing in 2H24 on higher domestic demand.

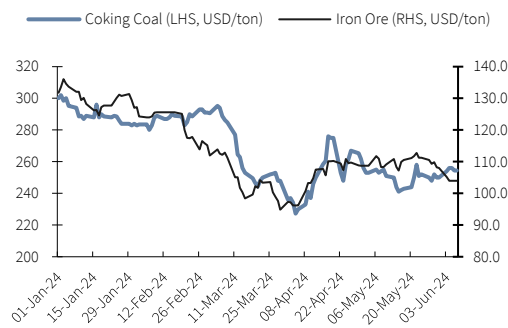
KBSV maintains the view that the steel industry is in the early stages of a new cycle and steel prices will increase from 2H24, based on (1) steel prices moving sideways, creating a one-year bottom; (2) the number of residential real estate projects increasing again, helping to stimulate domestic consumption demand; and (3) the Chinese real estate surpassing the most difficult period and recovering.

Fig 8. HPG – Construction steel & HRC prices – VAT included (VND/kg)



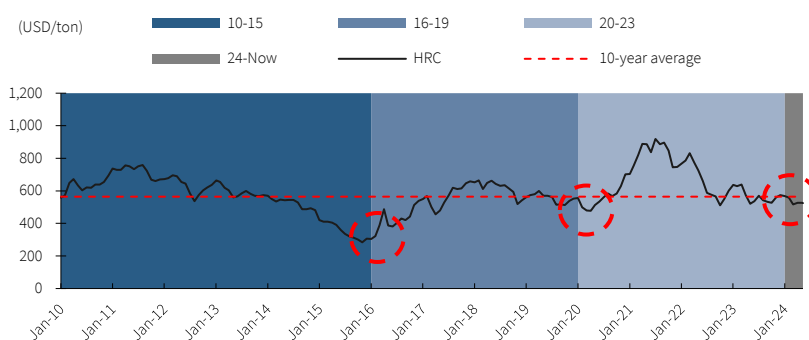
Source: KB Securities Vietnam

Fig 9. Global – Coke & iron ore prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 1. Global – HRC price cycles (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Dung Quat 2 should come into operation from 1Q25

The construction progress of DQ2 continues as planned. Accordingly, the first phase of the project is expected to start operating in 1Q25 with a capacity of 2.3 million tons/year. By the end of 2026, the project should run at 100% of its design capacity (4.6 million tons/year). We believe that HPG will continue to promote HRC consumption in the domestic market (with higher GPM than exports) after increasing its market share in the Southern market (accounting for 70% of domestic consumption) to 30% (2023) after Dung Quat 1 came into operation from 2019. KBSV expects DQ2 will contribute VND70–80 trillion/year to the consolidated revenue when operating at a capacity of over 80%, equivalent to NPAT of VND11–12 trillion/year (assumed NPAT margin is 16%, corresponding to the average level of the 2016–2019 cycle).

Fig 12. HPG – Production capacity by product (million tons)



Source: Hoa Phat Group, KB Securities Vietnam

Forecast & valuation

Table 12. HPG –

(VNDbn, %)	FY2023	FY2024	+/-%YoY	FY2025	+/-%YoY	Notes
Revenue	118,953	133,374	12%	153,377	15%	The forecast is based on the assumption that steel consumption and prices increase by 18%/12% and -1%/3% respectively in 2024/2025, and DQ2 comes into operation from 1Q25.
Gross profit	12,938	17,141	32%	23,007	34%	
<i>Gross profit margin</i>	11%	13%	198 bps	15%	215 bps	Gross profit margin should improve on increased inventory when input costs decrease in 1H24 and steel prices recovers from 2H24.
Deposit interests	2,588	2,473	-4%	2,889	17%	
Interest expenses	-3,585	-3,217	-10%	-4,936	53%	Interest expenses may surge 53% because HPG stopped capitalizing interest expenses of DQ2 (phase 1), and interest rates increase again in 2025.
Exchange gain/loss, others	-184	-550	198%	0	-100%	
Profit from affiliates	0	0		0		
SG&A	-3,269	-4,033	23%	-4,601	14%	
Operating profit/loss	7,651	11,618	52%	16,358	41%	
Other income	142	0	-100%	0		
PBT	7,793	11,988	54%	16,358	36%	
NPAT	6,800	10,218	50%	13,904	36%	
NP after MI	6,835	10,218	50%	13,904	36%	
<i>NPAT margin</i>	6%	8%	192 bps	9%	140 bps	

Source: Hoa Phat Group, KB Securities Vietnam

Valuation: BUY rating – Target price VND34,300

HPG stock price has increased more than 15% YTD. In our opinion, the above momentum has fully reflected the expectation of business results recovering in 2024 and partly reflects investors' expectations of DQ2 coming into operation in 1Q25. In the valuation model, we moved the valuation target to 2025 and applied two methods EV/EBITDA and P/E with a target coefficient of 10x/13x. We conclude that the fair value of HPG is VND34,300/share, corresponding to an expected return of 17% compared to the closing price on June 10, 2024.

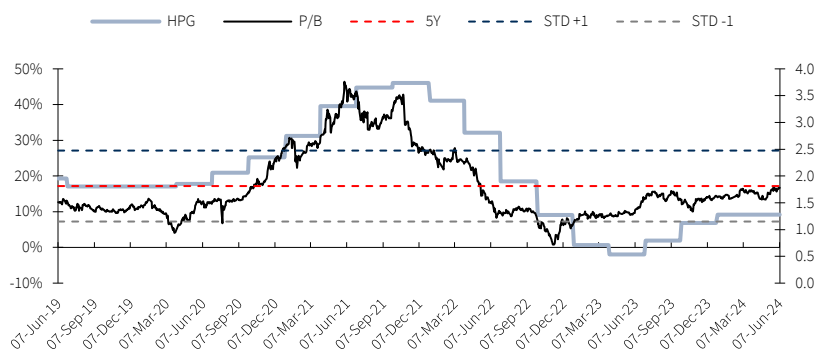
KBSV evaluates HPG's medium and long-term prospects as POSITIVE and maintains a BUY rating for HPG when HPG's forward P/B in 2025 is at 1.6x (lower than the five-year average of 0.16x) and 2024-2026 NPAT CAGR is estimated to reach 21%/year.

Table 13. HPG – Final valuation

Method	Valuation	Weight	Target price
EV/EBITDA	VND40,500	50%	VND20,250
P/E	VND28,200	50%	VND14,100
Target price			VND34,300

Source: Hoa Phat Group, KB Securities Vietnam

Fig 34. HPG – ROE & P/B (% , x)



Source: FiiProX, KB Securities Vietnam

HPG – 2022A–2025F financials

Income Statement (bn. VND)					Balance Sheet (bn. VND)				
(Standard Report)	2021	2022	2023F	2024F	(Standard Report)	2021	2022	2023F	2024F
Net Revenue	141,409	118,953	133,374	153,377	TOTAL ASSET	170,336	187,783	205,031	226,450
Cost of Goods Sold	-124,646	-106,015	-116,233	-130,371	CURRENT ASSETS	80,515	82,716	88,841	101,054
Gross Profit	16,763	12,938	17,141	23,007	Cash and cash equivalents	8,325	12,267	9,252	18,424
Financial Income	1,822	1,953	2,278	2,889	Short-term investments	26,268	22,162	22,271	22,271
Financial Expenditure	-3,084	-3,585	-3,217	-4,936	Accounts receivable	9,893	10,702	13,038	11,502
Including: Cost of Borrowing	-1,863	-184	-550	0	Inventories	34,491	34,504	39,766	44,344
Profit/(loss) from affiliated companies	-1	0	0	0	LONG-TERM ASSETS	89,821	105,066	116,191	125,396
Selling expenditures	-3,685	-3,269	-4,033	-4,601	Long-term trade receivables	894	1,881	1,314	1,314
SG&A	3,453	3,454	3,455	3,456	Fixed assets	70,833	72,014	87,673	96,797
Net Other Income	129	142	0	0	Long-term incomplete assets	13,363	26,083	21,801	21,883
Profit/(loss) from affiliated companies	0	0	0	0	Long-term investments	1	40	0	0
Profit/(loss) before tax	9,923	7,793	11,988	16,358	Good will (before 2015)	0	0	0	0
Tax	-1,479	-992	-1,770	-2,454	TOTAL LIABILITIES	74,223	84,946	96,800	108,561
Profit/(loss) after tax	8,444	6,800	10,218	13,904	Current liabilities	62,385	71,513	76,063	82,005
Minority Interest	-39	-35	0	0	Trade accounts payable	11,107	12,387	16,671	14,618
NPATMI	8,484	6,835	10,218	13,904	Short-term borrowings	46,749	54,982	54,200	61,842
					Other short-term liabilities	4,530	4,144	5,192	5,544
					Long-term liabilities	11,837	13,433	20,737	26,556
					Long-term trade payables	0	2,324	0	0
					Other long-term liabilities	11,152	10,399	19,816	25,635
					Long-term borrowings	686	709	921	921
					OWNER'S EQUITY	96,113	102,836	108,232	117,890
					Paid-in capital	58,148	58,148	63,963	63,963
					Share premium	3,212	3,212	3,212	3,212
					Other funds	814	818	818	818
					Undistributed earnings	33,834	40,593	40,173	49,832
					State capital	0	0	0	0
					Interest of non-controlling shareholders	106	66	66	66
Operating Ratios					Main Ratios				
(%)	2021	2022	2023F	2024F	(x, %, VND)	2021	2022	2023F	2024F
Gross Profit Margin	11.9%	10.9%	12.9%	15.0%	Valuation Ratios				
EBITDA Margin	9.5%	10.1%	9.1%	8.5%	P/E	12.3	25.7	18.3	13.5
EBIT Margin	4.7%	4.4%	3.7%	3.6%	P/E (diluted)	12.3	25.7	18.3	13.5
PBT Margin	7.0%	6.6%	9.0%	10.7%	P/B	1.1	1.7	1.7	1.6
Operating Profit Margin	2.4%	2.9%	2.6%	2.3%	P/S	0.0	0.0	0.0	0.0
Net Profit Margin	6.0%	5.7%	7.7%	9.1%	P/Tangible Book	1.5	2.4	2.1	1.9
					P/Cash Flow	8.6	18.6	15.9	11.2
					EV/EBITDA	7.8	14.0	12.2	9.9
					EV/EBIT	13.1	18.7	14.1	11.0
Cash Flow Statement					Management Efficiency				
(Standard Report)	2021	2022	2023F	2024F	ROE%	9%	7%	10%	12%
PBT	9,923	7,793	11,988	16,358	ROA%	5%	4%	5%	6%
Depreciation	6,814	6,773	7,183	7,517	ROIC%	6%	4%	6%	7%
Profit/(loss) from investing	-1,822	-1,076	0	0	Financial Ratios				
Cost of borrowing	3,084	3,585	3,217	4,936	Cash Ratio	0.1	0.2	0.1	0.2
Profit/(loss) before changes in WC	19,199	16,275	22,388	28,812	Quick Ratio	0.7	0.6	0.6	0.6
(increase)/decrease in receivables	4,723	-5,604	-1,769	1,536	Current Ratio	1.3	1.2	1.2	1.2
(Increase)/decrease in inventory	8,022	1,026	-5,261	-4,579	Long-term borrowing/Owner's Equity	0.1	0.1	0.2	0.2
Increase/(decrease) in payables	-14,681	2,586	1,959	-2,053	Long-term borrowing/Total Asset	0.1	0.1	0.1	0.1
(Increase)/decrease in pre-paid expenses	-19	-75	0	0	Short-term borrowing/Owner's Equity	0.5	0.5	0.5	0.5
Sellable securities, cost of borrowing, tax	-5,053	-4,737	-5,523	-7,038	Short-term borrowing/Total Asset	0.3	0.3	0.3	0.3
Operating Cash Flow	12,192	9,472	11,794	16,679	Short-term payables/Owner's Equity	0.2	0.2	0.2	0.2
Purchases of fixed assets and other long term assets	-17,966	-17,353	-23,383	-20,969	Short-term payables/Total Asset	0.1	0.1	0.1	0.1
Proceeds from disposal of fixed assets	14	208	9	0	Total payables/Owner's Equity	0.2	0.2	0.2	0.2
Loans granted, purchases of debt instruments	-55,506	-39,788	-70	0	Total payables/Total Asset	0.1	0.1	0.1	0.1
Collection of loans, proceeds from sales of debts instruments	47,413	43,287	0	0	Operating Ratios				
Investments in other entities	-372	0	0	0	Receivables turnover	3.3	3.1	3.1	3.1
Proceeds from divestment in other entities	0	-526	0	0	Inventory turnover	3.3	3.1	3.1	3.1
Dividends and interest received	1,706	1,371	0	0	Payables turnover	6.1	9.9	8.0	8.3
Investing Cash Flow	-24,712	-12,801	-23,444	-20,969					
Proceeds from issue of shares	4	1	5,815	0					
Payments for share returns and repurchases	0	-2	0	0					
Proceeds from borrowings	135,257	127,142	8,635	13,461					
Repayment of borrowings	-134,631	-119,859	0	0					
Finance lease principal payments	0	0	0	0					
Dividends paid	-2,247	-8	-5,815	0					
Interests, dividends, profits received	0	0	0	0					
Financing Cash Flow	-1,617	7,273	8,635	13,461					
Net increase in cash and cash equivalents	-14,137	3,944	-3,015	9,171					
Cash and cash equivalents at the beginning o period	22,471	8,325	12,267	9,252					
Cash and cash equivalents at the end of period	8,325	12,267	9,252	18,424					

Source: Hoa Phat Group, KB Securities Vietnam

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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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