

Hoa Sen Group (HSG)

Benefits from stockpiling low-cost inventory

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Business results continued the recovery trend in 2Q FY24

Hoa Sen Group (HSG) posted VND319 billion in 2Q NPAT (+209% QoQ, +27% YoY) on revenue of VND9,248 billion (+2% QoQ, +32% YoY) thanks to (1) sales volume rising 52% YoY and (2) recording VND124 billion in exchange gain (+126% YoY).

HSG's stockpiling while the prices of raw materials are low will benefit GPM in the next quarters

In 2Q FY24, the inventory of HSG gained 49% QoQ, of which raw materials spiked 79%. The steel producer has been very active in stockpiling when HRC prices have remained low (USD530–550/ton) for many months. KBSV estimates HSG's GPM to reach 11.6%/12.5% in FY24/FY25.

Domestic consumption started to rebound

Domestic sales volume is showing signs of recovery when consumption of galvanized steel and steel pipes in April gained 29% and 28% MoM respectively. We expect domestic consumption to rebound stronger in 2H24, supported by the recovery in residential real estate sector and newly implemented projects.

HSG benefits in case AD02 is applied

We think that HSG will benefit the most in case anti-dumping measures on galvanized steel imported from China and Korea (AD02) are applied thanks to its biggest and second biggest market shares in galvanized steel and steel pipes (28.4% and 12.4% respectively).

Valuation: BUY rating – price target VND27,400

We gave a BUY recommendation for HSG. The target price is VND27,400/share, corresponding to an expected profit margin of 23% compared to the closing price on June 3, 2024.

Buy maintain

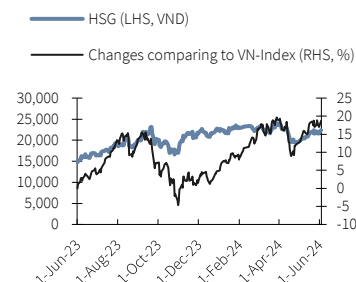
Target price	VND27,400
Upside	23%
Current price (Jun 3, 2024)	VND22,350
Consensus target price	VND24,200
Market cap (VNDtn/USDbn)	1.37/0.54

Trading data	
Free float	82%
3M avg trading value (VNDbn/USDmn)	237.07/9.46
Foreign ownership	43.2%
Major shareholder	Daiwa Securities Group (15.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	12.9	-3.0	2.8	48.5
Relative	7.6	-4.8	-13.4	31.2

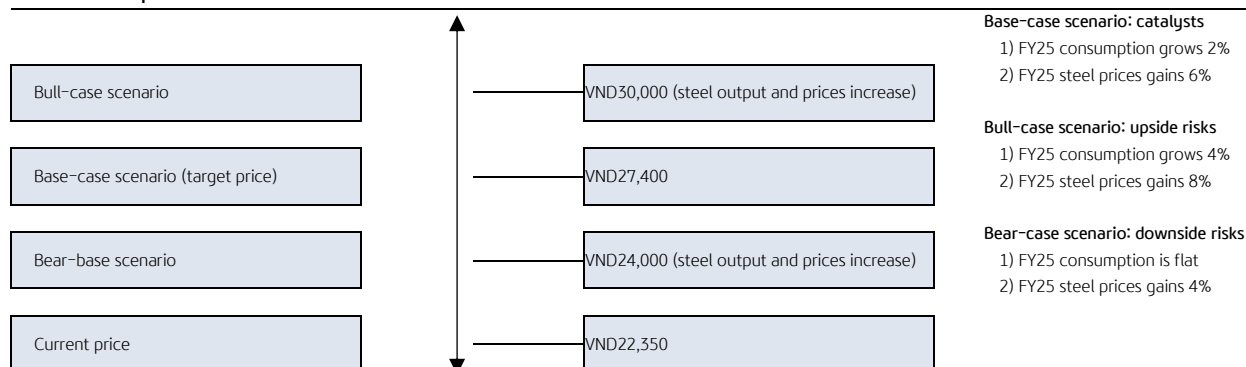
Forecast earnings & valuation

FY-end	FY2022	FY2023	FY2024	FY2025
Net revenue (VNDbn)	49,711	31,651	38,917	40,435
Operating income/loss (VNDbn)	331	74	832	1,216
NPAT-MI (VNDbn)	251	25	786	1,034
EPS (VND)	419	40	1,275	1,679
EPS growth (%)	-95%	-90%	3099%	32%
P/E (x)	27.6	571.9	17.5	13.3
P/B (x)	0.6	1.3	1.2	1.1
ROE (%)	2%	0%	7%	9%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	38,252	45,006	39,501	41,051	3	-9
EBIT	1,343	2,707	1,051	1,446	-22	-47
NP after MI	1,038	2,181	796	1,050	-23	-52

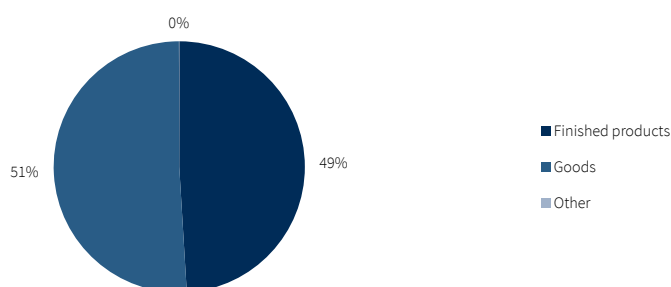
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	39,501	41,051	36,547	41,815	8	-2
EBIT	1,051	1,446	1,177	1,510	-11	-4
NP after MI	796	1,050	826	1,034	-4	2

Source: Bloomberg, KB Securities Vietnam

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

2Q FY24 performance updates

Table 1. HSG – 1H FY24 business results

(VNDbn, %)	2Q FY23	2Q FY24	+/-%YoY	1H FY23	1H FY24	+/-%YoY	Notes
Revenue	6,981	9,248	32%	14,898	18,321	23%	Sales volume increased by 52% YoY, driven by domestic demand.
Gross profit	904	1,117	24%	1,064	2,067	94%	
<i>Gross profit margin</i>	13%	12%	-87bps	7%	11%	414bps	2Q FY24 GPM decreased by 87bps due to falling steel prices during the period.
Financial income	73	139	89%	105	182	73%	Exchange gain reached VND124 billion (+126% YoY).
Financial expenses	-75	-43	-43%	-188	-92	-51%	Interest expenses declined thanks to low interest rates.
Profits from affiliates	0	0		0	0		
SG&A	-636	-913	44%	-1,404	-1,752	25%	Export output surged 109%, causing transportation costs to sharply gain by 142%.
Operating profit/loss	267	300	12%	-423	404		
Other income	31	13	-56%	53	24	-55%	
PBT	298	313	5%	-370	428		
NPAT	251	319	27%	-430	422		
<i>NPAT margin</i>	4%	3%	-14bps	-3%	2%	519bps	
NP after MI	251	319	27%	-430	422		

Source: Hoa Sen Group, KB Securities Vietnam

Table 2. HSG – Sales volume of products

(VNDbn)	2Q FY23	2Q FY24	+/-%YoY	1H FY23	1H FY24	+/-%YoY	Notes
Galvanized steel	232,336	375,819	62%	492,688	735,977	49%	
Steel pipes	62,175	70,716	14%	141,794	159,638	13%	
Total	294,511	446,535	52%	634,482	895,615	41%	The driving force came from domestic consumption.

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

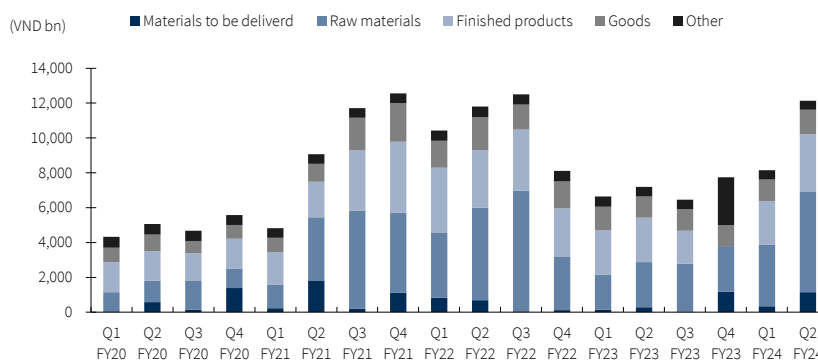
Inventory stockpiling in low price areas will support GPM in H2 FY24

In 2Q FY24, the inventory value of HSG gained 49% QoQ, of which raw materials spiked 79%. The steel producer has been very active in stockpiling when HRC prices have remained low (USD530–550/ton) for many months.

According to our observations, the prices of galvanized steel increased VND200/kg MoM on average in May, ending the downtrend lasting from the beginning of the year. We expect steel prices to start a new increasing cycle in 2H24 since (1) HRC prices created a mid-term bottom; (2) the real estate industry in China is recovering thanks to the government stimulus policies; and (3) the demand from public investment, construction, machinery and equipment manufacturing will increase. KBSV estimates HSG's GPM to reach 11.6%/12.5% in FY24/FY25.

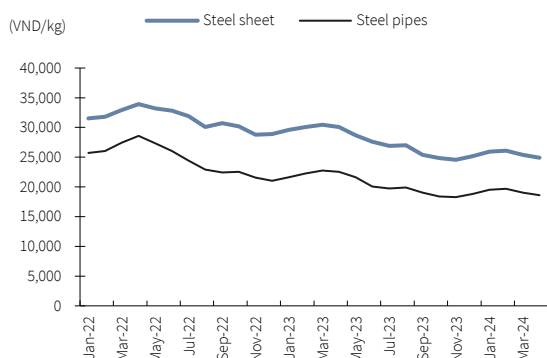
HSG's short-term debt at the end of 2Q FY24 reached VND6,164 billion (+32% QoQ), resulting from its inventory stockpiling. We think that HSG is controlling working capital effectively when the number of cash turnover days in the period was kept at 84 days (flat QoQ). In addition, the appropriation rate reached 1.67x (compared to 1.27x in 1Q FY24 and 1.3x in 2Q FY23).

Fig 3. HSG – Inventory value in 2Q FY24 (VNDbn)



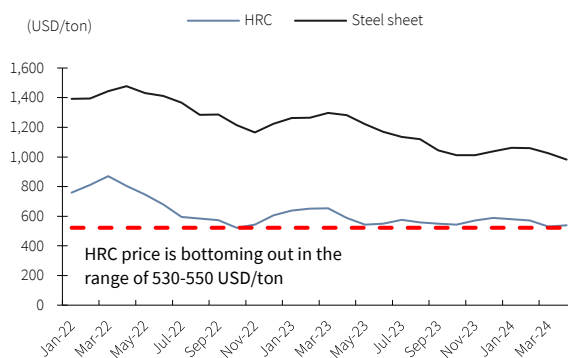
Source: Hoa Sen Group, KB Securities Vietnam

Fig 4. HSG – Galvanized steel & steel pipe prices – VAT included (VND/kg)



Source: KB Securities Vietnam

Fig 5. HSG – Galvanized steel & input HRC material prices (USD/ton)

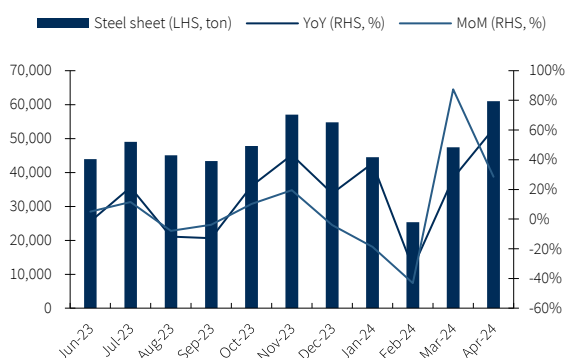


Source: Hoa Sen Group, KB Securities Vietnam

Domestic consumption is expected to recover stronger from 2H24

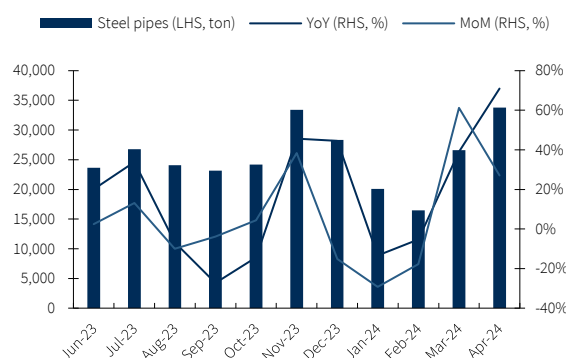
Sales volume in April continued its recovery trend, of which galvanized steel consumption reached 141,577 tons (+10% MoM) and steel pipe volume hit 36,073 tons (+29% MoM). The main growth driver comes from the domestic market, where consumption of galvanized steel and steel pipes gained 29% and 28% MoM respectively. As HSG steel pipes are mainly consumed by the domestic market, we think this implies that domestic consumption is improving significantly and expect this trend to accelerate in 2H24 given the recovery in residential real estate and the increase in new construction projects. In our opinion, HSG will take many benefits from higher domestic demand in the coming quarters as its market shares of galvanized steel and steel pipes ranked 1st and 2nd in the industry (respectively 28.4% and 12.2% by late 2023).

Fig 6. HSG – Domestic consumption of galvanized steel (ton)



Source: Vietnam Steel Association, KB Securities Vietnam

Fig 7. HSG – Domestic consumption of steel pipes (ton)



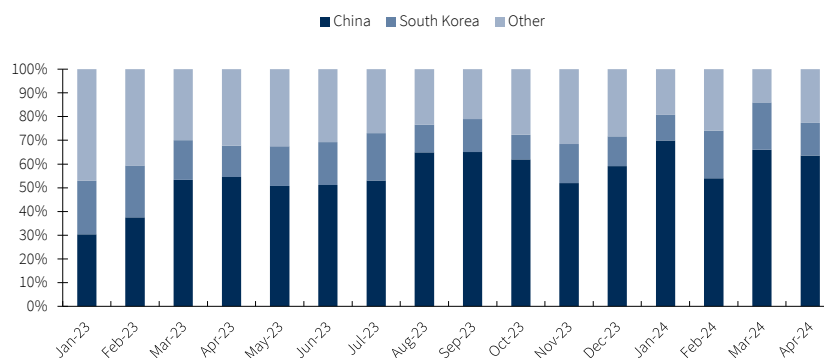
Source: Vietnam Steel Association, KB Securities Vietnam

HSG will benefit the most in case anti-dumping measures on galvanized steel are applied

HSG and other galvanized steel manufacturers have submitted documents requesting investigation and application of anti-dumping duties on galvanized steel products from China and Korea (AD02) since May 6, 2024. The decision will be announced no sooner than 45 days from the date of confirmation of complete and valid documents. In the past, AD02 was also applied in the period from September 2016 to May 2022. We expect AD02 to be approved in the near future as the proportion of coated steel imports from China and Korea has increased significantly since early 2023. At the end of April 2024, the contributions of China and Korea respectively reached 64% and 14% of total imported steel output into Vietnam (Figure 9).

By April 2024, 78% imported galvanized steel in Vietnam was from China and Korea

Fig 8. Vietnam – Imported volume of galvanized steel



Source: KB Securities Vietnam

Forecast & valuation

Table 9. HSG – 2024–2025F business results

(VNDbn, %)	FY2023	FY2024	+/-%YoY	FY2025	+/-%YoY	Notes
Revenue	31,651	38,917	23%	40,435	4%	FY24 sales volume should rise 25% YoY.
Gross profit	3,031	4,437	46%	5,054	14%	
<i>Gross profit margin</i>	9.6%	11.4%	182bps	12.5%	110bps	GPM should improve thanks to (1) accumulating cheap inventory and (2) steel prices returning to an upward trend from 2H24.
Deposits	0	2	190%	2	-10%	
Interest expenses	-195	-144	-26%	-201	39%	FY25 interest expenses may gain 39% due to higher interest rates over the same period in 2024.
Exchange gain/loss	113	143	27%	0	-100%	
Profits from affiliates	0	0		0		
SG&A	-2,876	-3,606	25%	-3,639	1%	Increased export volume causes transportation costs to increase, leading to a 25% increase in SG&A in FY24.
Operating profit/loss	74	832	1018%	1,216	46%	
Other income	66	24	-63%	0	-99%	
PBT	140	856	510%	1,216	42%	
NPAT	25	786	3092%	1,034	32%	
<i>NPAT margin</i>	0.1%	2.0%	194bps	2.6%	54bps	
NP after MI	25	786	3099%	1,034	32%	

Source: Hoa Sen Group, KB Securities Vietnam

Valuation: BUY rating – price target VND27,400

HSG stock price has decreased 2% YTD but has also recovered 17% from the bottom in mid-April 2024 after the market correcting period. We believe that the recent recovery reflects the market expectation of HSG’s business results recovering from the low base in FY23.

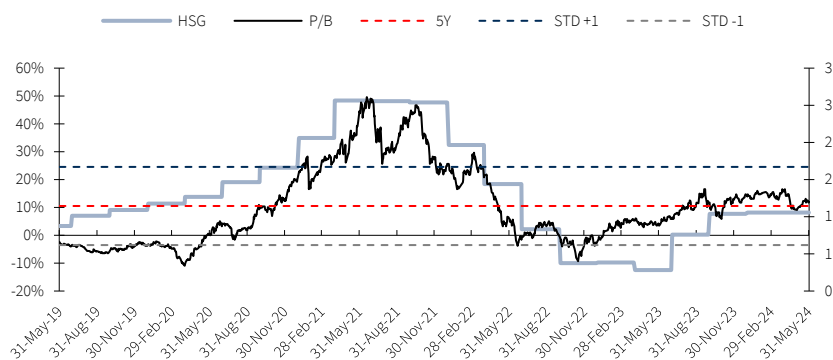
We moved the valuation target to FY25 and applied EV/EBITDA and P/E of 8.5x and 13x, respectively. In conclusion, the value of HSG is at VND27,400/share, equal to an expected return of 23% compared to the closing price on June 3, 2024. We think HSG has an attractive upside with (1) P/B forward at 1.1x (lower than the five-year average of 1.2x) and (2) CAGR of NPAT-MI in the FY24-FY26 period at 17%/year.

Table 10. HSG – Final valuation

Method	Valuation	Weight	Target price
EV/EBITDA	VND32,650	50%	VND16,300
P/E	VND22,150	50%	VND11,100
Target price			VND27,400

Source: KB Securities Vietnam

Fig 11. HSG – ROE & P/B (% , x)



Source: FiinProX, KB Securities Vietnam

HSG – 2022A–2025F financials

Income Statement (bn. VND)				
(Standard Report)	FY2022	FY2023	FY2024	FY2025
Net Revenue	49,711	31,651	39,501	41,051
Cost of Goods Sold	-44,772	-28,620	-34,998	-35,919
Gross Profit	4,939	3,031	4,502	5,131
Financial Income	7	2	2	2
Financial Expenditure	-260	-195	-145	-204
Including: Cost of Borrowing	-1	113	143	0
Profit/(loss) from affiliated companies	0	0	0	0
SG&A	-4,355	-2,876	-3,659	-3,695
Profit/(loss) from operating	331	74	844	1,235
Net Other Income	48	66	24	0
Profit/(loss) from affiliated companies	0	0	0	0
Profit/(loss) before tax	378	140	868	1,235
Tax	-128	-116	-72	-185
Profit/(loss) after tax	251	25	796	1,050
Minority Interest	0	0	0	0
NPATMI	251	25	796	1,050

Operating Ratios				
	FY2022	FY2023	FY2024	FY2025
Gross Profit Margin	9.9%	9.6%	11.4%	12.5%
EBITDA Margin	3.0%	3.5%	4.6%	5.8%
EBIT Margin	0.7%	-0.1%	1.8%	3.0%
PBT Margin	0.8%	0.4%	2.2%	3.0%
Operating Profit Margin	0.7%	0.2%	2.1%	3.0%
Net Profit Margin	0.5%	0.1%	2.0%	2.6%

Cash Flow Statement (Standard Report)				
	FY2022	FY2023	FY2024	FY2025
PBT	381	140	868	1,235
Depreciation	1,160	1,131	1,124	1,133
Profit/(loss) from investing	-26	-10	0	0
Cost of borrowing	260	195	145	204
Profit/(loss) before changes in WC	2,278	811	2,138	2,571
(increase)/decrease in receivables	3,842	-1,019	-626	605
(Increase)/decrease in inventory	4,445	360	-2,242	-495
Increase/(decrease) in payables	-6,956	2,019	2,069	-570
(Increase)/decrease in pre-paid expenses	4	19	0	0
Sellable securities, cost of borrowing, tax	-769	-443	-820	-412
Operating Cash Flow	2,845	1,746	519	1,699
Purchases of fixed assets and other long term assets	-463	-295	-228	-411
Proceeds from disposal of fixed assets	28	19	0	0
Loans granted, purchases of debt instruments	0	-20	0	0
Collection of loans, proceeds from sales of debts instruments	19	19	2	0
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	8	3	0	0
Investing Cash Flow	-408	-274	-226	-411
Proceeds from issue of shares	49	0	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	32,656	21,880	218	184
Repayment of borrowings	-35,356	-23,131	0	0
Finance lease principal payments	0	0	0	0
Dividends paid	0	0	0	0
Interests, dividends, profits received	0	0	0	0
Financing Cash Flow	-2,651	-1,251	218	184
Net increase in cash and cash equivalents	-215	222	512	1,473
Cash and cash equivalents at the beginning o period	493	330	597	1,108
Cash and cash equivalents at the end of period	330	597	1,108	2,581

Balance Sheet (bn. VND)				
(Standard Report)	FY2022	FY2023	FY2024	FY2025
TOTAL ASSET	17,025	17,365	20,534	21,174
CURRENT ASSETS	9,835	11,275	15,363	16,725
Cash and cash equivalents	330	597	1,108	2,581
Short-term investments	9	26	24	24
Accounts receivable	1,452	2,322	2,971	2,366
Inventories	7,395	7,629	9,871	10,366
LONG-TERM ASSETS	7,190	6,090	5,171	4,449
Long-term trade receivables	171	143	120	120
Fixed assets	5,959	5,020	4,096	3,374
Long-term incomplete assets	604	530	530	530
Long-term investments	17	1	1	1
Good will (before 2015)	0	0	0	0
TOTAL LIABILITIES	6,142	6,585	8,958	8,549
Current liabilities	6,009	6,569	8,942	8,533
Trade accounts payable	1,040	2,885	4,954	4,385
Short-term borrowings	4,070	2,936	3,155	3,339
Other short-term liabilities	899	747	833	809
Long-term liabilities	133	16	16	16
Long-term trade payables	0	0	0	0
Other long-term liabilities	117	0	0	0
Long-term borrowings	16	16	16	16
OWNER'S EQUITY	10,884	10,780	11,576	12,626
Paid-in capital	5,981	6,160	6,160	6,160
Share premium	157	157	157	157
Other funds	204	94	94	94
Undistributed earnings	4,542	4,369	5,165	6,215
State capital	0	0	0	0
Interest of non-controlling shareholders	0	0	0	0

Main Ratios (x, %, VND)				
	FY2022	FY2023	FY2024	FY2025
Valuation Ratios				
P/E	27.6	571.9	17.3	13.1
P/E (diluted)	27.6	571.9	17.3	13.1
P/B	0.6	1.3	1.2	1.1
P/S	0.1	0.4	0.3	0.3
P/Tangible Book	1.2	2.9	3.5	4.3
P/Cash Flow	2.4	8.0	26.5	8.1
EV/EBITDA	7.0	14.1	8.6	6.1
EV/EBIT	28.4	599.0	15.1	10.0

Management Efficiency				
	FY2022	FY2023	FY2024	FY2025
ROE%	2%	0%	7%	9%
ROA%	1%	0%	4%	5%
ROIC%	2%	0%	6%	7%

Financial Ratios				
	FY2022	FY2023	FY2024	FY2025
Cash Ratio	0.1	0.1	0.1	0.3
Quick Ratio	0.3	0.4	0.5	0.6
Current Ratio	1.6	1.7	1.7	2.0
Long-term borrowing/Owner's Equity	0.0	0.0	0.0	0.0
Long-term borrowing/Total Asset	0.0	0.0	0.0	0.0
Short-term borrowing/Owner's Equity	0.4	0.3	0.3	0.3
Short-term borrowing/Total Asset	0.2	0.2	0.2	0.2
Short-term payables/Owner's Equity	0.2	0.3	0.5	0.4
Short-term payables/Total Asset	0.1	0.2	0.3	0.2
Total payables/Owner's Equity	0.2	0.3	0.5	0.4
Total payables/Total Asset	0.1	0.2	0.3	0.2
Operating Ratios				
Receivables turnover	16.6	16.8	14.9	15.4
Inventory turnover	4.5	3.8	4.0	3.6
Payables turnover	10.7	17.8	8.9	7.7

Source: Hoa Sen Group, KB Securities Vietnam

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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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