

Steel

Non-rated

Domestic demand revival outlook in 1Q22F

Earnings growth slowdown in 4Q21

Based on our estimate, 4Q21 aggregated revenue of 24⁽¹⁾ listed steelmakers jumped 55.3% yoy, while 4Q21 aggregated NPATMI increased by 36.4% yoy. The NPATMI growth was softer after peaking at 321.9% in 2Q21, then slowdown due to the high base seen in 2H20.

Gross margin squeezing, albeit to a different extent

The flat domestic selling price and narrowing HRC regional gaps accompanied by some higher input costs caused the continuous squeeze in gross margin trend among most steelmakers in 4Q21. The decrease varies from -0.1%p to -13.6%p qoq and from -1.85%p to -17.4%p yoy. Some second-tier companies made gross profit loss in 4Q21 that caused by COVID-19 consequences: labor shortage and weak regional market demand.

Export opportunity continues in 2022F

Based on GSO, export revenue growth in 4Q21 continued to be far exceeding volume growth (USD3,355mn, +114% yoy vs 3.239 million tonnes, +14.5% yoy). The total 2021 export revenue and volume posted at USD11,722mn, +124% yoy and 11.96mn tonnes, +22% yoy, respectively. The gap of hot-rolled coil prices in the US and EU vs Vietnam has been narrowing since Oct, however, thanks to global infrastructure spending and the recent steel export policy of China, we believe that the HRC price gaps will be maintained and the flat steel makers are still the beneficiaries in 2022F, especially HRC producers, even though the margin will not be as good as the one in 2021.

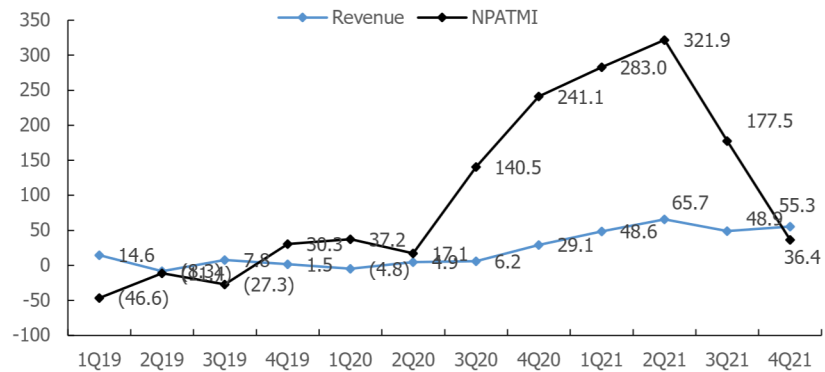
High expectation for domestic demand revival

The Congress passed a new fiscal package on 11 Jan 22, in which, VND113,850bn for infrastructure development in 2022F-23F period. Along with high vaccine coverage rate and new fiscal packages, the accelerated infrastructure spending is expected to push the domestic demand revival in 2022F. We expect steelmakers, who was significantly affected by COVID-19, could reap the benefit from the rebound.

⁽¹⁾ 30 listed companies in 3Q21 report. The change is aimed to optimize data. The 24-company aggregated revenue makes up around 95% of total.

Based on our collection, 4Q21 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. Net profit growth decelerated to 36.4% yoy in 4Q21 from the peak of 2Q21. The revenue growth pace in 4Q21 was at around 55.3% yoy. It was not surprising that the growth was slow due to high base 4Q20. However, the revenue growth pace was higher than net profit growth implying there were also other headwinds on net profit growth.

Figure 1. Low net profit growth in 4Q21 due to 4Q20 high base

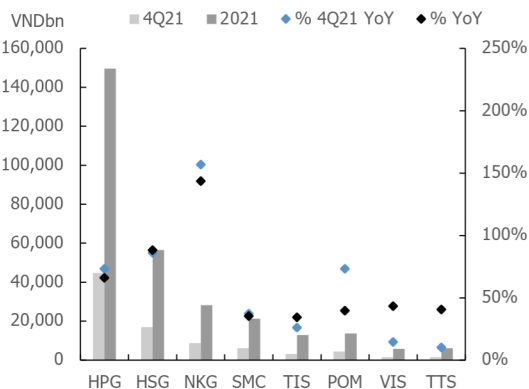


Source: VSA, Fiinpro

Sales volume led the topline industry growth in 4Q21

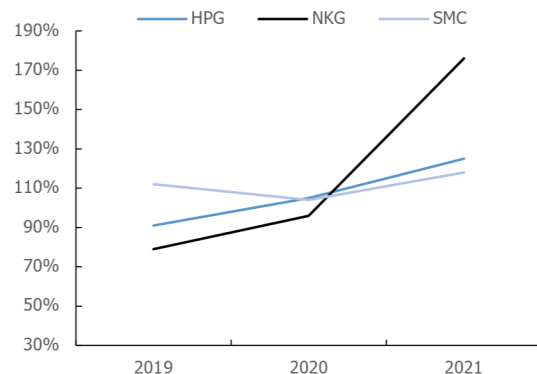
Breaking down aggregated revenue growth by a specific company, HPG top the influence in the light of its dominant position with revenue growth of 66% yoy in 4Q21. HSG kept the revenue growth pace at 86% yoy to VND16.9tn in 4Q21. Among the steelmakers, NKG continued to outperform the best with its highest 4Q21 revenue growth of 156% yoy. The spectacular growth of NKG was also seen in 2021 revenue with 143% yoy. The revenue growth of HPG in 2021 was +66% yoy. The better-than-expected revenue growth in 2021 ramped up the companies' completion of AGM guidance. They fulfilled around 50-176% of their FY21 revenue targets (81-122% in 2020).

Figure 2. HPG revenue growth far exceeded industry



Source: Company data, Fiinpro

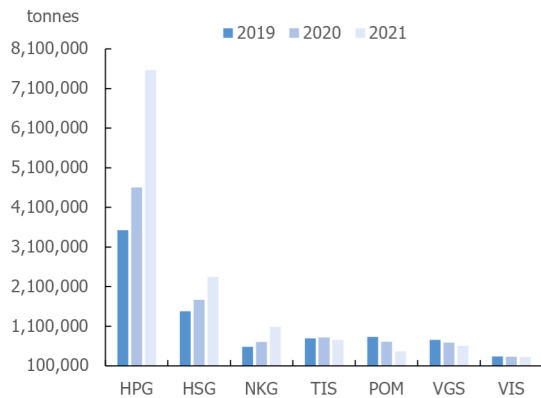
Figure 3. Leaders reaped higher revenue completion



Source: Company data, Fiinpro

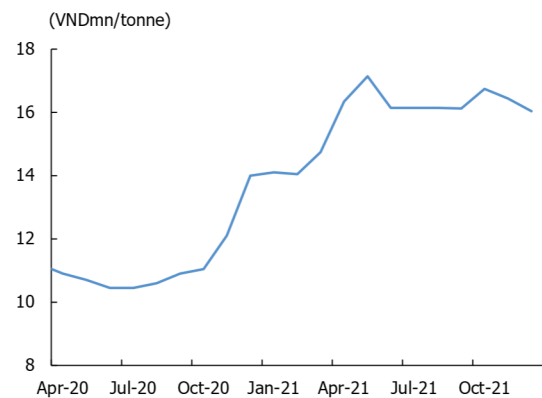
As detailed in our Dec brief sector, Vietnam generated a fast-accelerating consumption volume growth in 2021 of 30.9% yoy to 27.1mn tonnes. This was attributed to top producer HPG who recorded a 63.8% yoy sale volume growth to 7.56mn tonnes and accounted for the largest share of 27.8% of total Vietnam finished-steel sale volume in 2021. HSG and NKG also generated higher sale volume growths of 32.6% yoy and 54% yoy in 2021. In addition, the average selling price (ASP) was also another greater influence. Based on the HPG's quoted steel bar prices, we witness a 32.4% yoy in 4Q21 and 45% yoy in 2021.

Figure 4. Sales volume growth is a leading catalyst



Source: Company data, Fiinpro

Figure 5. But selling price also boosted

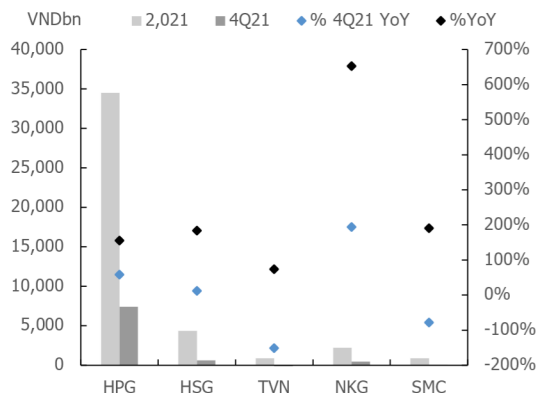


Source: HPG's steel bar price, Fiinpro

Net margin compressed among steel makers in 4Q21

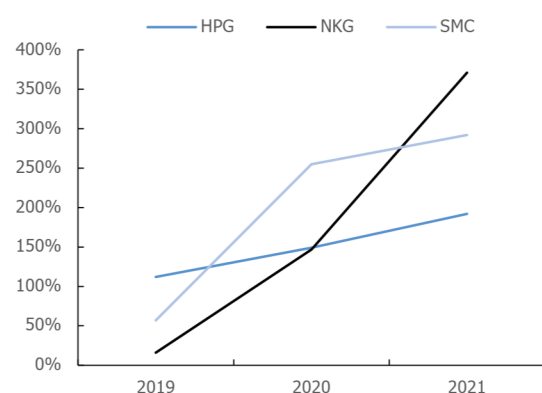
4Q21 was a tough time since only a few leading players saw their positive net profit growth. Among the top ten biggest revenue-generating steelmakers, TIS was the most outstanding player with a 2.3x yoy net profit growth in 4Q21 and 5.5x yoy in 2021. HPG, dominating the absolute net profit of VND7.4tn reaped a net profit growth of 59% yoy in 4Q21 and 155% yoy in 2021. The fast-growing net profit in 2021 ramped up the company's completion of AGM target. They fulfilled around 40-390% of their 2021F net profit guidance, smaller than 4.3-571% witnessed in 2020.

Figure 6. The 2021 net profit growth boomed by times



Source: Company data, Fiinpro

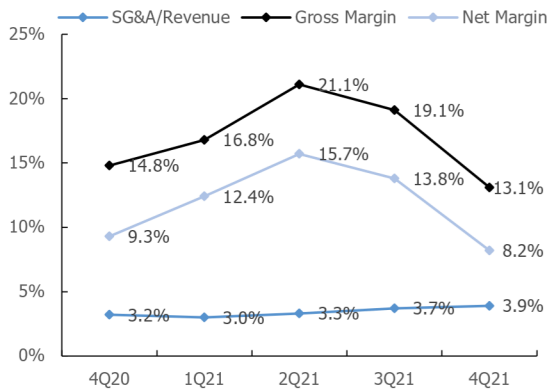
Figure 7. Their 2021 net profit were also by times beyond their annual guidance.



Source: Company data, Fiinpro

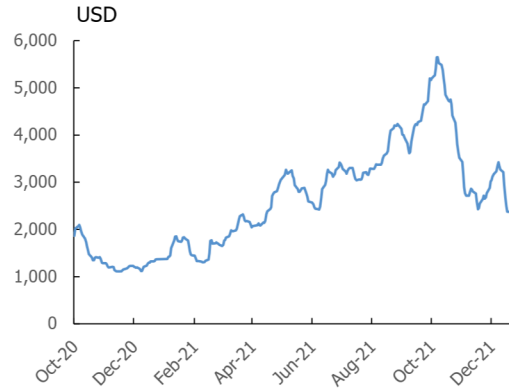
In 4Q21, we saw a net margin declined in most steel makers. Average net margin slumped to 8.2% in 4Q21 from 15.7% in 2Q21 and 9.3% in 4Q20. Breaking down into details, net margin squeeze was hit by a combination of a 6%p qoq gross margin decrease and a 0.2%p qoq SG&A/sales increase.

Figure 8. Net margin squeezed from 2Q21 peak due to higher costs



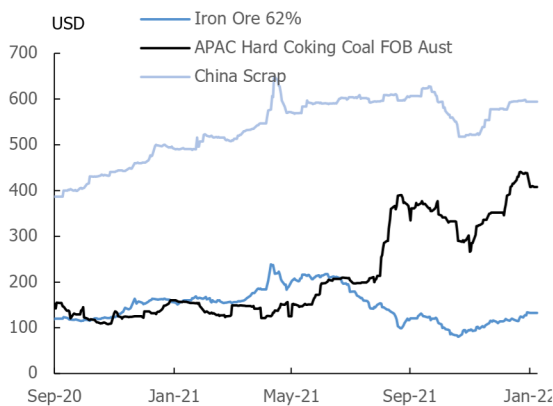
Source: Company data, Fiiipro

Figure 9. BDI retreated significantly in 4Q21 from October peak



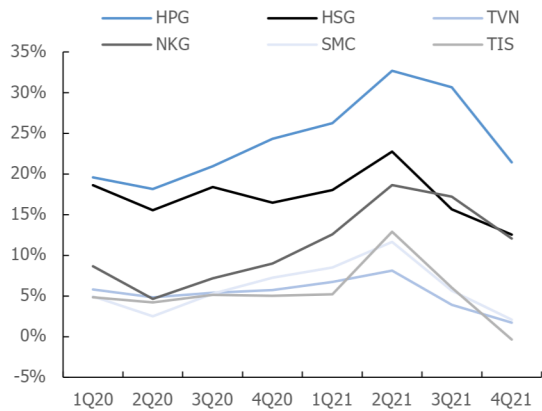
Source: Bloomberg

Figure 10. Material input prices back to the uptrend in 4Q21



Source: Bloomberg

Figure 11. Gross margin narrowed in 2H21



Source: Company data, Fiiipro

1Q22F demand growth outlook is brisk

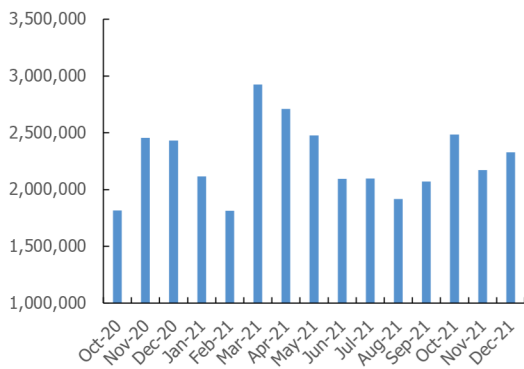
Based on recent policies and aggressive actions from both Vietnam and China governments, we believe the governments are trying to lower the material input prices to control the inflation, therefore, we think that there is not much more room for steel price to increase in 1Q22F despite the global restraint on input materials. We expect the domestic selling price will be maintained around the current level in 1Q22F thanks to positive signals about infrastructure spending and domestic demand revival.

The market is believing export activity to continue to contribute significantly to 2022F industry earnings. The global infrastructure spending for economic growth and recent changes in export & import policies of big global steel consumers and producers (China cancelled steel export rebate; US cut tariffs on Japanese steel etc.) will maintain the export opportunity for flat-steel makers in Vietnam. However, we expect to see the lower magnitude on earning contribution due to lower HRC price gap among regional markets (EU vs Vietnam; US vs Vietnam) and domestic market re-target of steel makers when demand revives. According to GSO, the est. export turnover posted a +40% yoy but the est. export volume decreased by 17% yoy in Jan.

In addition, despite a surge in the number of COVID-19 daily cases after Tet holiday, we still believe in the revival of domestic consumption thanks to the accelerating public spending and high vaccine coverage rate in Vietnam that helps to avoid the construction-activity suspension.

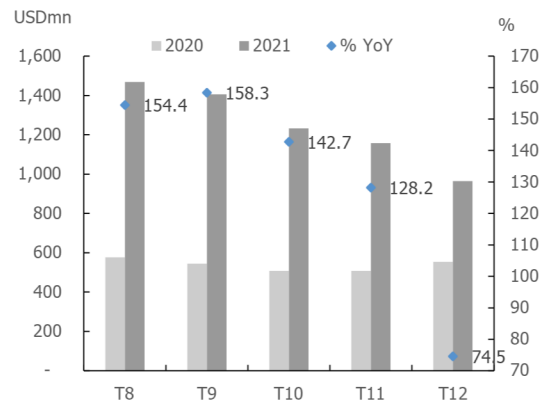
We also expect a compressing gross margin in 1Q22F for BOF-deployed steel mills caused by recent global supply restraint of the coking coal. However, the pressure from coal price spike will be partly offset by low iron-ore price.

Figure 12. Vietnam sales volumes brisk in 4Q21



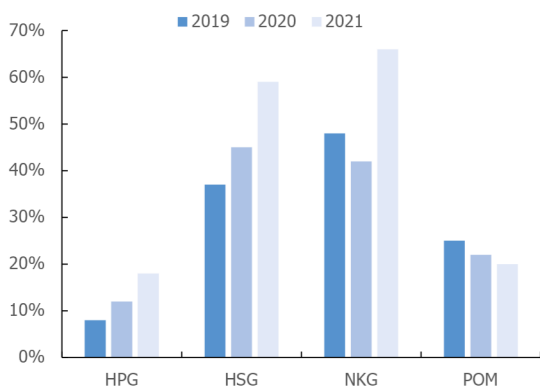
Source: VSA

Figure 13. The 2021 export turnover reached USD11.8bn



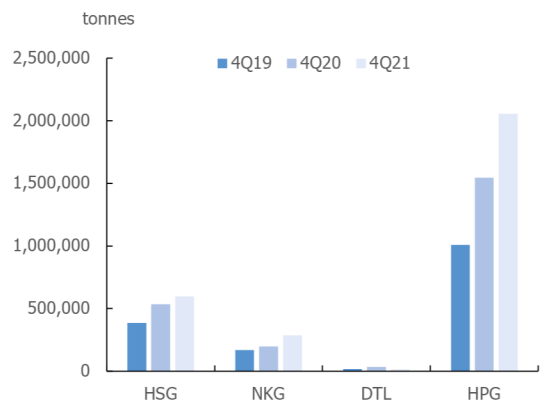
Source: VSA

Figure 14. % export out of total sale volume



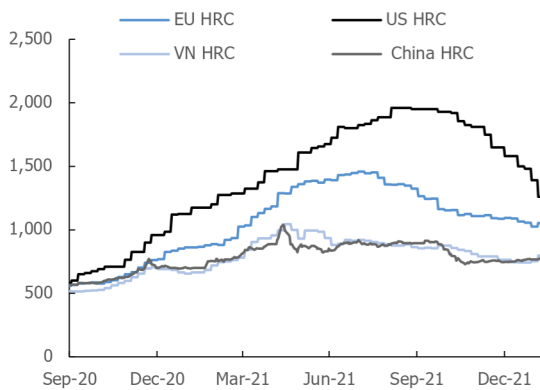
Source: MOIT, GSO

Figure 15. Solid 4Q21 sales volume



Source: VSA

Figure 16. The narrowing gap of HRC prices in 4Q21



Source: Bloomberg

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15%p or more
- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 11 Feb 2022.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 11 Feb 2022.

Prepared by: Hai Nguyen

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2022 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.