

19 Apr 2022

Hoa Phat (HPG)

Mar 2022 – Operational updates

Vietnam Steel Association (VSA) released some worthy headlines on the March sales of the company. Here are some key issues worthy of note.

Impressive construction steel demand in March

- Total Mar steel sales volume posted 931,874 tonnes, increasing by 11.1% yoy, 17.7% mom.
- Construction steel volume made up 54.8% of the Mar total sales volume at 511,348 tonnes, 14.3% mom and 6.7% yoy. In which, export volume surged dramatically to 196,079 tonnes (+242.9% mom and +144.7% yoy).
- The coated steel sales volume (35,718 tonnes) was up 30.5% mom and 13.7% yoy while steel pipes sales volume (88,808 tonnes) was down 2.2% yoy but up 13.1% mom.
- The steel coil sales volume (HRC) was impressive at around 296,000 tonnes (+24.1% mom, +24.5% yoy).

The export is the important driver for growth in 3M22

- The 3M22 performance witnessed the revival in domestic market amid the significant growth in export volume.
- The 3M22 total finished-product sale volume came in at 2,426,518 tonnes, +36.5% yoy thanks to the strong growth for all products, especially, construction steel with 56.8% yoy to 1.34mn tonnes.
- The total 3M22 export volume (accounted for 19.3% of total sales; 468,946 tonnes) grew +150.3% yoy while the local sales volume (1,957,572 tonnes) increased by 23.1% yoy. Especially, the 3M22 construction steel export volume was 369,943 tonnes (+151% yoy), which accounted for 78.8% of total export sales.

| | 2020A | 2021A | 2022F | 2023F | 2024F |
|---------------------------|--------|---------|---------|---------|---------|
| Sales (VND bn) | 90,119 | 149,680 | 179,232 | 171,671 | 203,104 |
| chg. (% YoY) | 41.6 | 66.1 | 19.7 | (4.2) | 18.3 |
| Operating profit (VND bn) | 17,123 | 37,664 | 37,589 | 35,943 | 40,455 |
| Net profit (VND bn) | 13,450 | 34,478 | 33,317 | 30,675 | 34,114 |
| EPS (VND) | 3,958 | 7,575 | 7,404 | 6,817 | 7,581 |
| chg. (% YoY) | 46.2 | 91.4 | (2.3) | (7.9) | 11.2 |
| EBITDA (VND bn) | 21,899 | 43,751 | 43,956 | 43,709 | 48,902 |
| PE (x) | 11.7 | 6.1 | 6.3 | 6.8 | 6.1 |
| EV/EBITDA (x) | 2.6 | 2.6 | 2.6 | 2.6 | 3.6 |
| PB (x) | 2.6 | 2.3 | 1.7 | 1.4 | 1.2 |
| ROE (%) | 25.2 | 46.0 | 31.8 | 23.2 | 21.3 |
| Dividend yield (%) | 0.9 | 0.8 | 2.2 | 2.2 | 2.2 |

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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12M rating **HOLD**

12M TP **51,930**

Up/Downside **+14.1%** (incl 10% on par cash dividend)

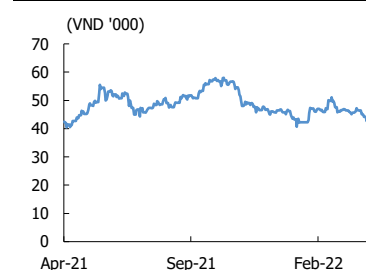
Stock Data

| | |
|------------------------------------|---------------|
| VNIndex (19 Apr, pt) | 1,406 |
| Stock price (19 Apr, VND) | 43,300 |
| Market cap (USD mn) | 8,448 |
| Shares outstanding (mn) | 4,473 |
| 52-Week high/low (VND) | 58,000/40,438 |
| 6M avg. daily turnover (USD mn) | 48.04 |
| Free float / Foreign ownership (%) | 54.3/21.8 |
| Major shareholders (%) | |
| Tran Dinh Long | 26.1 |

Performance

| | 1M | 6M | 12M |
|--------------------------|-------|--------|--------|
| Absolute (%) | (6.9) | (24.3) | 1.8 |
| Relative to VNIndex (%p) | (2.6) | (25.5) | (11.0) |

Stock price trend



Source: Bloomberg

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Table 1. Sales volume growth

(Tonnes)

| | Monthly | | | | Accumulated | | |
|---------------------------|----------------|----------------|-------------|--------------|------------------|------------------|-------------|
| | Mar-21 | Mar-22 | MoM (%) | YoY (%) | 3M21 | 3M22 | YoY (%) |
| Steel Pipes | 90,793 | 88,808 | 13.1 | (2.2) | 184,012 | 217,815 | 18.4 |
| Export | 3,086 | 2,120 | 82.3 | (31.3) | 6,939 | 5,259 | (24.2) |
| Domestic | 87,707 | 86,688 | 12.0 | (1.2) | 177,073 | 212,556 | 20.0 |
| Steel Coat | 31,403 | 35,718 | 30.5 | 13.7 | 73,748 | 105,706 | 43.3 |
| Export | 13,834 | 20,316 | 190.5 | 46.9 | 32,985 | 58,271 | 76.7 |
| Domestic | 17,569 | 15,402 | (24.4) | (12.3) | 40,763 | 47,435 | 16.4 |
| Constr' Steel | 479,118 | 511,348 | 14.3 | 6.7 | 855,046 | 1,340,302 | 56.8 |
| Export | 80,143 | 196,079 | 242.9 | 144.7 | 147,403 | 369,943 | 151.0 |
| Domestic | 398,975 | 315,269 | (19.2) | (21.0) | 707,643 | 970,359 | 37.1 |
| Steel Coil | 237,683 | 296,000 | 24.1 | 24.5 | 665,272 | 762,695 | 14.6 |
| Export | 0 | 0 | N.a | N.a | 0 | 35,473 | N.a |
| Domestic | 237,683 | 296,000 | 45.7 | 24.5 | 665,272 | 727,222 | 9.3 |
| Total Steel Volume | 838,997 | 931,874 | 17.7 | 11.1 | 1,778,078 | 2,426,518 | 36.5 |
| Export | 97,063 | 218,515 | 116.8 | 125.1 | 187,327 | 468,946 | 150.3 |
| Domestic | 741,934 | 713,359 | 3.3 | (3.9) | 1,590,751 | 1,957,572 | 23.1 |

Source: Company, VSA, KIS

Table 2. Production volume growth

(Tonnes)

| | Monthly | | | | Accumulated | | |
|----------------------|---------|---------|---------|---------|-------------|-----------|---------|
| | Mar-21 | Mar-22 | MoM (%) | YoY (%) | 3M21 | 3M22 | YoY (%) |
| Steel Pipes | | | | | | | |
| Production | 73,692 | 84,615 | 50.8 | 14.8 | 169,392 | 192,352 | 13.6 |
| Inventories | N.a | N.a | N.a | N.a | | | |
| Steel Coat | | | | | | | |
| Production | 23,384 | 31,893 | (7.0) | 36.4 | 72,806 | 96,177 | 32.1 |
| Inventories | N.a | N.a | N.a | N.a | | | |
| Constr' Steel | | | | | | | |
| Production | 387,116 | 472,792 | 17.9 | 22.1 | 973,159 | 1,285,178 | 32.1 |
| Inventories | 235,542 | 278,062 | (12.2) | 18.1 | | | |
| Steel Coil | | | | | | | |
| Production | 227,279 | N.a | N.a | N.a | 610,268 | N.a | N.a |
| Inventories | 54,295 | N.a | N.a | N.a | | | |

Source: Company, VSA, KIS

Company overview & Glossary

Hoa Phat (HPG) is a leading industrial manufacturing group in Vietnam operating in 5 key businesses: Iron & steel; steel sheet & steel pipe; real estate, agriculture and home appliances.

Balance sheet

(VND bn)

| FY-ending Dec. | 2020A | 2021A | 2022F | 2023F | 2024F |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Current assets | 56,747 | 94,154 | 98,203 | 98,068 | 131,560 |
| Cash & cash equivalents | 21,823 | 40,708 | 29,288 | 31,615 | 51,899 |
| Accounts & other receivables | 6,125 | 7,662 | 9,968 | 10,159 | 12,965 |
| Inventory | 26,287 | 42,135 | 54,467 | 51,831 | 61,618 |
| Non-current assets | 74,764 | 84,082 | 120,490 | 138,233 | 145,345 |
| Fixed assets | 65,562 | 69,281 | 69,914 | 97,148 | 105,701 |
| Investment assets | 6,983 | 10,573 | 45,583 | 35,593 | 33,603 |
| Others | 4,427 | 7,069 | 8,583 | 8,976 | 10,042 |
| Total assets | 131,511 | 178,236 | 218,693 | 236,301 | 276,905 |
| Advances from customers | 1,257 | 788 | 1,792 | 1,717 | 2,031 |
| Unearned revenue | 51 | 26 | 26 | 26 | 26 |
| Trade payables | 10,916 | 23,729 | 27,233 | 23,559 | 26,036 |
| Others | 5,926 | 5,700 | 5,971 | 6,187 | 6,426 |
| ST debt & due bonds | 36,799 | 43,748 | 50,748 | 44,748 | 51,748 |
| LT debt & bonds | 17,343 | 13,465 | 13,365 | 14,365 | 15,365 |
| Total liabilities | 72,292 | 87,456 | 99,135 | 90,602 | 101,632 |
| Controlling interest | 59,071 | 90,625 | 119,303 | 145,352 | 174,822 |
| Capital stock | 33,133 | 44,729 | 44,729 | 44,729 | 44,729 |
| Capital surplus | 3,212 | 3,212 | 3,212 | 3,212 | 3,212 |
| Other reserves | 934 | 922 | 955 | 986 | 1,020 |
| Retained earnings | 21,792 | 41,763 | 70,407 | 96,425 | 125,862 |
| Minority interest | 149 | 155 | 255 | 347 | 450 |
| Shareholders' equity | 59,220 | 90,780 | 119,558 | 145,699 | 175,272 |

Cash flow

(VND bn)

| FY-ending Dec. | 2020A | 2021A | 2022F | 2023F | 2024F |
|-------------------------|--------------|--------------|----------------|--------------|---------------|
| C/F from operations | 11,587 | 27,466 | 27,889 | 36,628 | 31,657 |
| Net profit | 13,506 | 34,521 | 33,417 | 30,767 | 34,217 |
| Dep'n & Amort'n | 4,776 | 6,087 | 6,367 | 7,767 | 8,447 |
| Net incr. in W/C | (6,695) | (13,142) | (11,895) | (1,906) | (11,007) |
| C/F from investing | (18,495) | (20,404) | (32,618) | (20,269) | (13,077) |
| Capex | (11,916) | (12,116) | (42,010) | (25,010) | (15,010) |
| Incr. in investment | (6,579) | (8,288) | 9,392 | 4,741 | 1,933 |
| C/F from financing | 16,053.7 | 1,729.4 | 2,427.1 | (9,472.9) | 3,527.1 |
| Incr. in equity | 3 | 11 | 0 | 0 | 0 |
| Incr. in debt | 17,471 | 3,423 | 6,900 | (5,000) | 8,000 |
| Dividends | (1,420) | (1,704) | (4,473) | (4,473) | (4,473) |
| C/F from others | 6 | (16) | 0 | 0 | 0 |
| Increase in cash | 9,146 | 8,792 | (2,302) | 6,887 | 22,107 |

Income statement

(VND bn)

| FY-ending Dec. | 2020A | 2021A | 2022F | 2023F | 2024F |
|---|---------------|---------------|---------------|---------------|---------------|
| Sales | 90,119 | 149,680 | 179,232 | 171,671 | 203,104 |
| COGS | 71,215 | 108,571 | 138,058 | 132,295 | 158,384 |
| Gross profit | 18,904 | 41,108 | 41,174 | 39,376 | 44,720 |
| SG&A expenses | 1,781 | 3,444 | 3,585 | 3,434 | 4,265 |
| Operating profit | 17,123 | 37,664 | 37,589 | 35,943 | 40,455 |
| Financial income | 1,005 | 3,071 | 1,255 | 1,202 | 1,422 |
| Interest income | 519 | 0 | 274 | 182 | 109 |
| Financial expenses | 2,837 | 3,732 | 3,047 | 3,090 | 3,453 |
| Interest expenses | 2,192 | 2,526 | 2,565 | 2,660 | 3,356 |
| Other non-operating profit | 65 | 48 | 54 | 52 | 61 |
| Gains (Losses) in associates, subsidiaries and JV | 2 | 5 | 5 | 5 | 5 |
| Earnings before tax | 15,357 | 37,057 | 35,855 | 34,110 | 38,489 |
| Income taxes | 1,851 | 2,536 | 2,438 | 3,343 | 4,272 |
| Net profit | 13,506 | 34,521 | 33,417 | 30,767 | 34,217 |
| Net profit of controlling interest | 13,450 | 34,478 | 33,317 | 30,675 | 34,114 |
| EBITDA | 21,899 | 43,751 | 43,956 | 43,709 | 48,902 |

Key financial data

| FY-ending Dec. | 2020A | 2021A | 2022F | 2023F | 2024F |
|----------------------------|--------|--------|--------|--------|--------|
| Per-share data (VND, adj.) | | | | | |
| EPS | 3,958 | 7,575 | 7,404 | 6,817 | 7,581 |
| BPS | 17,873 | 20,296 | 26,729 | 32,574 | 39,185 |
| DPS | 428 | 381 | 1,000 | 1,000 | 1,000 |
| Growth (%) | | | | | |
| Sales growth | 41.6 | 66.1 | 19.7 | (4.2) | 18.3 |
| OP growth | 75.7 | 120.0 | (0.2) | (4.4) | 12.6 |
| NP growth | 78.7 | 156.3 | (3.4) | (7.9) | 11.2 |
| EPS growth | 46.2 | 91.4 | (2.3) | (7.9) | 11.2 |
| EBITDA growth | 77.5 | 99.8 | 0.5 | (0.6) | 11.9 |
| Profitability (%) | | | | | |
| OP margin | 19.0 | 25.2 | 21.0 | 20.9 | 19.9 |
| NP margin | 15.0 | 23.1 | 18.6 | 17.9 | 16.8 |
| EBITDA margin | 24.3 | 29.2 | 24.5 | 25.5 | 24.1 |
| ROA | 11.6 | 22.3 | 16.8 | 13.5 | 13.3 |
| ROE | 25.2 | 46.0 | 31.8 | 23.2 | 21.3 |
| Dividend yield | 0.9 | 0.8 | 2.2 | 2.2 | 2.2 |
| Dividend payout ratio | 10.8 | 5.0 | 13.5 | 14.7 | 13.2 |
| Stability | | | | | |
| Net debt (VND bn) | 32,319 | 16,505 | 34,825 | 27,497 | 15,214 |
| Net debt/equity (%) | 50.0 | 20.0 | 30.0 | 20.0 | 10.0 |
| Valuation (x) | | | | | |
| PE | 11.7 | 6.1 | 6.3 | 6.8 | 6.1 |
| PB | 2.6 | 2.3 | 1.7 | 1.4 | 1.2 |
| EV/EBITDA | 8.5 | 5.1 | 5.5 | 5.4 | 4.6 |

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