

4 May 2022

Hoa Phat (HPG)

Volatility impact emerged on HPG performance

- 1Q22 results in line with the consensus
- Steel segment mainly driven growth
- Agriculture segment struggling amid input volatility

Facts: Top and bottom lines grow amid margin squeezed

HPG' revenue increased 41.3% yoy to VND44,058bn in 4Q22 driven mainly by steel segment while agriculture and real estate segment revenue dropped 28% and 61% yoy, respectively. The 1Q22 NPAT-MI posted VND8,217bn. +17.7% yoy. The 1Q22 results fulfil 24.5%/24.6% our Revenue/NPAT-MI forecasts.

In 1Q22, the revenue grew significantly thanks to the high steel ASP and the solid sales volume as mentioned in March Operational Updates Report. However, the gross margin squeezed from 26.2% in 1Q21 to 22.9% in 1Q22 due to the high volatility of input costs, especially coking coal.

Pros & cons: Margins to improve compared to 4Q21

The geopolitical tension has worsened the volatility of input costs; however, the margins were slightly better than 4Q21 when the company can pass a part of the cost hike to end-users. However, the margins are expected not to be improve much or even get worse in next quarters due to the uncertainty of tension's impact.

The other segment has a small contribution to top and bottom line growth. While industrial real estate is expected to contribute more from 2H2022, agriculture segment was struggling with high input cost. Agriculture segment even posted a NPAT loss of VND56bn in 1Q22.

Action: Maintain HOLD rating

We maintain HOLD with a TP of VND51,930. We believe the HPG's fundamental is strong amid concerns of input volatility and ASP peak. Container manufacturing, home appliances businesses along with Real Estate expansion are expected to increase the impact on IS from 2H2022.

Below	In line	Above
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vs. NPAT consensus

12M rating **HOLD (Maintain)**

12M TP **51,930** from *N/A*

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

Stock data

VNIndex (Apr 29, pt)	1,367
Stock price (Apr 29, VND)	43,300
Market cap (USD mn)	8,362
Shares outstanding (mn)	4,473
52-Week high/low (VND)	58,000/40,700
6M avg. daily turnover (USD mn)	45.36
Free float / Foreign ownership (%)	54.3/21.6
Major shareholders (%)	
Tran Dinh Long	26.1

Valuation

	2021A	2022F	2023F
PE (x)	6.1	6.3	6.8
PB (x)	2.3	1.7	1.4
ROE (%)	46.0	31.8	23.2
DY (%)	0.8	2.2	2.2
EV/EBITDA (x)	2.6	2.6	2.6
EPS (VND)	7,575	7,404	6,817
BPS (VND)	20,296	26,729	32,574

Performance

	1M	6M	12M
Absolute (%)	(5.6)	(23.7)	(2.4)
Relative to VNIndex (%p)	3.1	(18.1)	(13.3)

Stock price



Source: Bloomberg

Hai Nguyen

hai.nt@kisvn.vn

Table 1. 1Q22 earnings

(VND bn, %, %p)

	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus
Sales	31,176.9	35,118.4	38,673.8	44,710.7	44,058.1	(1.4)	41.3	44,000
OP	7,562.4	10,692.2	11,042.1	8,367.1	9,267.7	10.7	22.5	N/A
OP margin	24.3	30.4	28.6	18.7	21.0	2.3	(3.3)	N/A
EBT	7,690.2	10,349.5	10,978.8	8,038.4	8,922.1	10.9	16.0	N/A
NP	7,005.6	9,745.2	10,350.8	7,419.4	8,206.3	10.6	17.1	8,200

Source: Company data, KIS

■ Company overview

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

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

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

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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Prepared by: Hai Nguyen

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