

Steel

Non-rated

Temporary material cost retreat amid tension

Earnings growth was muted in 1Q22

Based on our estimate, 1Q22 aggregated revenue of 24 listed steelmakers jumped 35.6% yoy, while 1Q22 aggregated NPATMI inched up 1.8% yoy. The aggregated revenue growth persisted with double digits thanks to inflationary selling price amid steel supply disruption and input price hike. However, the 1Q22 NPATMI growth was muted due to the higher base seen in 1Q21 and thinner yoy gross margin marred by input cost inflation.

Gross margin improvement on a quarterly basis is temporary

In 1Q22, we witnessed an 0.6%p qoq improvement in aggregated gross margin (13.6%). However, there was a significant divergence among companies. Gross margin changes ranged from -8.4%p qoq to 4.1%p qoq amid input cost rise caused by geopolitical tension. Given the escalation of Russia – Ukraine tension and sanctions imposed by EU and allies, we expect the market players could face surging difficulties in the cost pass-through strategy. The gross margin could squeeze more in 2Q22F.

Export could sustain in 2Q22F-3Q22F

Based on GSO, export revenue growth in 1Q22 kept far exceeding volume growth (USD2,333mn, +24% yoy vs 2.313mn tonnes, -13% yoy). Thanks to the stellar selling price, we still saw the growth in total export value despite the decline in export volume. The geopolitical tension has widened the HRC price gap again due to the short-term supply/demand imbalance. The positive impact could appear in exporters' performance results from mid of 2Q22F and 3Q22F. The top steel exporters recommend conservative approach on the export volume in 2022F when sales volume could be skewed in favour domestic market thanks to its stronger demand revival in 2H22F.

Domestic revival could be slower in 2Q22F but still firm

The inflationary steel price halts construction of the residential property sector and government spending on the infrastructure, which possibly lowers the domestic demand revival. Recently, the Ministry of Transport (MOT) has requested to review the total investment value of the infrastructure investment projects and prioritize key ones amid the costlier prices of fuel and construction material. On May 11, HPG's steel prices were adjusted down by 1.6-2.4% and that could shore up the demand in 2H22F. Overall, the total consumption in 2Q22 is expected to be pegged at 4.5% yoy, lower than estimated 6.5-7%yoy growth in 1Q22.

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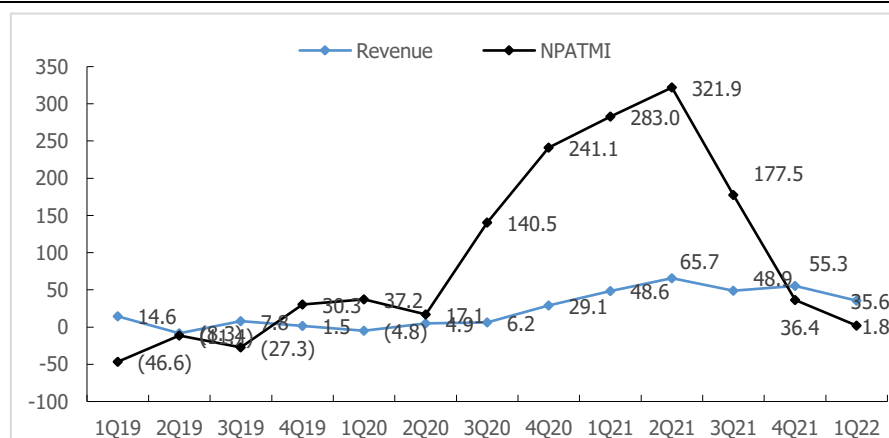
Table 1. Aggregated 24-company earnings

(VNDbn, %)

	1Q21	1Q22	QoQ	YoY
Revenue	76,279	103,461	(2.9)	35.6
NPAT-MI	9,393	9,561	10.7	1.8

Source: Fiinpro, KIS

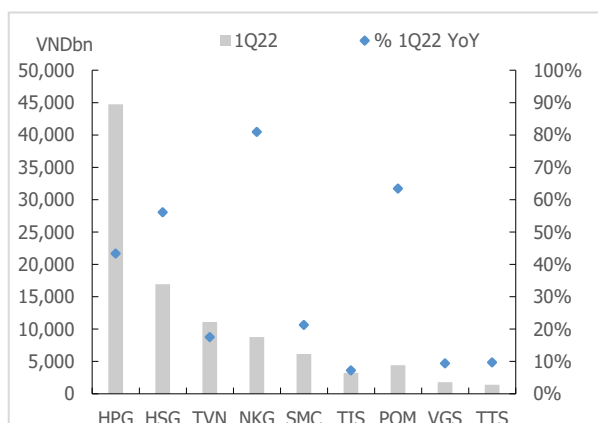
Based on our collection, 1Q22 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. NPAT-MI growth edged up 1.8% yoy in 1Q22 vs 36.4% yoy growth in 4Q21 due to a higher base in 1Q21. In contrast, the revenue growth pace in 1Q22 was still brisk at around 35.6% yoy thanks to the stellar selling price. We see net profit growth pace was significantly hit by heavier material costs.

Figure 1. Lower net profit growth in 1Q22 due to costlier raw materials

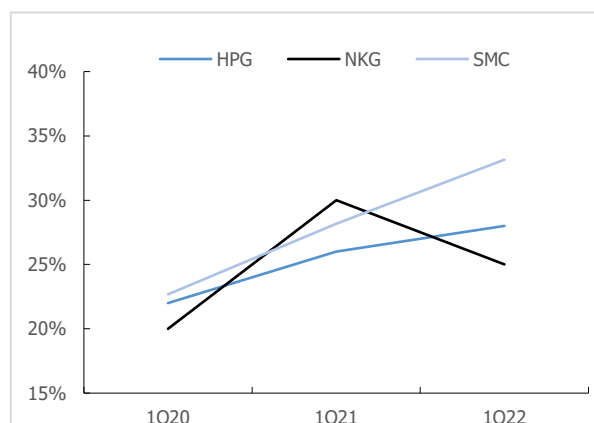
Source: VSA, Fiinpro

Selling price led the industry topline growth in 1Q22

Breaking down aggregated revenue growth by a specific company, HPG top the influence in the light of its dominant position with revenue growth of 43% yoy in 1Q22. HSG kept the revenue growth pace at 56% yoy to VND16.9tn in 1Q22. Among the steelmakers, NKG continued to outperform the best with its highest 1Q22 revenue growth of 80.9% yoy. The better-than-expected revenue growth in 1Q22 ramped up the companies' completion of AGM guidance. They fulfilled around 2-36% of their 2022F revenue targets (11-32% in 2021).

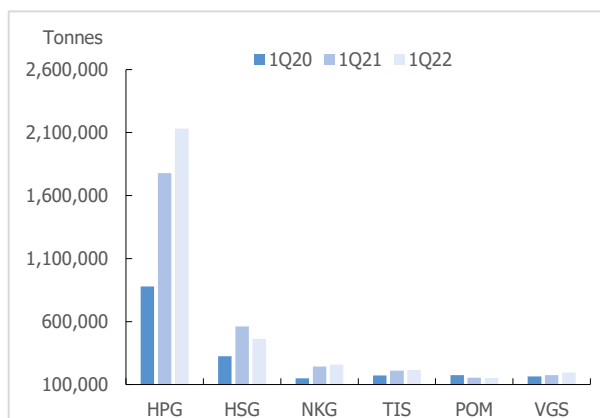
Figure 2. NKG revenue growth beat the industry

Source: Company data, Fiinpro

Figure 3. Most companies reap positive 1Q22 revenue completion thanks to higher selling priceSource: Company data, Fiinpro
Note: Data included unapproved 2022 plans

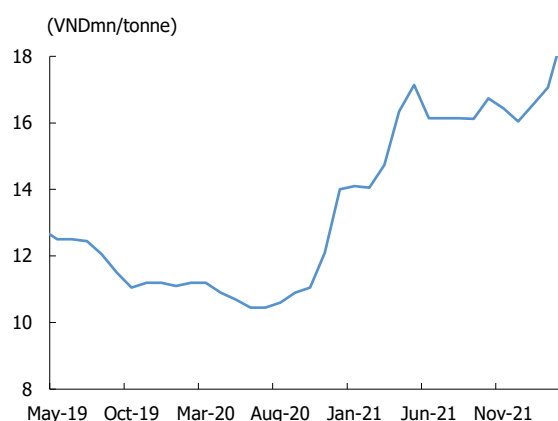
As [detailed in our Mar brief sector](#), Vietnam generated a fast-accelerating consumption volume growth in 3M22 of 15.5% yoy to 5.0mn tonnes (excluded steel roll). This was attributed to top producer HPG who recorded a 38.3% yoy sale volume growth to 2.1mn tonnes and accounted for the largest share of 32.3% of total Vietnam finished-steel sale volume in 3M22 (excluded Mar steel roll data). NKG generated slight sales volume growth of 5.8% yoy. HSG, however, produced a decline in sale volume growth of 22.6% yoy in 3M22. In addition, the average selling price (ASP) was also another greater influence. Based on the HPG's quoted steel bar prices, we witnessed a 21.8% yoy and a 6.1% qoq in 1Q22.

Figure 4. Sales volume was a leading catalyst



Source: Company data, Fiinpro
Note: 1Q22 data not included steel coil sales volume

Figure 5. But stellar selling price also boosted

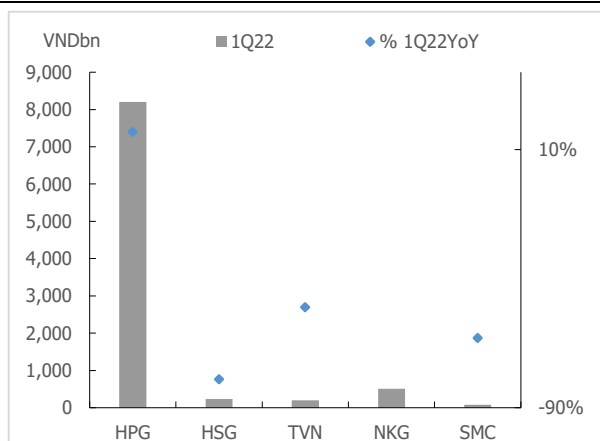


Source: HPG's steel bar price, Fiinpro

Net margin improved on a quarterly basis in 1Q22

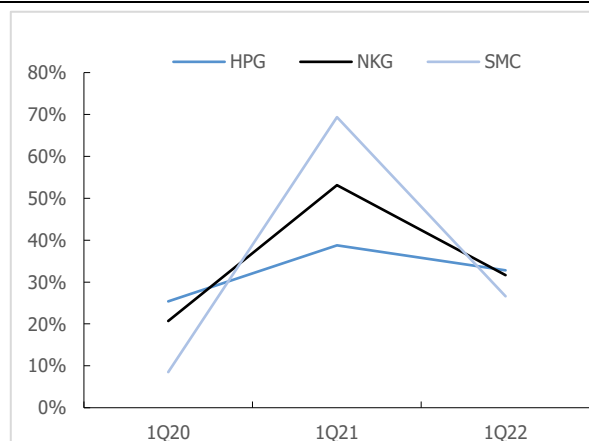
1Q22 continued to witness only a few leading players earn positive net-profit growth. Among the top ten biggest revenue-generating steelmakers, TTS was the most outstanding player with an 11.3x yoy net profit growth in 1Q22 thanks to a very low base in 1Q21. HPG, dominating the absolute net profit of VND8.2tn reaped a net profit growth of 17% yoy in 1Q22. Companies fulfilled around 18-98% of their 2022F net profit guidance, smaller than 0.3-147% seen in 1Q21. It can be explained by the compressed gross margin in 1Q22 (13.6%) compared to 1Q21 (16.8%).

Figure 6. The 1Q22 yoy net profit growth declined in most companies



Source: Company data, Fiinpro

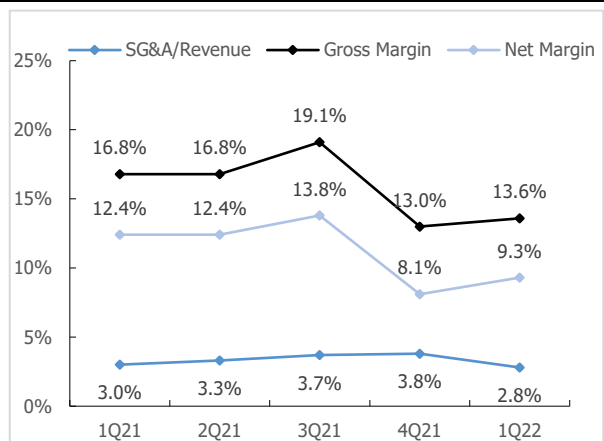
Figure 7. Their 1Q22 net profit completion was lower than 1Q21.



Source: Company data, Fiinpro
Note: Data included unapproved 2022 plans

In 1Q22, we saw a net-margin improve on a quarterly basis in most steelmakers. The average net margin improved to 9.3% in 1Q22 from 8.1% in 4Q21 but was still lower than 1Q21 with 13.8%. Breaking down into details, net margin expanded by a combination of a 0.6%p qoq gross margin increase and a 1.0%p qoq SG&A/sales decrease.

Figure 8. Net margin improved on quarter-on-quarter basis



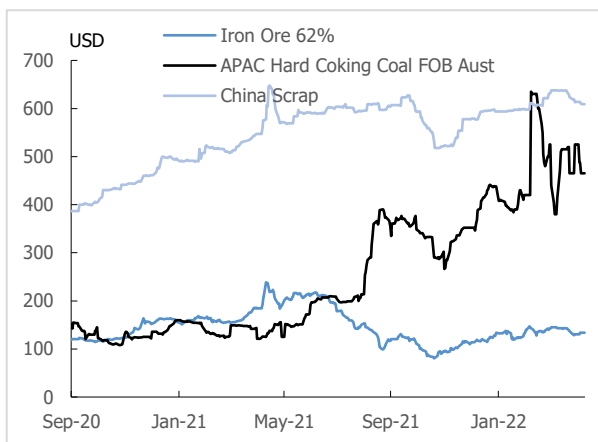
Source: Company data, Fiipro

Figure 9. BDI backed to 1Q21 level after hit the bottom in Feb



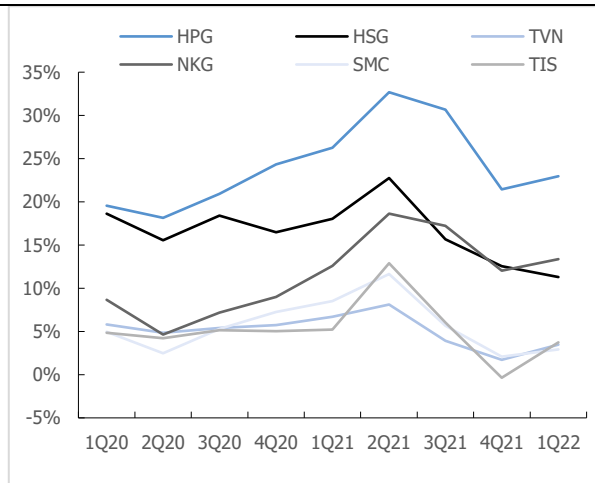
Source: Bloomberg

Figure 10. Material input prices at high level in 1Q22



Source: Bloomberg

Figure 11. Gross margin slightly expanded in 1Q22



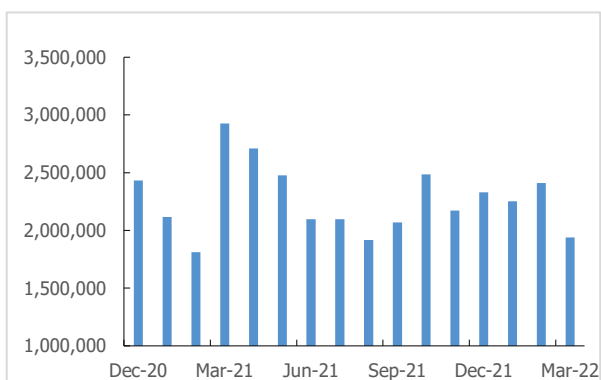
Source: Company data, Fiipro

Domestic demand revival is slower in 2Q22F but still solid

Due to the sharp steel price rise in 4M22, we could see a slower pace in domestic demand revival in 2Q22F. As mentioned above, the government has recently requested the Project Management Units (PMUs) to review all project investment value and to focus on the key ones amid the construction material price spike. We peg the total consumption in 2Q22 (finished steel products and HRC) to grow 4.5% yoy vs an estimated 6.5-7% yoy in 1Q22

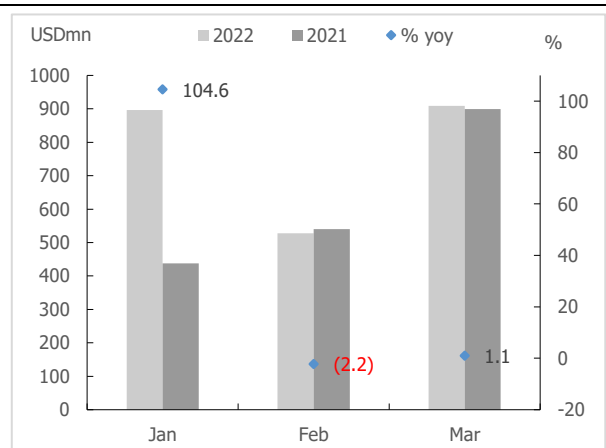
However, the temporary global economic crunch caused by COVID-19 restrictions in China eased the prices of steel products and some input materials. Therefore, companies, especially flat steel exporters, can consider the temporary decline as an opportunity for lower-cost inventories. On May 11, HPG reduced steel bar and wire rod selling prices by VND300,000/tonne (-1.6% from the peak) and VND450,000/tonne (-2.4% from the peak) respectively. We also expect more relaxation on the coal prices which in turn offers more room for a steel price correction in 2H22F. The demand revival could be shored up thanks to an accommodative price range in 2H22F. However, the year-on-year volume growth still is solid in 3Q22F given the national lockdown last year.

Figure 12. Vietnam sales volumes brisk in 1Q22 (excluded Mar steel coil data)



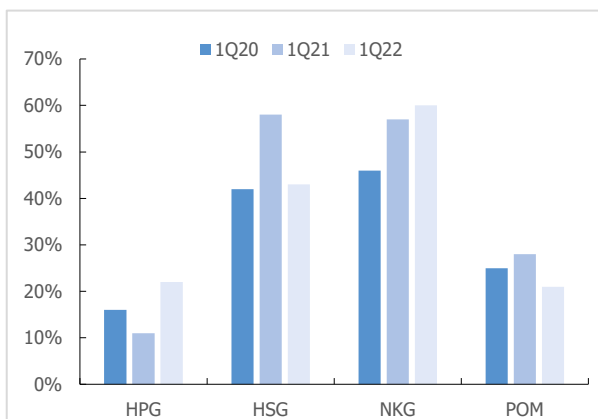
Source: VSA

Figure 13. The 1Q22 export turnover reached USD2.3bn



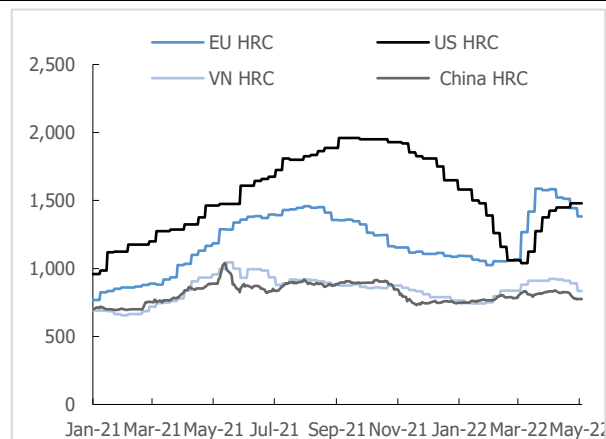
Source: GSO

Figure 14. % export out of total sale volume



Source: MOIT, GSO

Figure 15. HRC gaps have widened caused by the geopolitical tension



Source: Bloomberg,

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