

27 Jul 2022

Hoa Sen Group (HSG)

June 2022 – Operational updates

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

Weak sales volume in in both domestic and export markets

- Total June steel sales volume posted 120,366 tonnes, decreasing by 0.8% mom and 39.7% yoy.
- Steel coat volume made up 82.0% of the June total sales volume at 98,731 tonnes, -1.9% mom and -36.4% yoy.
- The coated steel export volume (54,002 tonnes) was down significantly by 6.0% mom and 47.3% yoy.
- Domestic volume of steel coat recorded 44,729 tonnes (+3.5% mom, -15.3% yoy) and steel pipes volume posted 19,697 tonnes (+14.7% mom and -51.1% yoy).

FY9M2022 performance slumped

- HSG witnessed the weak performance in FY9M2022 on year-on-year basis caused by weak sales volume in first 6 months of 2022: 6M2022 total sales volume at 878,172 tonnes, -26.6% yoy.
- The FY9M22 total sale volume decreased -14.9% yoy to 1,474,249 tonnes as steel pipes volume declined 36.3% yoy significantly to 257,137 tonnes and steel coat fell by 8.4% yoy to 1,217,112 tonnes.
- The total FY9M22 export volume (accounted for 51.4% of total sales; 780,072 tonnes) fell 12.4% yoy while the local sales volume (694,177 tonnes) also declined by 17.5% yoy due to the fall in domestic volume of steel pipes (-36.3% yoy).
- 2Q22 total sales volume was at 416,838 tonnes (-9.6% qoq, -34.3% yoy), which showed the significant drop in demand from both domestic and export channels.

FY-ending Sep.	FY17A	FY18A	FY19A	FY20A	FY21A
Sales (VND bn)	26,149	34,441	28,035	27,539	48,727
chg. (% YoY)	46.1	31.71	(18.6)	(1.8)	76.9
Operating profit (VND bn)	4,418	3,977	3,199	4,626	5,047
Net profit (VND bn)	1,332	409	369	1,153	4,249
EPS (VND)	3,824	1,063	837	2,589	8,817
chg. (% YoY)	(49.9)	(72.2)	(17.9)	196.7	240
EBITDA (VND bn)	2,809	2,290	2,179	3,188	6,233
PE (x)	6.8	6.2	9.8	9.0	3.6
EV/EBITDA (x)	7.3	7.2	5.9	5.6	3.9
PB (x)	1.7	0.5	0.6	1.5	1.4
ROE (%)	27.4	7.6	6.9	19	48
Dividend yield (%)	3.4	0	0	0	0

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

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12M rating **Non-rated**

12M TP **N.A**

Up/Downside **N.A**

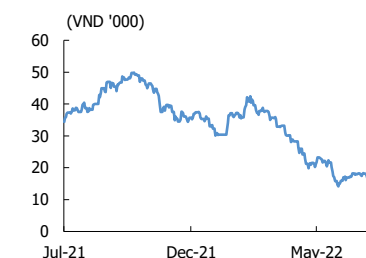
Stock Data

VNIndex (26 Jul, pt)	1,185
Stock price (26 Jul, VND)	16,600
Market cap (USD mn)	351
Shares outstanding (mn)	498
52-Week high/low (VND)	49,850/14,150
6M avg. daily turnover (USD mn)	11.08
Free float / Foreign ownership (%)	74.5/6.6
Major shareholders (%)	
Le Phuoc Vu	16.7

Performance

	1M	6M	12M
Absolute (%)	4.4	(45.7)	(53.9)
Relative to VNIndex (%p)	4.0	(27.1)	(48.3)

Stock price trend



Source: Bloomberg

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Table 1. Sales volume growth

(Tonnes)

	Monthly				Accumulated		
	June-21	June-22	MoM (%)	YoY (%)	FY9M21	FY9M22	YoY (%)
Steel Pipes	44,306	21,635	4.8	(51.2)	403,518	257,137	(36.3)
Export	4,037	1,938	(44.2)	(52.0)	33,305	16,973	(49.0)
Domestic	40,269	19,697	14.7	(51.1)	370,213	240,164	(35.1)
Steel Coat	155,178	98,731	(1.9)	(36.4)	1,328,199	1,217,112	(8.4)
Export	102,384	54,002	(6.0)	(47.3)	857,155	763,099	(11.0)
Domestic	52,794	44,729	3.5	(15.3)	471,044	454,013	(3.6)
Total Steel Volume	199,484	120,366	(0.8)	(39.7)	1,731,717	1,474,249	(14.9)
Export	106,421	55,940	(8.2)	(47.4)	890,460	780,072	(12.4)
Domestic	93,063	64,426	6.7	(30.8)	841,257	694,177	(17.5)

Source: VSA, KIS

Table 2. Production volume growth

(Tonnes)

	Monthly				Accumulated		
	June-21	June-22	MoM (%)	YoY (%)	FY9M21	FY9M22	YoY (%)
Steel Pipes							
Production	37,930	16,627	(6.4)	(56.2)	332,047	215,747	(35.0)
Inventories	44,432	44,244	(9.2)	(0.4)			
Steel Coat							
Production	158,076	82,834	(17.0)	(47.6)	1,348,025	1,216,426	(9.8)
Inventories	72,822	78,089	(4.1)	7.2			
Steel Coil							
Production*	180,186	80,303	(34.3)	(55.4)	1,517,507	1,050,396	(30.8)
Inventories	15,991	19,272	(31.9)	20.5			
Total							
Production	376,192	179,764	(25.0)	(52.2)	3,197,579	2,482,569	(22.4)
Inventories	133,245	141,605	(10.6)	6.3			

Source: VSA, KIS,

Note: Steel Coil Production excluded March Data.

Company overview & Glossary

Founded in 2001, HSG is a leading manufacturer of galvanized steel sheets (capacity of 2.7mn tonnes per year capacity) in Vietnam. Other products include steel pipes (capacity 990,000 tonnes per year) and plastic pipes. HSG also has its own retail distribution network with 536 branches.

Balance sheet

(VND bn)

FY-ending Sep.	FY17A	FY18A	FY19A	FY20A	FY21A
Current assets	10,991	9,218	6,252	8,123	17,407
Cash & cash equivalent	292	492	365	575	516
Accounts & other receivables	1,828	2,119	1,339	2,024	4,535
Inventory	8,871	6,607	4,548	5,524	12,356
Non-current assets	8,186	9,737	9,235	8,197	7,344
Investment assets	1,425	1,612	593	602	682
Fixed assets	6,761	8,125	8,642	7,595	6,662
Others	2,263	2,300	1,738	1,436	1,869
Total assets	21,440	21,255	17,225	17,756	26,620
Accounts & other payables	4,413	1,758	2,060	2,969	8,938
ST debt & bond	9,015	10,880	6,707	6,023	5,437
LT debt & financial liabilities	2,841	3,466	2,990	2,174	1,414
Total liabilities	16,269	16,104	11,757	11,166	15,789
Controlling interest	5,134	5,116	5,461	6,584	10,816
Capital stock	3,500	3,850	4,235	4,446	4,935
Capital surplus	152	152	152	152	157
Others	35	59	53	32	91
Retained earnings	1,447	1,055	1,021	1,954	5,633
Minority interest	37	36	8	7	17
Shareholders' equity	5,171	5,152	5,469	6,591	10,833

Income statement

(VND bn)

FY-ending Sep.	FY17A	FY18A	FY19A	FY20A	FY21A
Sales	26,149	34,441	28,035	27,539	48,727
COGS	21,731	30,464	24,836	22,913	39,910
Gross profit	4,418	3,977	3,199	4,626	8,817
SG&A expense	2,314	2,712	2,212	2,668	3,770
Operating profit	2,104	1,265	987	1,958	5,047
Financial income	54	180	63	77	367
Interest income	0.4	1.7	1.3	2.8	
Financial expense	589	971	803	659	554
Interest expense	482	812	746	560	355
Other non-operating profit	74	54	223	(3)	(1)
Gains (Losses) in associates, subsidiaries, and JV	0	0	0	0	0
Earnings before tax	1,643	529	470	1,374	4,858
Income taxes	311	120	101	221	609
Net profit	1,332	409	369	1,152	4,249
Net profit of controlling interest	1,332	409	369	1,153	4,249
EBITDA	2,809	2,290	2,179	3,188	6,233

Cash flow

(VND bn)

FY-ending Sep.	FY17A	FY18A	FY19A	FY20A	FY21A
C/F from operating	(2,173)	397	5,245	2,107	1,338
Net profit	1,332	409	369	1,152	4,249
Depreciation & Amortization	705	1,025	1,192	1,230	1,186
Net incr. in W/C	(4,116)	(764)	3,786	(334)	(4,031)
Others	(94)	(273)	(102)	59	(66)
C/F from investing	(3,994)	(2,339)	(803)	(310)	(131)
CAPEX	(3,967)	(2,512)	(782)	(390)	(318)
Net loan granted & purchases of debt instruments	3	1	(31)	66	1
Net purchases of investment in affiliates	(31)	166	4	9	183
Other	1	6	6	5	3
C/F from financing	5,889	2,143	(4,639)	(1,512)	(1,313)
Incr. in equity	35	(1)	(1)	(1)	39
Incr. in debts	6,197	2,535	(4,558)	(1,447)	(1,291)
Dividends	(196)	(350)	0	0	0
Others	(147)	(41)	(80)	(64)	(61)
C/F from others	(6)	(3)	8	0	23
Increase in cash	(279)	228	(212)	286	(105)

Key financial data

FY-ending Sep.	FY17A	FY18A	FY19A	FY20A	FY21A
per share data (VND)					
EPS	3,824	1,063	837	2,589	8,817
BPS	14,665	13,293	12,903	14,815	21,917
DPS	357.7	0	0	0	0
Growth (%)					
Sales growth	46.1	31.71	(18.6)	(1.8)	76.9
OP growth	(2.4)	(39.8)	(22.0)	97.6	157
NP growth	(11.4)	(69.2)	(11.7)	219	268
EPS growth	(49.9)	(72.2)	(17.9)	196.7	240
EBITDA growth	3.7	(18.4)	(4.8)	45.9	95.5
Profitability (%)					
OP margin	8.0	3.6	3.5	7.0	10.3
NP margin	5.0	1.1	1.3	4.1	8.7
EBITDA margin	10.7	6.6	7.7	11.5	12.8
ROA	7.4	1.7	2.0	6.7	18.9
ROE	27.4	7.6	6.9	19	48
Dividend yield	3.4	0	0	0	0
Dividend payout ratio	9.3	0	0	0	0
Stability					
Net debt (VND bn)	11,558	13,850	9,404	7,611	6,343
Int.-bearing debt/equity (%)	54.8	67.2	54.6	32.8	63.1
Valuation (X)					
PE	6.8	6.2	9.8	9.0	3.6
PB	1.7	0.5	0.6	1.5	1.4
EV/EBITDA	7.3	7.2	5.9	5.6	3.9

Fiscal Year starts on October

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- Hold: Expected total return will be between -5% and 15%
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