

22 Aug 2022

# Hoa Phat (HPG)

## July 2022 – Operational updates

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

### Construction export stole spot light in July

- Total July steel sales volume posted 601,088 tonnes, increasing by 1.2% yoy, but decreasing by 4.8% mom.
- Construction steel volume increased to 372,731 tonnes, +2.4% yoy, +7.1% mom thanks to export volume of 146,749 tonnes (+81.4% yoy).
- The coated steel sales volume (17,803 tonnes) was down 35.8% yoy while steel pipes sales volume (60,635 tonnes) was up 37.6% yoy.
- The steel coil sales volume (HRC) was down to 149,919 tonnes (-25.9% mom, -5.1% yoy).

### The export still the important driver for growth in 7M22

- The 7M22 total finished-product sale volume came in at 4,872,815 tonnes, +13.3% yoy thanks to the strong growth in most products. In which, construction steel grew 21.4% yoy to 2,673,248 tonnes.
- The total 7M22 export volume (972,966 tonnes) grew +70.0% yoy while the local sales volume (3,899,849 tonnes) increased by 4.5% yoy.
- HPG is expected to continue to witness the weak demand from domestic market amid high inflation concerns and rainy season.

12M rating **HOLD**

12M TP

Up/Downside

### Stock Data

VNIndex (19 Aug, pt)	1,269
Stock price (19 Aug, VND)	23,750
Market cap (USD mn)	5,904
Shares outstanding (mn)	5,815
52-Week high/low (VND)	43,896/20,800
6M avg. daily turnover (USD mn)	34.52
Free float / Foreign ownership (%)	54.3/20.6
Major shareholders (%)	
Tran Dinh Long	26.1

### Performance

	1M	6M	12M
Absolute (%)	7.2	(32.4)	(35.9)
Relative to VNIndex (%p)	(0.6)	(17.5)	(32.9)

### Stock price trend



Source: Bloomberg

	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)	6.0	3.1	3.2	3.5	3.1
EV/EBITDA (x)	2.6	2.6	2.6	2.6	3.6
PB (x)	1.3	1.2	0.9	0.7	0.6
ROE (%)	25.2	46.0	31.8	23.2	21.3
Dividend yield (%)	1.8	1.6	4.2	4.2	4.2

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

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**Table 1. Sales volume growth**

(Tonnes)

	Monthly				Accumulated		
	July-21	July-22	MoM (%)	YoY (%)	7M21	7M22	YoY (%)
<b>Steel Pipes</b>	<b>44,058</b>	<b>60,635</b>	<b>(6.0)</b>	<b>37.6</b>	<b>419,307</b>	<b>437,606</b>	<b>4.4</b>
Export	2,593	1,520	(41.2)	(41.4)	18,560	14,571	(21.5)
Domestic	41,465	59,115	(4.5)	42.6	400,747	423,035	5.6
<b>Steel Coat</b>	<b>27,715</b>	<b>17,803</b>	<b>8.8</b>	<b>(35.8)</b>	<b>187,667</b>	<b>187,036</b>	<b>(0.3)</b>
Export	20,280	5,501	(31.7)	(72.9)	104,368	101,536	(2.7)
Domestic	7,435	12,302	48.0	65.5	83,299	85,500	2.6
<b>Constr' Steel</b>	<b>363,938</b>	<b>372,731</b>	<b>7.1</b>	<b>2.4</b>	<b>2,202,070</b>	<b>2,673,248</b>	<b>21.4</b>
Export	80,907	146,749	24.4	81.4	446,320	821,386	84.0
Domestic	283,031	225,982	(1.7)	(20.2)	1,755,750	1,851,862	5.5
<b>Steel Coil</b>	<b>158,017</b>	<b>149,919</b>	<b>(25.9)</b>	<b>(5.1)</b>	<b>1,490,861</b>	<b>1,574,925</b>	<b>5.6</b>
Export	0	0	N.A	N.A	0	35,473	N.A
Domestic	158,017	149,919	(25.9)	(5.1)	1,490,861	1,539,452	3.3
<b>Total Steel Volume</b>	<b>593,728</b>	<b>601,088</b>	<b>(4.8)</b>	<b>1.2</b>	<b>4,299,905</b>	<b>4,872,815</b>	<b>13.3</b>
Export	103,780	153,770	19.6	48.2	569,248	972,966	70.9
Domestic	489,948	447,318	(11.0)	(8.7)	3,730,657	3,899,849	4.5

Source: Company, VSA, KIS

**Table 2. Production volume growth**

(Tonnes)

	Monthly				Accumulated		
	July-21	July-22	MoM (%)	YoY (%)	7M21	7M22	YoY (%)
<b>Steel Pipes</b>							
Production	47,335	61,836	6.2	30.6	409,857	423,589	3.4
Inventories	0	0	N.A	N.A			
<b>Steel Coat</b>							
Production	37,483	15,983	(45.0)	(57.4)	215,856	201,902	(6.5)
Inventories	0	0	N.A	N.A			
<b>Constr' Steel</b>							
Production	256,793	411,694	29.2	60.3	2,346,518	2,818,295	20.1
Inventories	255,537	399,674	10.8	56.4			
<b>Steel Coil</b>							
Production	219,778	224,342	(8.5)	2.1	1,477,190	1,422,480	(3.7)
Inventories	95,629	266,434	38.8	178.6			
<b>Total</b>							
Production	561,389	713,855	9.6	27.2	4,449,421	4,866,266	9.4
Inventories (Const, Coil)	351,166	666,108	20.5	89.7			

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
<b>Total assets</b>	<b>131,511</b>	<b>178,236</b>	<b>218,693</b>	<b>236,301</b>	<b>276,905</b>
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
<b>Total liabilities</b>	<b>72,292</b>	<b>87,456</b>	<b>99,135</b>	<b>90,602</b>	<b>101,632</b>
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
<b>Gross profit</b>	<b>18,904</b>	<b>41,108</b>	<b>41,174</b>	<b>39,376</b>	<b>44,720</b>
SG&A expenses	1,781	3,444	3,585	3,434	4,265
<b>Operating profit</b>	<b>17,123</b>	<b>37,664</b>	<b>37,589</b>	<b>35,943</b>	<b>40,455</b>
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
<b>Earnings before tax</b>	<b>15,357</b>	<b>37,057</b>	<b>35,855</b>	<b>34,110</b>	<b>38,489</b>
Income taxes	1,851	2,536	2,438	3,343	4,272
<b>Net profit</b>	<b>13,506</b>	<b>34,521</b>	<b>33,417</b>	<b>30,767</b>	<b>34,217</b>
Net profit of controlling interest	13,450	34,478	33,317	30,675	34,114
<b>EBITDA</b>	<b>21,899</b>	<b>43,751</b>	<b>43,956</b>	<b>43,709</b>	<b>48,902</b>

**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	1.8	1.6	4.2	4.2	4.2
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	6.0	3.1	3.2	3.5	3.1
PB	1.3	1.2	0.9	0.7	0.6
EV/EBITDA	5.1	2.8	3.2	3.1	2.5

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