

# Flat Steel

Steering through treacherous waters

Steel/Construction Materials | Hai Nguyen [hai.nt@kisvn.vn](mailto:hai.nt@kisvn.vn)

# Flat Steel

## Steering through treacherous waters

### Heating-up competition

While there is, currently, a shortage of domestic upstream-flat-steel makers, the downstream market witnesses the excess capacity condition. The downstream market competition has been heating up when domestic players continue to expand their capacity and anti-dumping measures on galvanized steel from China and Korea were terminated recently. In addition, domestic exporters will suffer a more intensive competition in one of the most lucrative export markets - EU when the EU Commission has recently applied Safeguard measures on galvanized steel imported from Vietnam. In our view, these would mark a new challenging period for earning growth of flat-steel industry/downstream players.

### Domestic revival to continue in 2022F but slower pace

In 2021, the domestic demand for some flat-steel products was hit severely caused by the COVID-19 outbreak. We expect to see the revival of domestic demand in 2022F amid accelerated infrastructure spending. However, the revival pace could be slower-than-expected in 2H22F amid lingering high inflation that dampened the demand. For longer term, we believe that the development of power and energy, manufacturing, oil and gas sectors combining with imported-upstream-product replacement will significantly contribute to the quantitative growth of domestic flat-steel market.

### Exports - a support for industry's quantitative growth

Export channel played a key role for industry growth in 2021 when domestic demand was muted. Domestic flat-steel makers have successfully utilized the selling price arbitrage and export opportunities to big consumers (EU and USA) amid pent-up demand post COVID-19. In our view, we suppose that the industry already reached the peak in export volume and turnover in 2021 amid domestic market priority. The production cost issue among regions and inflation-control willingness of governments are believed to create a stable export market for domestic exporters to help reaching full capacity over next few years amid the wave of protectionism policies.

### Initiation: Neutral rating on Flat-steel industry

We initiate Neutral rating on Flat steel industry as we see multiple of emerging headwinds on selling prices, competitiveness and margins. We also have HOLD ratings on NKG and HSG. Both are among the largest flat steel producers and planning on-going projects for the future growth: capacity expansion, retail segment encroachment. We see potentials for further growth of these two companies with their strategies, however, the mid-term outlook of the industry may hinder the mid-term growth.

## Sector In-depth

### Steel

9 Sep 2022

## Neutral

Company	Rating	TP (VND)
Nam Kim JSC	HOLD	24,300
Hoa Sen Group	HOLD	20,100

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## What is the report about?

- Long-term growth drivers for both domestic and export markets
- NEUTRAL on the multiple headwinds
- 2 stock picks: Nam Kim Steel, Hoa Sen Group

# I. Executive summary

### ***Excess production capacity for downstream products***

Currently, Vietnam's flat-steel industry is experiencing excess capacity conditions for the downstream segments (coated steel, welded pipes). A part of downstream production volume is for export markets whilst flat-steel makers still have to import upstream products (HRCs) as input materials. There are only 2 upstream steel producers with a total capacity of about 8.2mn tonnes versus the total market demand of around 12mn tonnes. Other steel makers are attaching mid and downstream yet struggling to move to upstream lines. The new Dung Quat complex from Hoa Phat is expected to supply 4.6mn HRC to the market in 2024F.

### ***Domestic heating-up competition***

Despite the excess capacity, companies still plan to expand the capacity in near future, which, in our opinion, can heat up the competition between domestic players. In addition, the recent policy on China and Korea coated steel could push the competition further when domestic players have to compete with each other and other international steel makers from Korea and China. Amongst domestic players, Hoa Sen Group, from our perspective, outstands with a strategy that can make a difference when it focuses on developing and strengthening its retail chain instead of expanding production capacity.

### ***Domestic demand growth spurred by key industries.***

In 2022F, we expect to see the domestic demand revives, however, the high inflation condition could slow down the revival pace. In the longer term, the growth of construction demand in various industries, for example, transport, energy, and manufacturing etc., will support for the growth of flat steel demand. Besides, the potential replacement of HRC imported products by domestic product could be another factor that contributing to flat-steel industry quantitative growth.

### ***Export opportunity not as attractive as it was***

Pent-up export demand, high selling price, and low-cost inventories were the formula of a successful year of 2021. In 2022F, domestic exporters have started suffering multiple headwinds: weak demand due to high inflation, downtrend in HRC price, higher competition when EU commission has just put Vietnam coated steel under new safeguard measures etc. In addition, domestic exporters will re-prioritize domestic market when it revives, which can possibly reduce export sales volume.

### ***Emerging short-term instability in export markets***

The lingering high inflation and property sector issue in China can possibly erode the purchasing power of end-use industries, then dampen the demand for steel globally. In our opinion, we expect the global infrastructure spending will be accelerated to avoid economic slowdown and worse, economic recession. However, the main cause - the geopolitical tension has been becoming more unpredictable and unsolved, could lead to the worst scenario. In longer term, we expect to have a more stable export market in next years to support industry's quantitative growth as global economy revives.

**Thing goes unfavorable, Reiterate Neutral**

We reiterate Neutral rating on the Flat steel industry as we see multiple headwinds upcoming on: (1) lower margins due to input cost volatility, lower selling price, and lower proportion of export sales, (2) potentially more competition when anti-dumping measures for China and Korea was terminated and industry players plan to increase the production capacity, (3) potential lower export demand when global economy slows down due to high inflation and interest rate hike.

**NKG, HSG are our stock picks**

We initiate coverage of NKG with HOLD rating and a TP of VND24,300, HSG with HOLD rating and a TP of VND20,100. For NKG, we believe that the company is quite active in sales and inventory policies thanks to its current capacity, therefore, it can reduce the negative impact of the market volatility. As for HSG, we pretty like the idea of Hoa Sen Home – construction materials retail chain amid highly competitive market. However, it's quite early to say about the success of the strategy. We need waiting to see how the company will solve current existing problems on the market and utilize its competitive advantages to compete with its competitors in retail segment.

**Table 1. Regional Peer Valuations**

	TP (Local)	Upside	3-year EPS growth	PE (x)			EV/EBITDA (x)			PB (x)			Dividend yield (%)		ROE		Net Gearing
				FY21A	FY22F	FY23F	FY21A	FY22F	FY23F	FY21A	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
Jsw Steel Ltd	551	-20%	-8.2%	8.0	16.0	11.2	5.9	8.3	6.7	2.4	2.2	1.9	1.0	1.2	14.9	17.8	80.0
Tata Steel Ltd	124	17%	-22.3%	3.2	6.1	7.3	3.4	4.3	4.8	1.1	1.0	0.9	2.7	2.7	16.7	12.8	43.7
Hindalco Inds	532	26%	-5.1%	6.6	7.8	8.1	6.1	5.1	5.2	1.2	1.1	0.9	1.2	1.3	14.3	12.2	56.4
Nmdc Ltd	135	10%	-29.0%	3.8	7.0	7.6	3.4	4.7	4.9	1.0	1.0	1.0	7.3	7.0	14.9	14.8	(12.8)
Jindal Steel & P	434	1%	-10.4%	5.3	9.1	8.1	3.9	5.4	5.1	1.2	1.0	0.9	0.5	0.6	12.3	12.0	25.6
Nippon Steel Cor	2,659	18%	-18.6%	2.9	4.7	5.6	4.5	5.1	5.7	0.6	0.6	0.5	6.3	5.6	12.0	8.6	53.4
Jfe Holdings Inc	1,729	17%	-18.7%	2.7	5.2	6.0	4.9	6.2	6.9	0.4	0.4	0.4	6.0	5.7	7.8	6.6	84.4
Bluescope Steel	20	28%	-29.8%	2.8	6.4	7.9	1.8	3.4	3.9	0.8	0.7	0.7	3.1	3.1	11.2	8.1	(3.5)
Angang Steel-A	3	18%	15.2%	8.0	7.0	5.4	N/A	4.7	4.0	N/A	0.4	0.4	4.4	5.6	6.0	7.2	15.3
Baoshan Iron & A	8	43%	11.4%	7.4	6.3	6.1	N/A	4.6	4.6	0.6	0.6	0.6	7.9	9.1	9.8	9.9	23.0
Maanshan Iron-A	3	15%	21.3%	11.0	7.1	6.0	N/A	5.3	4.8	0.7	0.7	0.7	6.4	7.7	8.3	9.9	44.6
Pangang Group -A	6	12%	13.2%	25.5	22.8	19.6	N/A	N/A	N/A	5.6	4.9	4.0	0.2	0.3	22.0	20.4	(6.8)
Fosun Intl	10	104%	21.7%	4.1	3.3	2.8	6.6	7.8	7.1	0.3	0.3	0.3	6.5	7.8	7.6	8.9	35.8
Posco Holdings I	352,333	46%	-16.6%	2.5	3.8	4.4	2.3	3.1	3.3	0.3	0.4	0.3	6.4	6.1	10.3	8.2	8.0
<b>Overseas average</b>				<b>6.7</b>	<b>8.0</b>	<b>7.6</b>	<b>4.3</b>	<b>5.2</b>	<b>5.2</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>					
<b>Overseas median</b>				<b>4.7</b>	<b>6.7</b>	<b>6.7</b>	<b>4.2</b>	<b>5.1</b>	<b>4.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>					
<b>Nam Kim Steel</b>	24,300	11%	-18.9%	2.2	4.6	4.3	2.4	3.9	3.4	0.8	0.8	0.7	3.8	3.8	20.1	18.3	45.8
<b>Hoa Sen Group</b>	20,100	7%	-21.3%	2.5	7.4	6.3	2.7	4.9	3.3	0.9	0.8	0.7	0.0	0.0	12.1	12.6	58.3

Note: As of Sep 8st 22 close  
Source: Bloomberg, KIS

**Table 2. Domestic Peer Valuations**

	TP (Local)	Upside	3-year EPS growth	PE (x)			EV/EBITDA (x)			PB (x)			Dividend yield (%)		ROE		Net Gearing
				FY21A	FY22F	FY23F	FY21A	FY22F	FY23F	FY21A	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	
Dai Thien Loc Vietnam	N/A	N/A	N/A	19.9	N/A	N/A	8.1	N/A	N/A	3.8	N/A	N/A	N/A	N/A	N/A	N/A	39.3
Germany Steel	N/A	N/A	N/A	6.3	N/A	N/A	5.6	N/A	N/A	2.1	N/A	N/A	N/A	N/A	N/A	N/A	55.5
Phuong Anh International	N/A	N/A	N/A	4.9	N/A	N/A	4.3	N/A	N/A	1.7	N/A	N/A	N/A	N/A	N/A	N/A	18.2
Hoa Phat Grp Jsc	51,930	124%	0.0%	3.0	3.1	3.4	2.7	3.1	3.0	1.1	0.9	0.7	4.3	4.3	31.8	23.2	18.2
<b>Domestic average</b>				<b>8.8</b>	<b>5.5</b>	<b>4.8</b>	<b>8.2</b>	<b>4.7</b>	<b>4.2</b>	<b>1.1</b>	<b>1.2</b>	<b>1.0</b>					
<b>Domestic median</b>				<b>5.6</b>	<b>5.5</b>	<b>4.8</b>	<b>7.9</b>	<b>4.7</b>	<b>4.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>					
<b>Nam Kim Steel</b>	24,300	11%	-18.9%	2.2	4.6	4.3	2.4	3.9	3.4	0.8	0.8	0.7	3.8	3.8	20.1	18.3	45.8
<b>Hoa Sen Group</b>	20,100	7%	-21.3%	2.5	7.4	6.3	2.7	4.9	3.3	0.9	0.8	0.7	0.0	0.0	12.1	12.6	58.3

Note: As of Sep 8st 22 close  
Source: Bloomberg, KIS

**Table 3. Coverage valuation**

Recommendation & TP			Earnings & Valuation										
Company				Sales	OP	NP	EPS	BPS	PE	PB	ROE	EV/EBITDA	DY
				(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(x)	(x)	(%)	(x)	(%)
Nam Kim Steel (NKG)	Recommendation	Hold	2020A	11,560	509	295	1,547	17,478	14.1	1.2	9.5	7.2	0.0
	TP (VND)	-	2021A	28,173	2,749	2225	10,059	26,205	2.2	0.8	50.0	2.4	0.0
	Price (08 Sep, VND)	21,800	2022F	24,300	1,607	1,255	4,756	25,756	4.6	0.8	20.1	3.9	3.8
	Market cap. (VND bn)		2023F	22,568	1,694	1,340	5,081	30,009	4.3	0.7	18.3	3.4	3.8
			2024F	25,883	1,941	1,414	5,362	34,543	4.1	0.6	16.7	3.2	3.8
Hoa Sen Group (HSG)	Recommendation	Hold	FY20A	27,540	1,959	1,153	2,642	14,825	7.9	1.4	19.1	5.3	0.0
	TP (VND)	-	FY21A	48,727	5,047	4249	8,434	21,950	2.5	0.9	48.8	2.7	0.0
	Price (08 Sep, VND)	20,800	FY22F	49,070	1,880	1,395	2,810	24,763	7.4	0.8	12.1	4.9	0.0
	Market cap. (VND bn)		FY23F	41,849	2,138	1,643	3,309	28,075	6.3	0.7	12.6	3.3	0.0
			FY24F	49,016	2,636	2,039	4,106	32,185	5.1	0.6	13.7	2.7	0.0
Hoa Phat Group (HPG)	Recommendation	Hold	2020A	90,119	17,123	13,506	3,958	17,873	5.8	1.3	25.2	5.0	1.9
	TP (VND)	-	2021A	149,680	37,664	34,521	7,575	20,296	3.0	1.1	46.0	2.7	1.6
	Price (08 Sep, VND)	23,100	2022F	179,232	37,589	33,417	7,404	26,729	3.1	0.9	31.8	3.1	4.3
	Market cap. (VND bn)		2023F	171,671	35,943	30,767	6,817	32,574	3.4	0.7	23.2	3.0	4.3
			2024F	203,104	40,455	34,217	7,581	39,185	3.0	0.6	21.3	2.4	4.3

Source: Respective company data, Bloomberg, KISVN






## II. Industry overview: unfavorable supply-demand mechanics

### 1. Value chain: abundant downstream players

In this report, we take a closer look at the Vietnamese flat steel market, which includes: upstream products (Hot Rolled Coil – HRC), midstream products (Cold rolled coil – CRC), and downstream products (coated steel and welded steel pipes).

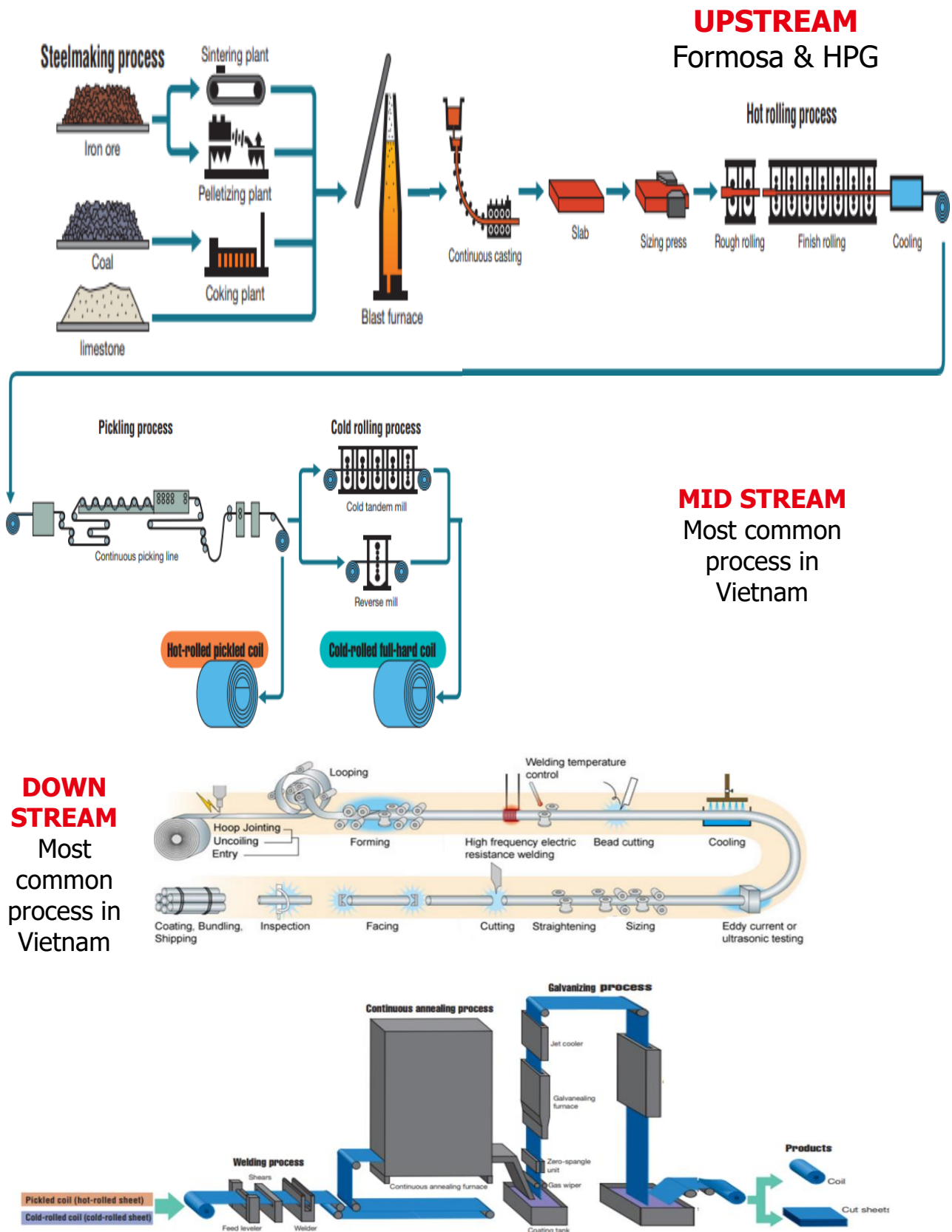
In Vietnam, there are currently 2 hot-rolled-coil producers: Formosa & Hoa Phat (HPG) with a total capacity of 8.2mn tonnes per year while the total demand was around 12mn tonnes according to VSA. Most local flat-steel producers use semi-finished products (HRC, CRC) as input materials, and then process them into galvanized and color-coated sheets or welded steel pipes. Galvanized steel is carbon steel that has been coated with Zinc. The most common method of Zinc coating is the hot-dip process. The finished steel sheet resists corrosion without any additional painting. The color coating can be further applied for specific purposes. Demand for flat steel products is supported by widespread usage in various industries including construction, automobiles, industrial machinery, and consumer durables.

**Table 4. Various applications of flat-steel products**

Products		Primary end use markets	Application
Hot rolled coil		Building and construction, mining, automotive and transport, manufacturing	Mining equipment, racking, guard rails, building and construction products, structural tubing, water pipelines, oil/gas pipelines and automotive components
Cold rolled coil		Automotive and transport, manufacturing	Automotive, packaging (drums) and storage systems
Galvanized and special Zinc finishes		Building and construction, manufacturing, automotive and transport	General manufacturing, automotive, structural sections for commercial and industrial buildings and structural decking
Zinc/aluminum alloy-coated steel		Building and construction	Commercial and industrial construction including roofing, walling, rain water goods and residential framing
Pre-painted		Building and construction	Residential, commercial and industrial construction including roofing, walling, fencing, rain water goods, architectural panels, sheds and garages

Source: KIS

**Figure 1. Manufacturing process of flat steel products**



Source: KIS



**Excess capacity for  
welded pipes and  
GI/GL products**

## 2. Excessive capacity heats the competition

We witnessed flat-steel manufacturers have invested heavily to expand their capacity in the past few years. According to our data collection, the current production capacity for coated steel and welded pipes has already exceeded the total current consumption of both domestic and export markets. The total consumption volume for welded pipes and coated steel was 2.18mn tonnes/5.43mn tonnes in 2021 and 2.6mn tonnes/3.9mn tonnes in 2020, which accounted for 58%/65% and 70%/46% of the total capacity of each product respectively.

For upstream-product steel makers, we observe that Vietnam still imported around 6mn tonnes steel coils in 2021 according to GSO, therefore, we believe that there is still room for upstream capacity expansion to replace the imported volume. The DQSC2 will supply 4.6mn tonnes HRC (lower than 2021 steel-coil imported volume) to the market from 2024F, which may replace a part of import volume from 2024 onwards. However, from our perspective, HPG will experience a more intense competition with potentially new domestic producers and other international low-cost producers for the domestic pie.

**Table 5. Current capacity of Vietnam flat steel industry (VSA members)** (Tonnes)

Companies	Upstream	Midstream	Downstream		
	Hot Rolled Coil	Cold Rolled Coil	Welded Pipes	GI/GL	PPGI/PPGL
Hoa Sen Group		2,000,000	834,000	2,700,000	855,000
Southern Steel Sheet				400,000	140,000
Maruichi Sun Steel		250,000	120,000	360,000	120,000
Dai Thien Loc		400,000	30,000	390,000	130,000
Tan Phuoc Khanh Trading and Manufacturing Coil Steel			150,000	300,000	100,000
NS Bluescope Vietnam				125,000	50,000
Nam Kim Steel		1,100,000	300,000	1,200,000	376,000
Ton Dong A		750,000		850,000	240,000
Vnsteel Thang Long Coated Sheets				100,000	70,000
Chinh Dai Industrial			300,000	250,000	
China Steel Sumikin Vietnam		1,100,000		300,000	
TVP Steel		400,000	200,000	480,000	140,000
Minh Ngoc Steel			250,000	50,000	
Hoa Phat Group	3,000,000	400,000	900,000	400,000	120,000
Perstima Vietnam				120,000	
Saigon Steel Service & Processing				100,000	
Vietnam Steel Pipe			40,000		
Vingal Industries			30,000	60,000	
190 Steel Pipes			48,000		
Nhat Quang Steel			300,000		
Seah Steel Vina			200,000		
Vietnam Germany Steel		180,000		150,000	
Formosa Ha Tinh Steel	5,200,000				
Vnsteel - Phu My Flat Steel		405,000			
Posco Viet Nam		1,200,000			
Thongnhat Flat Steel		200,000			
Posco VST		250,000			
<b>Total</b>	<b>8,200,000</b>	<b>8,635,000</b>	<b>3,702,000</b>	<b>8,335,000</b>	<b>2,341,000</b>

Source: KIS

**Table 6. Top steel imported products to Vietnam**

(Tonnes, USD'000, %)

Types	2021		YoY		2021 % total
	Volume	Value	Volume	Value	
Steel Coil	6,043,828	5,640,733	(18.1)	38.1	49.0
Steel Plate	1,889,138	1,716,983	(33.4)	10.9	15.3
Colour Coated Steel	327,984	165,630	(52.8)	(8.4)	2.6
GI steel	591,181	560,621	17.9	72.6	4.8
Steel bar	407,886	283,050	(50.0)	24.1	3.1
<b>Total Import</b>	<b>12,313,024</b>	<b>11,523,011</b>	<b>(38.6)</b>	<b>26.1</b>	<b>100.0</b>

Source: General Department of Vietnam Customs

**Table 7. Top steel-coil exporters to Vietnam, by countries**

(Tonnes, USD'000, %)

Supplier	2021		YoY		2021 % total
	Volume	Value	Volume	Value	
India	1,551,024	1,314,359	(18.8)	44.1	25.6
Japan	1,054,189	840,700	(45.4)	13.2	17.4
China	813,971	935,270	40.2	53.4	13.4
Korea	907,734	873,882	(7.8)	72.4	15.0
Taiwan	765,309	640,792	(56.4)	0.2	12.6
Russia	598,707	412,533	69.1	159.7	9.9
<b>Total Steel- Coil Import</b>	<b>6,043,828</b>	<b>5,640,733</b>	<b>(18.1)</b>	<b>38.1</b>	<b>100.0</b>

Source: General Department of Vietnam Customs

Recently, the Ministry of Industry and Trade has just issued a report 2152/BCT-CN: "Strategy to develop Vietnam's steel industry to 2030, with a vision to 2050". In which, the MOIT supposed that it is necessary to develop and invest more in large HRC production projects when domestic production capacity has not met the demand. Currently, Formosa Ha Tinh and Hoa Phat are the only two HRC producers with a total capacity of 8.2mn tonnes. When Hoa Phat's DQCS2 starts the operation in 2024F, domestic HRC supply would in total meet 90-95% of current market demand. Other Vietnamese flat steel manufacturers seem to be stuck at the mid and downstream segments when Hoa Sen Group failed to get approval for Ca Na steel project to move upstream. Meanwhile, the competition in the downstream segment is continuously heating up when steel makers continue to expand their capacity.

**Table 8. Downstream steel projects**

(Tonnes)

Investors	Products	Capacity	Status
Hoa Phat Group	Steel Pipes	500,000	Expected to start construction in 2022
Nam Kim Steel	Steel Sheet	100,000	Expected to start construction in 2022
Nam Kim Steel	Steel Sheet	1,200,000	Expected to start construction in 2023
Ton Dong A	Steel Sheet	350,000	Expected to start construction in 2022

Source: KIS

In addition, Vietnam imported about 591,181 tonnes GI in 2021 while the total domestic sales volume of GI product, according to VSA, was about 671,000 tonnes in 2021 and 792,000 tonnes in 2020. Therefore, although we cannot break down the data in more detailed, we suppose that the recent anti-dumping termination could heat up the competition amongst domestic and international flat-steel makers. We also believe it is reasonable for downstream-product steel-makers' plans to postpone/stop any downstream-product capacity expansion plans and focus on sales or divide the expansion plan into many stages and focus on higher-quality products amid possibly higher competition. While domestic pie is still not big enough and export markets are unstable, focusing on domestic sale channel development may be a good strategy for market players. Hoa Sen Home - construction material retail chain could be an interesting idea to be followed.

### III. Domestically quantitative growth spurred by growing key industries, and imported-product replacement

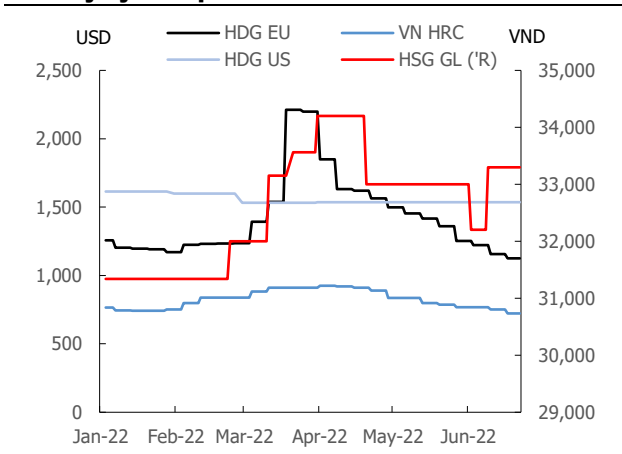
#### 1. Domestic revival faces constraints in the short-term

**Possibly slower domestic revival pace in 2022**

According to VSA, total 2021 flat-steel products consumption volume grew 33.2% yoy to 17.04mn tonnes. Domestic sales volume for steel pipes and coated steel was down with 15.9% yoy and 12.1% yoy, respectively while steel coil demand for both domestic and export channels was firm (+50.6% yoy) as the main input material for other flat-steel products. However, as for domestic demand, lingering high construction material costs amid energy & fuels price hike had continue to show some negative signal in 2Q22. The domestic 2Q22 sales volume of steel pipes/steel coat dropped significantly by 22.2%/16.5% yoy and 23.5%/18.1% qoq. Agents tend to be hesitant to stock inventories and waited for price corrections. Besides, the lingering high energy and fuel costs leading to high inflation may delay the new construction projects and then lower the domestic demand for flat steel products.

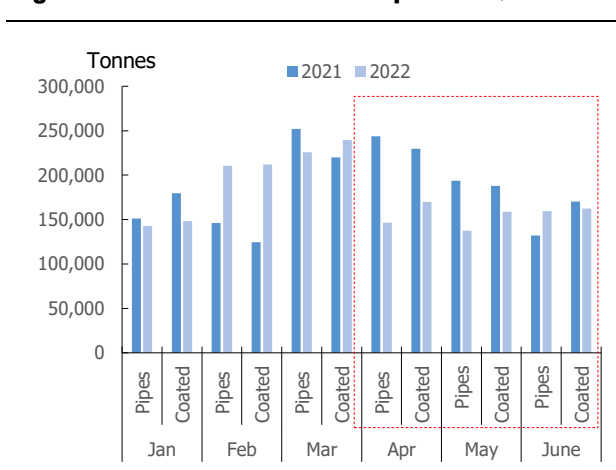
With inflation pressure and global economic slowdown view, we expect to see the total 2022F sales volume including steel coil, coated steel and steel pipes will decline by 9.3% yoy (based on VSA data). In which, domestic demand could drop by 4.6% yoy to 10.93mn tonnes in 2022F.

**Figure 2. Domestic selling price was impacted directly by HRC-price downward trend**



Source: KIS, Bloomberg

**Figure 3. Domestic demand slumped in 2Q22**



Source: VSA, KIS

## 2. Quantitative growth spurred by strong investment in key industries, in the medium view

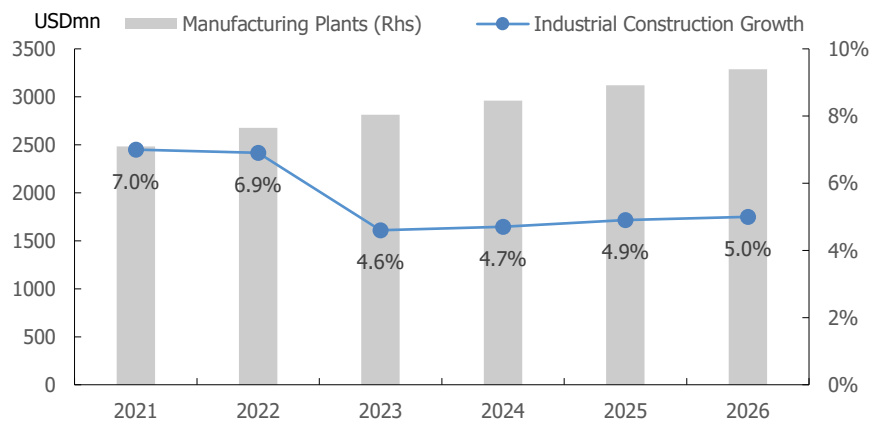
**Sustainable long-term quantitative growth thanks to other industries' support**

In long term, we expect the growth of other key industries will support the growth of flat steel industry. The flat steel application was as input material for the manufacturing and manufacturing industries such as mechanical engineering, shipbuilding industry, automobile manufacturing, machinery, production of household appliances, defense industry, mining industry, electrical industry etc. In Vietnam, however, largest end-use sector is still mainly construction (93% - SEASI 2017) while others sectors, for example shipping building, automobile, and mechanical engineering, consist of much smaller proportion. As for construction sector, the industry is expected to register an annual average growth of 8% in real term from 2023 to 2026, supported by investment on transport, energy and utilities, housing and manufacturing constructions projects according to GlobalData:

**Vietnam – emerging global manufacturing hub**

**The industrial construction sector** is expected to register an annual growth of 6.9% yoy in real terms this year. Vietnam had 398 established industrial parks, while 108 were under construction and 564 were under planning. The Ministry of Planning and Investment (MoPI) reported that Vietnam's economic and industrial parks attracted 539 foreign-invested and 615 domestic projects in 2021. In addition, Vietnam is expected to be well positioned to attract global manufacturers diversifying operations away from China.

**Figure 4. Vietnam industrial construction growth & sub-sector value**

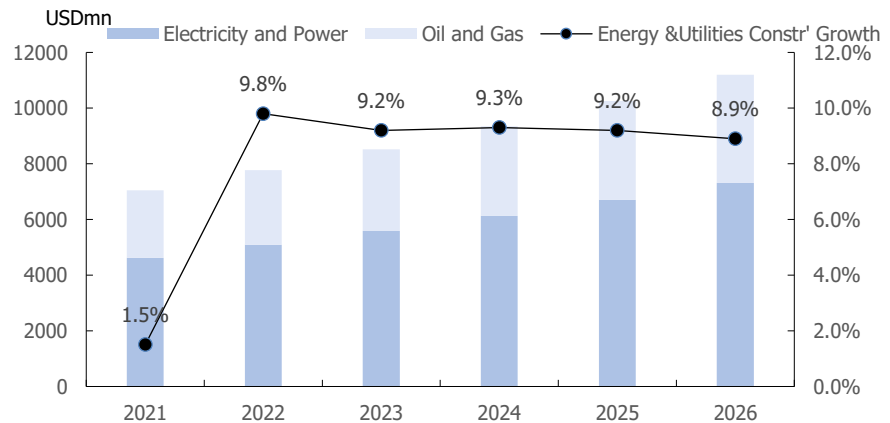


Source: KIS, GlobalData

**Rising demand in Energy & Power pushes investment**

**Energy and Utilities Construction Sector** is expected to expand by 9.8% yoy in 2022F and average growth of 9.2% yoy from 2023F to 2026F. The forecast growth will be supported by investment as part of Power Development Plan VIII and investment in LNG projects to meet rising demand. According to the estimates of the Ministry of Industry, Vietnam's LNG import demand is expected to reach 5mn tonnes per annum (tpa) in 2025F, 10 million tpa in 2030F, and 15mn tpa in 2035F.

**Figure 5. Vietnam Energy & Utilities construction growth & sub-sector value**

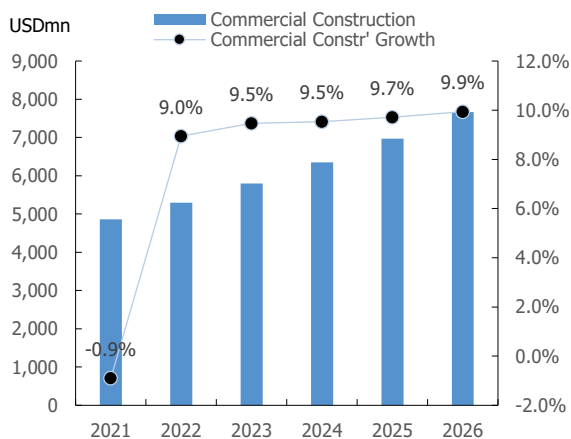


Source: KIS, GlobalData

**Increasing urbanization and recovery post COVID re-attract investment in sectors**

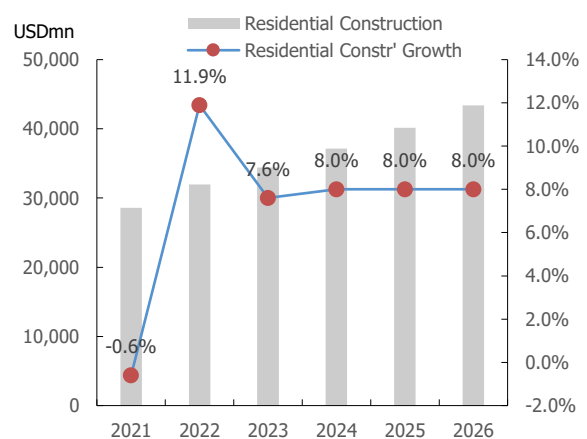
**Commercial and Residential Construction Sectors.** The commercial construction sector is expected to expand by 9% in real terms in 2022, before registering an annual average growth of 9.7% from 2023 to 2026. The recovery of demand in industries such as manufacturing, finance, banking, and insurance along with the resume of international flights are expected to further attract investments towards commercial sector. The residential construction sector is expected to expand by 11.9% yoy in real terms in 2022F, before registering an annual average growth of 7.9% yoy from 2023F to 2026F. The recovery of demand in industries. The sector growth will be supported by investments on the construction of affordable housing units, coupled with the renovation of aging residential buildings.

**Figure 6. Vietnam Commercial construction growth & value**



Source: KIS, GlobalData

**Figure 7. Vietnam Residential construction growth & value**



Source: KIS, GlobalData

**Upstream-sales-volume growth thanks to import replacement**

As we mentioned above, the current domestic upstream-product capacity has not met the domestic demand. Vietnam still imported around 6mn tonnes steel coil in 2021 and 7.3mn tonnes in 2020. We expect the HRC product from DQSC2 can partly replace the imported HRC. The replacement of imported product is expected to contribute to the growth of the industry from 2024. However, Hoa Phat will experience a more intense competition with international mills while down-stream producers gain more bargaining power.

## To sum up

In our viewpoint, we believe that the flat steel industry will continue to grow sustainably in long term thanks to the support from new investments in key industries that push the demand for flat-steel products besides replacement of imported products. In addition, the growing export markets thanks to accelerated infrastructure spending post-COVID-19 would help domestic flat-steel makers to diversify markets and reduce the risks of excess capacity and higher competition in both domestic and export markets.

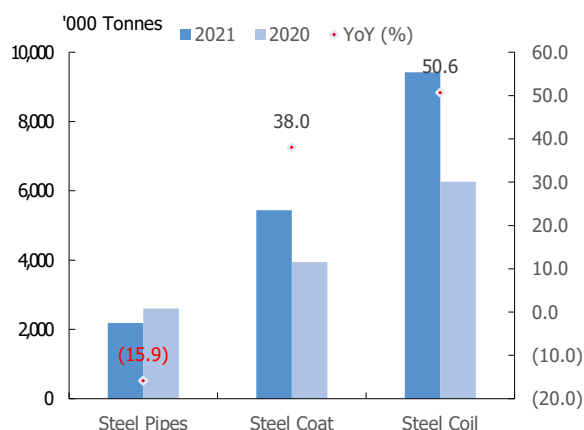
## IV. Global recovery post health crisis and geopolitical tension drove industry growth

### 1. Export sustains to support industry growth in 2023F-24F

**Global pent-up demand post COVID19 supported the growth in 2021**

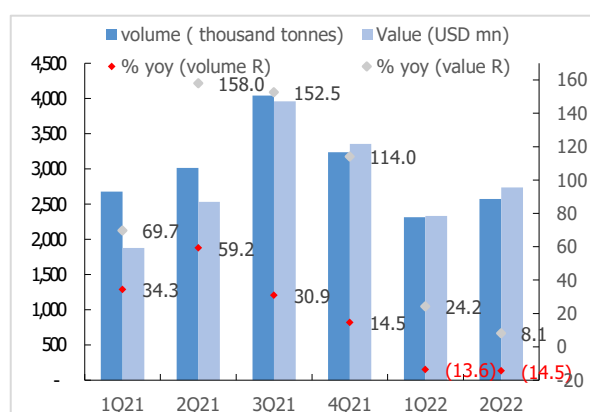
Domestic flat-steel makers successfully exploited the export opportunity. In which, flat-steel export volume reached 5.5mn tonnes, +80.3% yoy. Total 2021 steel export turnover grew dramatically to USD11.7bn (+124% yoy). In first 6M22, coated steel export volume reached 1,304,013 tonnes (-12.3% yoy). While, according to GSO, total export volume in 2Q22 decreased 14.5% yoy to 2.57mn tonnes, the export turnover reached USD2.7bn (+8.1% yoy) thanks to selling price arbitrage and low-base in 2Q22.

**Figure 8. 2021 sales volume was solid despite weak domestic demand.**



Source: KIS, VSA

**Figure 9. Export turnover grew slightly thanks to high selling price**



Source: GSO, KIS

**Table 9. Top Vietnam's steel export products**

(Tonnes, USD'000, %)

Supplier	2021		YoY		2021 % total
	Volume	Value	Volume	Value	
Steel Coil	2,780,441	2,189,048	55.8	148.7	21.2
GI Steel	2,376,526	2,735,053	148.7	376.7	18.1
Steel Bar	983,876	677,415	(28.9)	137.9	7.5
Steel Plate	856,343	1,128,863	60.6	166.1	6.5
GL Steel	957,468	1,141,599	97.6	231.9	7.3
Colour Coated Steel	511,208	628,532	(16.9)	54.9	3.9
<b>Total Export</b>	<b>13,096,619</b>	<b>11,795,391</b>	<b>31.5</b>	<b>147.6</b>	<b>100.0</b>

Source: General Department of Vietnam Customs

According to International Trade Centre, Japan, Korea, India and China are the top exporters for steel coil (HSCode7208,7209) and coated steel (HSCode7210) products while on the other side, USA, Italia and Thailand are among the top importers of those products. The difference in production costs among countries and the disappearance of Russian steel on the global market created the opportunity for other exporters from Asia including Vietnam to big steel consumers (USA, EU). In 2021, steel coil export volume jumped 55.8% yoy to 2.7mn tonnes. In addition, Vietnam exported totally 1.6mn tonnes steel to EU (+532% yoy) and 1mn tonnes steel to USA (+449% yoy).

**Table 10. Top Vietnam steel export destinations**

(Tonnes, USD'000, %)

Supplier	2021		YoY		2021 % total
	Volume	Value	Volume	Value	
ASEAN	3,816,051	3,093,279	(8.5)	34.2	29.1
USA	1,051,189	1,365,331	449.7	688.0	8.0
EU	1,629,425	1,886,595	532.7	844.9	12.4
China	2,630,554	1,666,130	(25.6)	12.4	20.0
<b>Total Export</b>	<b>13,096,619</b>	<b>11,795,391</b>	<b>31.5</b>	<b>147.6</b>	<b>100.0</b>

Source: General Department of Vietnam Customs

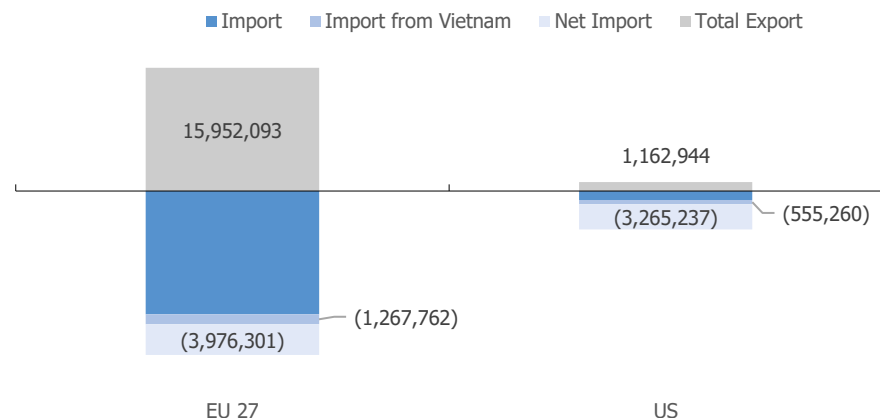
**Table 11. Top GI steel export destinations**

(Tonnes, USD'000, %)

Supplier	2021		YoY		2021 % total
	Volume	Value	Volume	Value	
USA	376,335	494,640	1,072.7	2,228.3	15.8
Belgium	559,288	674,352	2,099.1	3,944.1	23.5
UK	369,275	424,954	745.4	1,380.3	15.5
Cambodia	257,395	224,873	(37.9)	(1.7)	10.8
Spain	125,709	146,633	2,966.7	5,510.4	5.2
Portugal	78,257	95,450	2,264.8	4,981.2	3.3
Italia	102,295	127,409	7,081.0	10,484.6	4.3
Thailand	98,000	86,568	(61.9)	(44.4)	4.1
<b>Total GI Export</b>	<b>2,376,526</b>	<b>2,735,053</b>	<b>148.7</b>	<b>376.7</b>	<b>100.0</b>

Source: General Department of Vietnam Customs

**Figure 10. Export and Import Volume (HSCode 7210) by Vietnam's export markets: EU and US in 2021 (unit: Tonnes)**



Source: KIS, ITC

**Temporary downtrend in HRC price be an opportunity but also a challenge**

In 6M2022, we already witnessed the dampened global demand caused by some following reasons:(1) sufficient inventories from international buyers, (2) high selling prices marred by cost-push inflation, (3) advantage taking on COVID-19 resurgence in China from the buyer side. Lower global end-industry

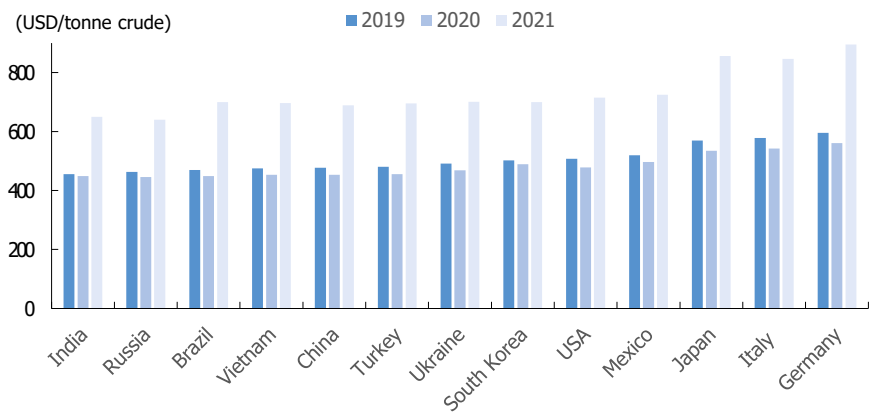
demand along with the increasing export volume from China has forced steel prices to decline. Vietnam HRC price decreased 37.5% to USD578/tonne on 7 September from the April-22 peak (USD925/tonne). We forecasted that the domestic HRC price is to continue to retreat to around USD550-570 level - down 39.4% from the April peak in 2022F. We note that Vietnam's coated steel export is with forwarding contracts, which means the gross margin is already locked and will be reflected later in financial performance results. On the other hand, flat-steel makers sell products in the domestic market at the spot price, therefore, the longer downtrend in HRC prices and weak domestic demand may force companies to cut down ASP further. According to our data collection at end of June, coated zinc-alloy steel sheet (HSG) was down 2.6% from the peak in April. Depending on the time of stocking inventories and the level of domestic-selling-price adjustment, each company will have a different impact on domestic margin. This would partly offset the strong export-locked margin. Besides, the top steel exporters recommend a conservative approach on the export volume in 2022F when sales volume could be skewed in favor of the domestic market if domestic demand revival in 2H22F gets stronger. The lower proportion of export sales in total sales will decrease the gross margin of companies. For examples, based on our calculation, the domestic gross margin in 2Q22 of NKG was about 9.8% and export one was 13.9%, which brings overall gross margin to 13% - down 1%p compared to 1Q22. The increasing of the proportion of domestic sales will lower the overall gross margin of NKG amid domestic-market priority. We believe that it will be hard for industry players to maintain positive bottom-line growth in next quarters, especially, domestic flat-steel makers will experience more competition after the Ministry of Industry and Trade stopped imposing anti-dumping duties on galvanized steel products from Korea and China. As we mentioned in our [April Steel Production report](#), we see the decline in HRC prices as an opportunity for lower-cost inventories. We suppose that the demand in China will pick up again after restrictions ease and infrastructure stimulus goes online. Therefore, the current HRC-price downtrend would be also an opportunity for improving margin for industry players in the future when HRC price back to the uptrend amid the uncertainty of geopolitical tension.

The increasing infrastructure spending post-COVID19 (USD1.2tn package in USA, USD1.35tn package in India, USD2.3tn package in China etc) is expected to fuel the steel demand around the world despite the recent slowdown caused by the high selling price and weak demand from end use industries. Besides, the uncertainty of when the geopolitical tension and sanctions come to an end would make export price and input cost remain high until the global trade flows are re-shaped (see our viewpoint in [Strategic Insight March 22 report](#) - page.34). Even the trade flows are re-shaped, we supposed that it's still difficult for new trading partners to fully absorb the amount that Russian fails to sell given the sanction regime. Therefore, we believe that production cost issue in developed countries still exists and the export opportunity for other lower-cost exporters still maintain given the sanctions.

**Global policies to control inflation would stabilize export markets**



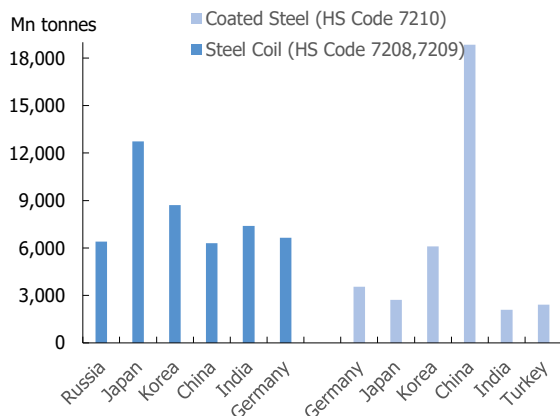
**Figure 11. Steel production costs in different countries (exclude geopolitical tension factor)**



Source: TransitionZero and GEI

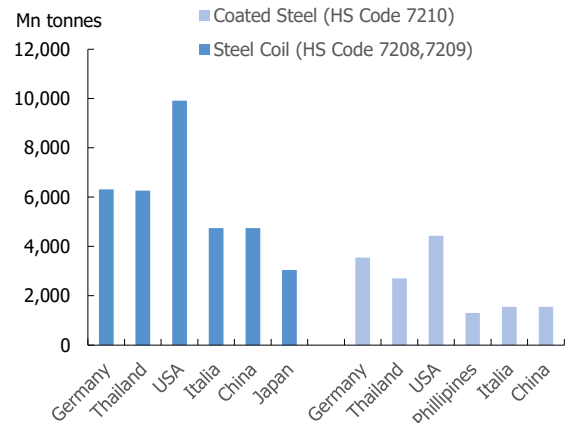
In addition, the recent export tax policies from big producers/exporters (India, China...etc) with inflation control target, along with the limited capability to increase mill utilization in big consumers (EU, USA etc) due to high production costs, would help Vietnam exporters, in our opinion, have a more stable export market in next years. If the Ukraine-Russia sanctions last longer, the inflation heat may force many countries to terminate tariffs and increase import quotas or postpone to apply new duty on exporters, which is believed to potentially benefit Vietnam exporters in quantity amid excess capacity condition in, at least, 2 years from 2022 to 2023. In our view, the export volume in 2022F is forecasted to decline by 18.9% yoy amid domestic-market priority and weak global demand. We suppose that the industry already reached the peak in export volume and turnover in 2021 and export will be a channel to support domestic exporters to maximize their sales volume and run at full capacity even if the sanction come to an end. As for gross margin for export products, as long as the price gaps caused by the production cost issue and the shortage of cheap supply is maintained, domestic flat-steel makers can still enjoy the good margin from export sales compared to the domestic one. The industry is also believed to reach best margins in 2021 thanks to high proportion of export, high selling pricing, and low-cost inventories.

**Figure 12. Top global steel coil and coated steel exporters in 2021, by countries**



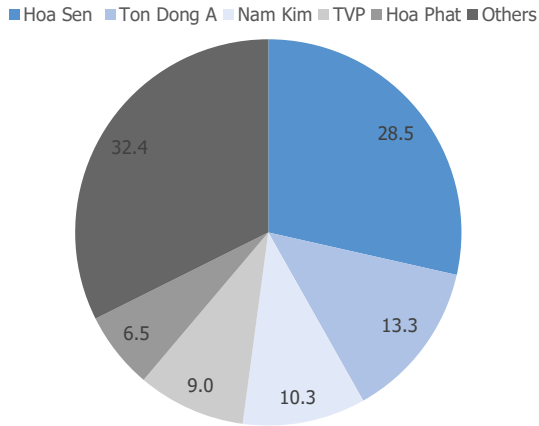
Source: KIS, ITC

**Figure 13. Top global steel coil and coated steel importers in 2021, by countries**



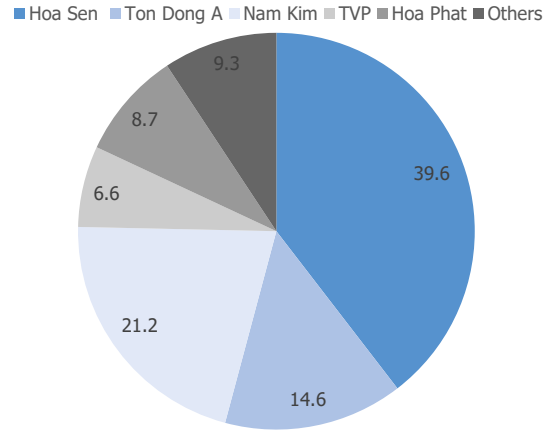
Source: KIS, ITC

**Figure 14. Steel coat domestic market share, by companies 2021**



Source: Bloomberg

**Figure 15. Steel coat export proportion by companies**



Source: Bloomberg

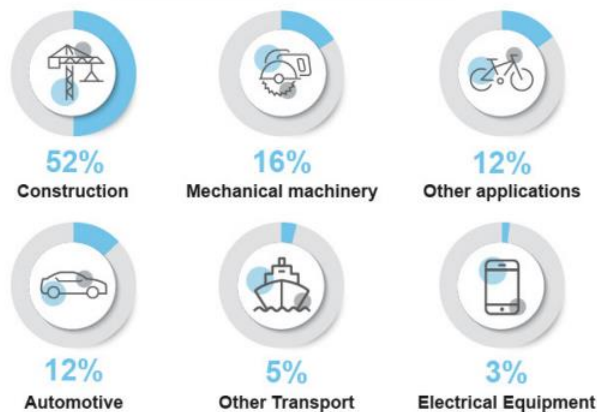
## 2. Risks to be considered

### ***Prolonged inflation could dampen the consumption***

The downside risk for our argument is that the lingering inflation and property sector issue in China (35-40% China total steel consumption) will erode the purchasing power of end-use industries, then dampen the demand for steel. In addition, potential over-supply conditions will severely hit domestic steel makers' sales growth in both volume and value. The geopolitical tension has been becoming more complicated related to economic, political, and military conflicts amongst the most powerful countries. Along with the recent aggressive interest-rate-hike policies, an economic recession caused by lingering high inflation and lower consumption demand would be the worst-case scenario for growth outlook of the flat-steel industry.

However, we also believe that the countries, themselves, will have important political changes (leader replacements, political views over Russia, etc.) to stabilize the domestic crisis when citizens' lifestyle were severely hit by high inflation, job cut. Therefore, any surprising events are, for example EU members divided under inflation heat or China imposes U-turn policies over Russia issue etc, expected to come.

**Figure 16. Global steel consumption, by industry (2021)**



Source: Australian Government, KIS

**Domestic players will prioritize the domestic market when it revives**

As mentioned above, domestic companies will prioritize the domestic market when it revives, which is, from our perspective, very reasonable amid heating competition among domestic players. Most top exporters are currently running at almost full capacity, therefore, there is no much more room for extra export volume. In the better-than-expected domestic revival case, some companies may reduce export volume to meet the domestic demand.

### 3. Commerce protectionism is another threat

**Protectionism policy still industry trend**

As mentioned above, we believe that the policies related to industry protection will be temporarily eased in short term under inflation control target. It does not mean that countries will stop imposing the new duties but the process may last longer. Protecting domestic steel industry will remain to be the industry trend amid the difference in production cost among regions. The table below will show the recent trade defense policy measures.

**Table 12. Recent Defensive Trade Policy Measures**

No	Products	Country	Product Source	Year Star	Conclusion
1	Coated aluminum alloy steel and color coated steel	Thailand	Vietnam	Mar-22	Under Investigation
2	Oil country tubular goods	Canada	Vietnam, India, Taiwan, China, Indo, Korea, Thailand, Turkey	Mar-22	Under Investigation
3	Oil country tubular goods	USA	Vietnam	Aug-21	Tax: SeAh Steel 1.49% Other 111.47%
4	Corrosion-resistant steel from Japan products	USA	Vietnam	Nov-21	Not enough evidence
5	Coated Steel	Mexico	Vietnam	Aug-21	Under Investigation
6	Cold rolled coils of iron or non-alloy steel	Malaysia	Vietnam, China, Korea	Apr-21	Under Investigation
7	Cold Rolled Coils /Sheets	Pakistan	Vietnam, China, EU, Korea	Mar-21	Under Investigation
8	Welded stainless steel pipes and tubes	India	Vietnam, China	Feb-21	Under Investigation
9	Pre/Painted coated steel coils	Malaysia	Vietnam, China	Jan-21	Tax from 0.06% to 34.85%
10	Cold Rolled Coils/Sheets/Strips	Pakistan	Vietnam, Korea, EU, China	Dec-20	Under Investigation

Source: KIS, MoIT

**New EU safeguard measure affect significant on the industry**

Recently, European Commission has just moved hot-dipped galvanized (HDG) imported from Vietnam under the 4A, 4B product categories, which will be subjected to the quotas. The new safeguard measures are effective from 1<sup>st</sup> July 2022 and expected to be in place until 30 June 2024. In which, the imported steel products that satisfy 4A and 4B categories will have the quotas as shown in the table below. To be part of the quotas, Vietnam will have to directly compete other countries with Turkey and China outstanding. According to our data collection, 2021 the coated steel export from Turkey only to EU was over 1.5mn tonnes while 2021 total GI export volume from Vietnam to EU was around 1mn tonnes, accounting for 45% quotas. Therefore, top exporters from Vietnam will experience a hard time in EU markets about selling price and sales volume depending on their export volume to EU market, the proportion in total sales volume and how flexible their sales policies. However, the quota will be reset quarterly so it would minimize the impact of other competitors.

**Table 13. HDG import fell under 4A Category – subjected to quotas** (Net Tonnes)

Product number	Product Category	Allocation by country	Year 2 (1 July 22 to 31 June 23)	Year 3 (1 July 23 to 31 June 24)	Additional duty rate
4A	Metallic Coated Sheet	Other countries	1,802,538.65	1,874,640.18	25%
4B	Metallic Coated Sheet	Other countries	400,103.8	416,107.94	25%

Source: KIS

**To sum up**

As for export markets, we suppose that the export market in the next few years will still be not only stable but also an important factor to support the quantitative sales of downstream products amid excess capacity conditions. The current protectionism policy wave may be temporarily paused due to the inflation control and economic growth concerns. However, in long term, especially after the inflation is stabilized, we believe that domestic exporters will continue to experience the increasing protectionism policy wave and high competition from other international low-cost steel makers in current export markets. As for margins, the lower sales proportion from export will immediately affect the margins of domestic players. The further impact will depend on the HRC price trend, in which, China will be the main variable given the sanction. In the current short-term downtrend of HRC price, the margin may be negatively affected when the margin from export sales will be offset partly by a low margin from domestic sales. On the other side, when HRC price backs to uptrend (China's demand comes back) the negative impact will be reduced thanks to better domestic margin.

## VI. Conclusion and Ratings

**Reiterate Neutral**

Flat steel sector has overperformed the broader market throughout 2021 as they have benefitted from global supply disruption caused by COVID-19. We reiterate a Neutral rating on Flat steel sector as we see multiple headwinds on (1) lower margins due to input costs volatility/lower selling price and lower proportion of export sales, (2) potentially more competition when anti-dumping duties for China and Korea are terminated and industry players increase the production capacity, (3) potential lower export demand when global economy slows down due to high inflation.

**1) Input volatility and lower proportion of export sales compressed margins**

First, 2021 would be the best period for flat-steel makers' margins thanks to stellar selling prices, low-cost inventories, and strong export demand. In 2022, companies prioritize the domestic market with lower margins compared to the export market despite maintaining price gaps. Along with the unfavorable input/domestic selling prices trend, we suppose that industry players will experience compressing margins in 2022 and onwards.

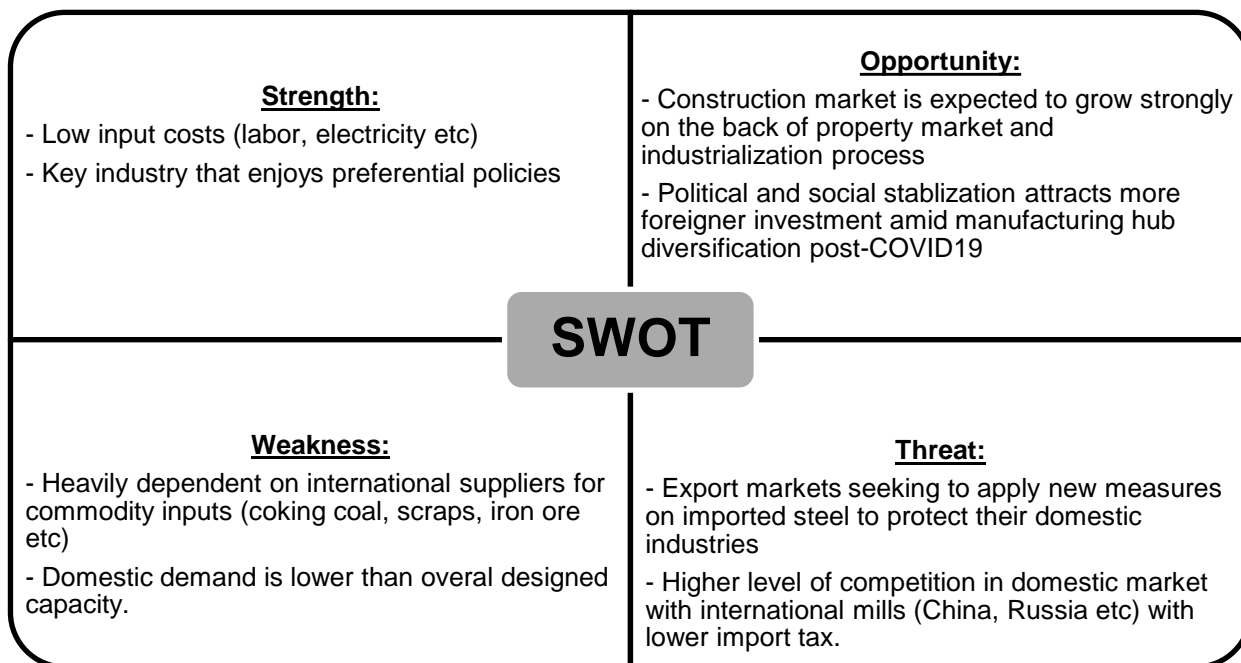
**2) More competition**

Second, we see the competition is heating up when top manufacturers continue to expand their capacity and the anti-dumping measures on galvanized steel products originating from China and Korea have been terminated according to Decision No. 924/QD-BCT from the Ministry of Industry and Trade. In addition, new EU quotas applying to coated steel products from Vietnam would make one of the best export markets become less attractive when domestic exporters have to suffer the high competition from other countries like Turkey, China.

**3) High inflation may dampen demand and lower the price**

Third, the uncertainty of geopolitical tension and sanctions may lead to the high inflation for the rest of 2022 caused by the high energy and fuels costs. Rising inflation poses risks for consumer spending and public spending that can erode the demand from domestics and internationals and lower selling price. This can severely hit top and bottom lines of industry players.

**Table 14. Industry SWOT analysis**



**Stock picks** – we are still neutral on NKG and HSG, and placing Ton Dong A on our watch list. We like those steel makers that meet the following key criteria:

- 1) Those exporters have new catalyst for growth in long term.
- 2) Have capability to compete with other competitors in both domestic and export market.

Based on the above criteria, Nam Kim Steel (NKG VN, HOLD, TP: VND24,300) Hoa Sen Group (HSG VN, HOLD, TP: VND20,100) are our top pick and we place Ton Dong A (Not rated) on our watch list for 2022.

**Nam Kim Steel** (NKG, HOLD, VND24,300): The company is among the leading coated steel exporters, with the EU as a key market (60% of total export volume in 2Q22), will likely still benefit from the global imbalance of supply/demand despite the new quotas. We expect to see the impact from new policy from 2H22 but less severe than domestic peers as company is very proactive in sourcing new export markets and prioritizing domestic market when its demand revives.

**Hoa Sen Group** (HSG, HOLD, VND20,100): The company is the top coated steel exporter in Vietnam and expected to be affected by new EU quotas. However, we are very interested in the new retail strategy – Hoa Sen Home. In our viewpoint, we believe that it is a good vision amid heating competition in both domestic and export markets. HSG has many advantages when stepping into new construction material retailing segment when it can utilize its current facilities and experiences from current company's 570 outlets.

# Top picks

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Nam Kim Steel JSC (NKG)

Hoa Sen Group (HSG)

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# Nam Kim Steel JSC (NKG)

**HOLD (Initiate), TP VND24,300**

Stock price (8 SEP, VND)	21,800
Market cap (USD mn)	244
Shares outstanding (mn)	263
52W High/Low (VND)	44,966/15,650
6M avg. daily turnover (USD mn)	11.3
Free float (%)	64.9
Foreign ownership (%)	6.5
Major shareholders (%)	
Ho Minh Quang	15.4

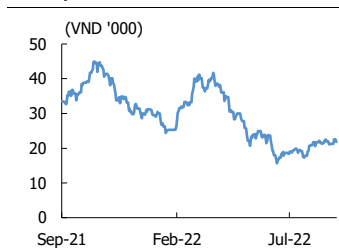
Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2020A	11,560	509	295	1,547	539.7	886	14.1	7.2	1.2	9.5	0.0
2021A	28,173	2,749	2,225	10,059	550.4	3,128	2.2	2.4	0.8	50.0	0.0
2022F	24,300	1,607	1,255	4,756	(52.7)	1,991	4.6	3.9	0.8	20.1	3.8
2023F	22,568	1,694	1,340	5,081	6.8	2,138	4.3	3.4	0.7	18.3	3.8
2024F	25,883	1,941	1,414	5,362	5.5	2,446	4.1	3.2	0.6	16.7	3.8

## Capacity expansion focus amid flexible sales policy

### Performance

	1M	6M	12M
Absolute (%)	0.5	(44.9)	(34.9)
Relative to VNI (%p)	2.2	(29.4)	(28.9)

### Stock price trend



**HOLD and TP of VND24,300:** We initiate the coverage of NKG with HOLD rating on Nam Kim Steel (NKG) based on the outlook in 2022F-24F. We forecast EPS will post a three-year forward CAGR of -18.9%. The decline in EPS growth is contributed mainly by the significant drop in 2022F and slow revival from 2023F onwards. In which, we expect to see the flat of total sales volume (around 1mn tonnes) and average ASP decline of 7% yoy in 2022F & 2023F amid global slow-down outlook and hike rate of central bank before backing to growth phase in 2024F. Our target price of VND24,300 is based on the combination of forward PE of 5.0x (equal to 5-year average) on the average EPS over 2022F-23F (70% weight) and DCF valuation over 5-year projection period (30% weight). We use a WACC at 12.9% assuming: 1) a risk-free rate of 3.5%, 2) a beta of 1.43 and 3) an equity risk premium of 7.8% and terminal growth rate of 2%.

**Active sales policies fuel sales volume growth:** NKG is very proactive in expanding its sales channel, which already showed the effectiveness during lock-down period. 2021 witnessed the peak in earnings thanks to low-cost inventories and favorable selling price amid high demand. We expect to see the total sales volume will be flat in 2022F and 2023F before back to growth phase in 2024. New EU policy is expected to have less critical impact on Nam Kim in our opinion. However, the impact of global slow-down outlook and central banks' policies is expected to affect the demand of global end-use industries.

**Focus on capacity expansion and quality improvement:** The BOD decided to focus on capacity expansion and quality improvement rather than shifting business model into new segments. Besides, the expansion plan is not aggressive and will start in 2024, which was divided into 3 phases with 400,000-tonne capacity added each phase. The plan, in our opinion, is appropriate and understandable when industry is experiencing excess capacity condition and high competition amongst domestic and international players.

### Company overview

Founded in 2002, Nam Kim Steel is one of Vietnam's largest manufacturers of galvanized steel sheets and steel pipes for use in residential, industrial and civil construction.

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**Table 15. Cost of equity**

Item	%
Beta	1.4
Risk free rate	3.5
Equity risk premium	7.8
Cost of equity	14.7

Source: KIS

**Table 16. WACC calculation**

Item	%
Cost of debt	11.0
Target debt to capital	35.2
Tax rate	13.1
<b>WACC</b>	<b>12.9</b>

Source: KIS

**Table 17: DCF Valuation**

(VNDbn)

FCFF	2022F	2023F	2024F	2025F	2026F	2027F
EBIT	1,607	1,694	1,941	1,924	2,020	2,120
less: tax	(189)	(202)	(354)	(284)	(251)	(189)
add: depreciation	385	445	505	509	549	553
less: capex	(150)	(1,500)	(1,500)	(100)	(1,000)	(100)
(increase) / decrease in NWC	(420)	452	(733)	(569)	(396)	(351)
<b>Unlevered free cash flow</b>	<b>1,331</b>	<b>996</b>	<b>(52)</b>	<b>1,679</b>	<b>1,092</b>	<b>2,152</b>
PV of FCF	1,331	438	(20)	588	339	581
PV of Terminal Value	5,437					
<b>Total PV of Operations</b>	<b>3,257</b>					
Discount factor	10.0%					
Plus: Cash	2,662					
Less: Debt	(4,270)					
Less: Minority Interest	-					
Equity Value	6,217					
Shares Outstanding, Million	262					
<b>Target price at mid-2023 (VND- rounded)</b>	<b>23,700</b>					

Source: KIS

**Table 18. Blended Valuation**

(VND)

Metrics	Implied price	Weight	Weight value
Price/EPS, 1-yr forward at 5.0x	24,595	70%	17,217
DCF	23,700	30%	7,119
<b>Consensus NKG's target share price (rounded)</b>			<b>24,300</b>

Source: KIS



**Balance sheet**

(VND bn)

FY-ending Dec.	2020F	2021A	2022F	2023F	2024F
Current assets	4,492	12,216	12,422	12,074	12,662
Cash & cash equivalents	589	1,199	2,060	2,662	2,172
Accounts & other receivables	1,438	1,902	2,350	2,183	2,432
Inventory	2,371	8,281	7,575	6,801	7,488
Non-current assets	3,271	3,182	2,993	4,075	5,101
Fixed assets	3,127	2,771	2,536	3,591	4,586
Investment assets	82	184	184	184	184
Others	154	1,061	710	729	899
<b>Total assets</b>	<b>7,763</b>	<b>15,398</b>	<b>15,415</b>	<b>16,149</b>	<b>17,763</b>
Advances from customers	346	583	243	226	259
Unearned revenue	0	0	0	0	0
Trade payables	1,070	4,879	3,847	3,373	3,744
Others	164	393	403	413	423
ST debt & due bonds	2,520	3,773	4,073	4,073	4,073
LT debt & bonds	482	47	97	197	207
<b>Total liabilities</b>	<b>4,582</b>	<b>9,675</b>	<b>8,663</b>	<b>8,282</b>	<b>8,706</b>
Controlling interest	3,181	5,723	6,753	7,868	9,057
Capital stock	1,820	2,184	2,622	2,622	2,622
Capital surplus	766	786	786	786	786
Other reserves	97	117	119	120	121
Retained earnings	576	2,636	3,227	4,341	5,528
Minority interest	0	0	0	0	0
Shareholders' equity	3,181	5,723	6,753	7,868	9,057

**Cash flow**

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	16	(308)	860	2,201	1,188
Net profit	295	2,225	1,255	1,340	1,414
Dep'n & Amort'n	376	379	385	445	505
Net incr. in W/C	(655)	(2,912)	(780)	416	(731)
C/F from investing	346	(309)	(154)	(1,504)	(1,494)
Capex	(54)	(145)	(150)	(1,500)	(1,500)
Incr. in investment	400	(164)	(4)	(4)	6
C/F from financing	(218.2)	1,150.0	131.6	(118.4)	(208.4)
Incr. in equity	(78)	334	0	0	0
Incr. in debt	(67)	862	350	100	10
Dividends	0	0	(218)	(218)	(218)
C/F from others	0	(1)	0	0	0
Increase in cash	143	533	838	578	(514)

**Income statement**

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	11,560	28,173	24,300	22,568	25,883
COGS	10,691	23,904	21,600	19,859	22,777
Gross profit	869	4,270	2,700	2,709	3,106
SG&A expenses	360	1,521	1,094	1,016	1,165
Operating profit	509	2,749	1,607	1,694	1,941
Financial income	89	199	170	158	181
Interest income	27	15	19	20	31
Financial expenses	281	398	340	316	362
Interest expenses	222	244	334	342	385
Other non-operating profit	4	11	7	7	8
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	321	2,562	1,444	1,542	1,768
Income taxes	26	337	189	202	354
Net profit	295	2,225	1,255	1,340	1,414
Net profit of controlling interest	295	2,225	1,255	1,340	1,414
EBITDA	886	3,128	1,991	2,138	2,446

**Key financial data**

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	1,547	10,059	4,756	5,081	5,362
BPS	17,478	26,205	25,756	30,009	34,543
DPS	0	0	833	833	833
Growth (%)					
Sales growth	(5.1)	143.7	(13.7)	(7.1)	14.7
OP growth	709.7	439.8	(41.6)	5.4	14.6
NP growth	524.3	653.6	(43.6)	6.8	5.5
EPS growth	539.7	550.4	(52.7)	6.8	5.5
EBITDA growth	75.4	253.0	(36.3)	7.4	14.4
Profitability (%)					
OP margin	4.4	9.8	6.6	7.5	7.5
NP margin	2.6	7.9	5.2	5.9	5.5
EBITDA margin	7.7	11.1	8.2	9.5	9.5
ROA	3.7	19.2	8.1	8.5	8.3
ROE	9.5	50.0	20.1	18.3	16.7
Dividend yield	0.0	0.0	3.8	3.8	3.8
Dividend payout ratio	0.0	0.0	17.5	16.4	15.5
Stability					
Net debt (VND bn)	2,414	2,621	2,110	1,608	2,107
Net debt/equity (%)	80.0	50.0	30.0	20.0	20.0
Valuation (x)					
PE	14.1	2.2	4.6	4.3	4.1
PB	1.2	0.8	0.8	0.7	0.6
EV/EBITDA	7.2	2.4	3.9	3.4	3.2

# Hoa Sen Group (HSG)

**HOLD (Initiate), TP VND20,100**

Stock price (08 Sep, KRW)	20,800
Market cap (USD mn)	440
Shares outstanding (mn)	498
52W High/Low (VND)	49,850/14,150
6M avg. daily turnover (USD mn)	10.0
Free float (%)	74.5
Foreign ownership (%)	6.7
Major shareholders (%)	
Le Phuoc Vu	16.7

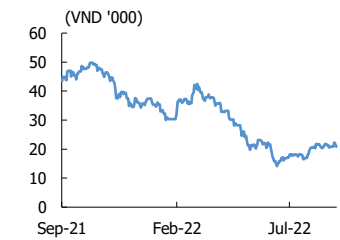
Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Sept	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
FY20A	27,540	1,959	1,153	2,642	201.6	3,181	8.4	5.5	1.5	19.1	0.0
FY21A	48,727	5,047	4,249	8,434	219.3	5,708	2.6	2.8	1.0	48.8	0.0
FY22F	49,070	1,880	1,395	2,810	(66.7)	3,086	7.9	5.1	0.9	12.1	0.0
FY23F	41,849	2,138	1,643	3,309	17.8	3,368	6.7	3.5	0.8	12.6	0.0
FY24F	49,016	2,636	2,039	4,106	24.1	3,894	5.4	2.9	0.7	13.7	0.0

## Hoa Sen Home – Another growth story

### Performance

	1M	6M	12M
Absolute (%)	0.2	(48.5)	(52.1)
Relative to Vnindex (%p)	2.0	(33.0)	(46.1)

### Stock price trend



**HOLD and TP of VND20,100:** We initiate the coverage of HSG with HOLD rating on Hoa Sen Group (HSG) based on the outlook in FY22F-24F. We forecast EPS will post a three-year forward CAGR of -21.3%. The decline in EPS growth is contributed mainly by the significant drop in FY22F and slow revival from FY23F onwards. In which, we expect to see the flat of total sales volume (around 1.82mn tonnes) in FY22F & FY23F and the ASP decline of 18% yoy in 2023F amid global slow-down outlook and hike rate of central bank before backing to growth phase in 2024F. Our target price of VND20,100 is based on the combination of forward PE of 5.5x (bit lower than 5-year average) on the average EPS over 2022F-23F (70% weight) and DCF valuation over 5-year projection period (30% weight). We use a WACC at 13.0% assuming: 1) a risk-free rate of 3.5%, 2) a beta of 1.39 and 3) an equity risk premium of 7.8% and terminal growth rate of 2%.

**New policies possibly hit growth potentials:** The impact of quota imports set by the EU would be more negative than peers as HSG's export volume to EU market was the highest amongst Vietnamese exporters. In addition, the removal of anti-dumping duties on coated steel imports from China and Korea would add more down pressure to HSG sales volume growth and ASP. Therefore, we expect to see the total sale volume back to growth phase and flat ASP from FY24F onwards.

**Hoa Sen Home – A turning point:** HSG shifts its main focus to Hoa Sen Home to distribute all construction material and furniture products via its existing distribution networks over next 3 years. HSG is attempting to maximize the efficiency of existing facilities (570 outlets). From our perspective, we like the strategy of becoming the biggest construction material retailer whilst the domestic competition is heating up. Hoa Sen Home (HSH) is expected to be the new earning growth driver in the future. However, we suppose that HSG still has many things to do before achieving its targets, for examples: buyer-behavior change, effective ecommerce platform, awareness building etc. We believe that HSG has many advantages in developing HSH compared to new star-ups in the same field and traditional mom-and-pop construction material retailers.

### Company overview

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 and plastic pipes. HSG also has its own retail distribution network with 570 branches.

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**Table 19. Cost of equity**

Item	%
Beta	1.4
Risk free rate (*)	3.5
Equity risk premium (*)	7.8
Cost of equity	14.3

Source: KIS

**Table 20. WACC calculation**

Item	%
Cost of debt	11.0
Target debt to capital	25.1
Tax rate	15.3
<b>WACC</b>	<b>13.1</b>

Source: KIS

**Table 21: DCF Valuation**

(VNDbn)

FCFF	2022F	2023F	2024F	2025F	2026F	2027F
EBIT	1,880	2,138	2,636	2,798	3,138	3,763
less: tax	(244)	(290)	(357)	(378)	(426)	(516)
add: depreciation	1,206	1,230	1,258	1,286	1,314	1,334
less: capex	(500)	(600)	(700)	(700)	(700)	(500)
(increase) / decrease in NWC	(563)	1,634	(2,039)	(1,425)	(1,539)	(2,184)
<b>Unlevered free cash flow</b>	<b>1,959</b>	<b>4,175</b>	<b>875</b>	<b>1,948</b>	<b>2,081</b>	<b>2,148</b>
PV of FCF	1,959	2,756	516	1,013	957	881
PV of Terminal Value	8,093					
<b>Total PV of Operations</b>	<b>8,082</b>					
Discount factor	10.0%					
Plus: Cash	3,745					
Less: Debt	(4,636)					
Less: Minority Interest	(17)					
Equity Value	13,650					
Shares Outstanding, Million	494					
<b>Target price at mid-2023 (VND- rounded)</b>	<b>27,600</b>					

Source: KIS

**Table 22. Blended Valuation**

(VND)

Metrics	Implied price	Weight	Weight value
Price/EPS, 1-yr forward at 5.5x	16,930	70%	11,781
DCF	27,600	30%	8,290
<b>Consensus HSG's target share price (rounded)</b>			<b>22,100</b>

Source: KIS

**Balance sheet**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Current assets	9,022	18,658	19,161	19,138	20,953
Cash & cash equivalents	575	516	681	3,745	3,346
Accounts & other receivables	2,024	4,535	4,486	3,711	4,078
Inventory	5,524	12,356	12,375	10,301	11,912
Non-current assets	8,734	7,963	7,434	6,992	6,694
Fixed assets	7,595	6,662	5,956	5,326	4,768
Investment assets	603	682	682	682	682
Others	1,251	1,689	2,146	1,960	2,254
<b>Total assets</b>	<b>17,756</b>	<b>26,620</b>	<b>26,595</b>	<b>26,130</b>	<b>27,647</b>
Advances from customers	209	268	294	251	294
Unearned revenue	0	0	0	0	0
Trade payables	1,455	4,294	4,243	2,972	3,400
Others	1,316	4,390	4,402	4,416	4,433
ST debt & due bonds	6,023	5,437	4,437	3,937	3,637
LT debt & bonds	2,163	1,399	999	699	0
<b>Total liabilities</b>	<b>11,166</b>	<b>15,788</b>	<b>14,375</b>	<b>12,275</b>	<b>11,764</b>
Controlling interest	6,584	10,815	12,203	13,838	15,867
Capital stock	4,446	4,935	4,935	4,935	4,935
Capital surplus	152	157	157	157	157
Other reserves	36	91	92	94	96
Retained earnings	1,954	5,633	7,020	8,653	10,679
Minority interest	7	17	17	17	17
Shareholders' equity	6,591	10,832	12,220	13,855	15,884

**Cash flow**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
C/F from operations	2,110	1,338	2,063	4,461	1,289
Net profit	1,152	4,249	1,395	1,643	2,039
Dep'n & Amort'n	1,230	1,186	1,206	1,230	1,258
Net incr. in W/C	(272)	(4,097)	(538)	1,588	(2,008)
C/F from investing	(311)	(130)	(522)	(643)	(783)
Capex	(398)	(319)	(500)	(600)	(700)
Incr. in investment	87	189	(22)	(43)	(83)
C/F from financing	(1,513.0)	(1,313.0)	(1,400.0)	(800.0)	(999.4)
Incr. in equity	(1)	39	0	0	0
Incr. in debt	(1,447)	(1,291)	(1,400)	(800)	(999)
Dividends	0	0	0	0	0
C/F from others	0	23	0	0	0
<b>Increase in cash</b>	<b>286</b>	<b>(105)</b>	<b>141</b>	<b>3,017</b>	<b>(493)</b>

**Income statement**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Sales	27,540	48,727	49,070	41,849	49,016
COGS	22,913	39,910	43,019	36,154	42,214
<b>Gross profit</b>	<b>4,626</b>	<b>8,817</b>	<b>6,051</b>	<b>5,695</b>	<b>6,802</b>
SG&A expenses	2,668	3,770	4,171	3,557	4,166
<b>Operating profit</b>	<b>1,959</b>	<b>5,047</b>	<b>1,880</b>	<b>2,138</b>	<b>2,636</b>
Financial income	77	367	294	251	294
Interest income	0	0	1	4	11
Financial expenses	659	554	540	460	539
Interest expenses	560	355	381	278	218
Other non-operating profit	(3)	(2)	5	4	5
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
<b>Earnings before tax</b>	<b>1,374</b>	<b>4,858</b>	<b>1,640</b>	<b>1,933</b>	<b>2,395</b>
Income taxes	221	609	244	290	357
<b>Net profit</b>	<b>1,152</b>	<b>4,249</b>	<b>1,395</b>	<b>1,643</b>	<b>2,039</b>
Net profit of controlling interest	1,153	4,249	1,395	1,643	2,039
<b>EBITDA</b>	<b>3,181</b>	<b>5,708</b>	<b>3,086</b>	<b>3,368</b>	<b>3,894</b>

**Key financial data**

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Per-share data (VND, adj.)					
EPS	2,642	8,434	2,810	3,309	4,106
BPS	14,825	21,950	24,763	28,075	32,185
DPS	0	0	0	0	0
Growth (%)					
Sales growth	(1.8)	76.9	0.7	(14.7)	17.1
OP growth	98.5	157.6	(62.7)	13.7	23.3
NP growth	212.0	268.7	(67.2)	17.8	24.1
EPS growth	201.6	219.3	(66.7)	17.8	24.1
EBITDA growth	46.4	95.5	(50.5)	9.1	15.6
Profitability (%)					
OP margin	7.1	10.4	3.8	5.1	5.4
NP margin	4.2	8.7	2.8	3.9	4.2
EBITDA margin	11.6	12.8	6.3	8.0	7.9
ROA	6.6	19.2	5.2	6.2	7.6
ROE	19.1	48.8	12.1	12.6	13.7
Dividend yield	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
Stability					
Net debt (VND bn)	7,611	6,320	4,756	891	291
Net debt/equity (%)	120.0	60.0	40.0	10.0	0.0
Valuation (x)					
PE	8.4	2.6	7.9	6.7	5.4
PB	1.5	1.0	0.9	0.8	0.7
EV/EBITDA	5.5	2.8	5.1	3.5	2.9

**Changes to recommendation and target price**

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Nam Kim Steel (NKG)	08-09-22	HOLD	VND24,300	-19.1	-46.3
Hoa Sen Group (HSG)	08-09-22	HOLD	VND20,100	-30.8	-55.4

**Nam Kim Steel (NKG)**

**Hoa Sen Group (HSG)**



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15%p or more
- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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Prepared by: Hai Nguyen

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