

15 Sep 2022

Hoa Phat (HPG)

August 2022 – Operational updates

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

Impressive domestic sales volume in Aug

- Total Aug steel sales volume posted 712,811 tonnes, increasing by 16.5% yoy, 18.6% mom thanks to rosy construction steel volume.
- Construction steel volume increased to 386,990 tonnes, +44.1% yoy, +3.8% mom. In which, domestic sales volume grew significantly to 292,593 tonnes (70.6% yoy, 29.5% mom).
- The coated steel sales volume (28,623 tonnes) was down 5.1% yoy but up 60.8% mom while steel pipes sales volume (63,687 tonnes) increased by 61% yoy, 5% mom.
- The steel coil sales volume (HRC) was 233,511 tonnes (+55.8% mom, -14.6% yoy).
- The total August domestic sales volume increased by 23.5% yoy, 34.5% mom to 601,649 tonnes.

The export still the important driver for growth in 8M22

- The 8M22 total finished-product sale volume came in at 5,585,626 tonnes, +13.7% yoy thanks to the strong growth in construction steel of 23.9% yoy to 3,060,238 tonnes.
- The total 8M22 export volume (1,084,128 tonnes) grew +56.2% yoy while the local sales volume (4,501,498 tonnes) increased by 6.7% yoy.

Actions: Earnings are under review

- HPG market price pulled back by 32.4% in the last 6 months following the market drop. We don't think the dip offers a "bottom fish" strategy as sector obstacles are not wiped away. We are reviewing our forecast to factor in the slower-than-expected demand growth.

	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)	5.0	2.8	3.2	3.1	2.5
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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12M rating **HOLD**

12M TP

Up/Downside

Stock Data

VNIndex (15 Sep, pt)	1,246
Stock price (15 Sep, VND)	23,600
Market cap (USD mn)	5,814
Shares outstanding (mn)	5,815
52-Week high/low (VND)	43,896/20,800
6M avg. daily turnover (USD mn)	28.90
Free float / Foreign ownership (%)	54.3/20.6
Major shareholders (%)	
Tran Dinh Long	26.1

Performance

	1M	6M	12M
Absolute (%)	(1.7)	(32.4)	(39.6)
Relative to VNIndex (%p)	0.5	(18.9)	(33.4)

Stock price trend



Source: Bloomberg

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Table 1. Sales volume growth

(Tonnes)

	Monthly				Accumulated		
	Aug-21	Aug-22	MoM (%)	YoY (%)	8M21	8M22	YoY (%)
Steel Pipes	39,560	63,687	5.0	61.0	458,867	501,293	9.2
Export	3,240	1,350	(11.2)	(58.3)	21,800	15,921	(27.0)
Domestic	36,320	62,337	5.5	71.6	437,067	485,372	11.1
Steel Coat	30,160	28,623	60.8	(5.1)	217,827	215,659	(1.0)
Export	24,579	15,415	180.2	(37.3)	128,947	116,951	(9.3)
Domestic	5,581	13,208	7.4	136.7	88,880	98,708	11.1
Constr' Steel	268,497	386,990	3.8	44.1	2,470,567	3,060,238	23.9
Export	96,985	94,397	(35.7)	(2.7)	543,305	915,783	68.6
Domestic	171,512	292,593	29.5	70.6	1,927,262	2,144,455	11.3
Steel Coil	273,591	233,511	55.8	(14.6)	1,764,452	1,808,436	2.5
Export	0	0	N.A	N.A	0	35,473	N.A
Domestic	273,591	233,511	55.8	(14.6)	1,764,452	1,772,963	0.5
Total Steel Volume	611,808	712,811	18.6	16.5	4,911,713	5,585,626	13.7
Export	124,804	111,162	(27.7)	(10.9)	694,052	1,084,128	56.2
Domestic	487,004	601,649	34.5	23.5	4,217,661	4,501,498	6.7

Source: Company, VSA, KIS

Table 2. Production volume growth

(Tonnes)

	Monthly				Accumulated		
	Aug-21	Aug-22	MoM (%)	YoY (%)	8M21	8M22	YoY (%)
Steel Pipes							
Production	49,182	60,333	(2.4)	22.7	459,039	483,922	5.4
Inventories	0	0	N.A	N.A			
Steel Coat							
Production	42,700	23,207	45.2	(45.7)	258,556	225,109	(12.9)
Inventories	0	0	N.A	N.A			
Constr' Steel							
Production	334,951	345,406	(16.1)	3.1	2,681,469	3,163,701	18.0
Inventories	321,990	358,090	(10.4)	11.2			
Steel Coil							
Production	211,117	173,508	(22.7)	(17.8)	1,688,307	1,595,988	(5.5)
Inventories	33,155	206,431	(22.5)	522.6			
Total							
Production	637,950	602,454	(15.6)	(5.6)	5,087,371	5,468,720	7.5
Inventories (Const, Coil)	355,145	564,521	(15.3)	59.0			

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
Total assets	131,511	178,236	218,693	236,301	276,905
Advances from customers	1,257	788	1,792	1,717	2,031
Unearned revenue	51	26	26	26	26
Trade payables	10,916	23,729	27,233	23,559	26,036
Others	5,926	5,700	5,971	6,187	6,426
ST debt & due bonds	36,799	43,748	50,748	44,748	51,748
LT debt & bonds	17,343	13,465	13,365	14,365	15,365
Total liabilities	72,292	87,456	99,135	90,602	101,632
Controlling interest	59,071	90,625	119,303	145,352	174,822
Capital stock	33,133	44,729	44,729	44,729	44,729
Capital surplus	3,212	3,212	3,212	3,212	3,212
Other reserves	934	922	955	986	1,020
Retained earnings	21,792	41,763	70,407	96,425	125,862
Minority interest	149	155	255	347	450
Shareholders' equity	59,220	90,780	119,558	145,699	175,272

Income statement

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	90,119	149,680	179,232	171,671	203,104
COGS	71,215	108,571	138,058	132,295	158,384
Gross profit	18,904	41,108	41,174	39,376	44,720
SG&A expenses	1,781	3,444	3,585	3,434	4,265
Operating profit	17,123	37,664	37,589	35,943	40,455
Financial income	1,005	3,071	1,255	1,202	1,422
Interest income	519	0	274	182	109
Financial expenses	2,837	3,732	3,047	3,090	3,453
Interest expenses	2,192	2,526	2,565	2,660	3,356
Other non-operating profit	65	48	54	52	61
Gains (Losses) in associates, subsidiaries and JV	2	5	5	5	5
Earnings before tax	15,357	37,057	35,855	34,110	38,489
Income taxes	1,851	2,536	2,438	3,343	4,272
Net profit	13,506	34,521	33,417	30,767	34,217
Net profit of controlling interest	13,450	34,478	33,317	30,675	34,114
EBITDA	21,899	43,751	43,956	43,709	48,902

Cash flow

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	11,587	27,466	27,889	36,628	31,657
Net profit	13,506	34,521	33,417	30,767	34,217
Dep'n & Amort'n	4,776	6,087	6,367	7,767	8,447
Net incr. in W/C	(6,695)	(13,142)	(11,895)	(1,906)	(11,007)
C/F from investing	(18,495)	(20,404)	(32,618)	(20,269)	(13,077)
Capex	(11,916)	(12,116)	(42,010)	(25,010)	(15,010)
Incr. in investment	(6,579)	(8,288)	9,392	4,741	1,933
C/F from financing	16,053.7	1,729.4	2,427.1	(9,472.9)	3,527.1
Incr. in equity	3	11	0	0	0
Incr. in debt	17,471	3,423	6,900	(5,000)	8,000
Dividends	(1,420)	(1,704)	(4,473)	(4,473)	(4,473)
C/F from others	6	(16)	0	0	0
Increase in cash	9,146	8,792	(2,302)	6,887	22,107

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	3,958	7,575	7,404	6,817	7,581
BPS	17,873	20,296	26,729	32,574	39,185
DPS	428	381	1,000	1,000	1,000
Growth (%)					
Sales growth	41.6	66.1	19.7	(4.2)	18.3
OP growth	75.7	120.0	(0.2)	(4.4)	12.6
NP growth	78.7	156.3	(3.4)	(7.9)	11.2
EPS growth	46.2	91.4	(2.3)	(7.9)	11.2
EBITDA growth	77.5	99.8	0.5	(0.6)	11.9
Profitability (%)					
OP margin	19.0	25.2	21.0	20.9	19.9
NP margin	15.0	23.1	18.6	17.9	16.8
EBITDA margin	24.3	29.2	24.5	25.5	24.1
ROA	11.6	22.3	16.8	13.5	13.3
ROE	25.2	46.0	31.8	23.2	21.3
Dividend yield	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	5.0	2.8	3.2	3.1	2.5

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