

16 Sep 2022

Hoa Sen Group (HSG)

Aug 2022 – Rocky road ahead

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

Domestic sales volume thrived in Aug

- Total Aug steel sales volume posted 101,601 tonnes, decreasing by 39.0% yoy but increasing by 7.8% mom.
- Steel coat volume made up 73.6% of the Aug total sales volume at 74,870 tonnes, +4.1% mom and -50.3% yoy.
- The coated steel export volume (23,723 tonnes) was down significantly by 25.0% mom and 80.7% yoy, which showed the weak global demand.
- Domestic volume of steel coat recorded 51,147 tonnes (+26.9% mom, +84.6% yoy) and steel pipes volume posted 25,828 tonnes (+29.3% mom and +69.2% yoy).

FY11M2022 performance slumped

- HSG witnessed the weak performance in FY11M2022 on year-on-year basis caused by weak sales volume in first 8 months of 2022: 8M2022 total sales volume at 1,074,028 tonnes, -30.7% yoy.
- The FY11M22 (Oct 2021 - Aug 2022) total sale decreased 19.9% yoy to 1,670,105 tonnes as steel pipes volume declined 31.9% yoy to 306,185 tonnes and steel coat fell 21.1% yoy to 1,341,614 tonnes.
- The total FY11M22 export volume (accounted for 50.2% of total sales; 838,657 tonnes) fell 26.5% yoy while the local sales volume (831,448 tonnes) also declined by 12.1% yoy due to the fall in domestic volume of steel pipes (-30.6% yoy).

Rating and recommendation

- We reaffirm HOLD rating in view of several sector headwinds on selling prices, competitiveness, and margins as we examined in the in-depth [flat steel report](#).
- HSG is trading at 5.17x TTM PE and 0.92x PE.

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Sales (VND bn)	27,540	48,727	49,070	41,849	49,016
chg. (% YoY)	(1.8)	76.9	0.7	(14.7)	17.1
Operating profit (VND bn)	1,959	5,047	1,880	2,138	2,636
Net profit (VND bn)	1,153	4,249	1,395	1,643	2,039
EPS (VND)	2,642	8,434	2,319	2,731	3,388
chg. (% YoY)	201.6	219.3	(72.5)	17.8	24.1
EBITDA (VND bn)	3,181	5,708	3,086	3,368	3,894
PE (x)	6.9	2.1	7.8	6.6	5.3
EV/EBITDA (x)	4.9	2.4	5.0	3.5	2.9
PB (x)	1.2	0.8	0.8	0.7	0.6
ROE (%)	19.1	48.8	11.1	10.9	12.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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

Analysts who prepared this report are registered as research analysts in Vietnam but not in any other jurisdiction, including the U.S. PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS AT THE END OF THIS REPORT.

12M rating **HOLD (Maintain)**

12M TP

Up/Downside

Stock Data

VNIndex (15 Sep, pt)	1,246
Stock price (15 Sep, VND)	18,100
Market cap (USD mn)	459
Shares outstanding (mn)	598
52-Week high/low (VND)	41,542/11,792
6M avg. daily turnover (USD mn)	9.47
Free float / Foreign ownership (%)	74.5/6.7
Major shareholders (%)	
Le Phuoc Vu	16.7

Performance

	1M	6M	12M
Absolute (%)	0.8	(41.6)	(53.5)
Relative to VNIndex (%p)	3.0	(28.1)	(47.4)

Stock price trend



Source: Bloomberg

Hai Nguyen

hai.nt@kisvn.vn

Table 1. Sales volume growth

(Tonnes)

	Monthly				Accumulated		
	Aug-21	Aug-22	MoM (%)	YoY (%)	FY11M21	FY11M22	YoY (%)
Steel Pipes	15,864	26,731	19.8	68.5	449,491	306,185	(31.9)
Export	600	903	(61.3)	50.5	37,149	20,212	(45.6)
Domestic	15,264	25,828	29.3	69.2	412,342	285,973	(30.6)
Steel Coat	150,781	74,870	4.1	(50.3)	1,636,825	1,363,920	(16.7)
Export	123,080	23,723	(25.0)	(80.7)	1,103,323	818,445	(25.8)
Domestic	27,701	51,147	26.9	84.6	533,502	545,475	2.2
Total Steel Volume	166,645	101,601	7.8	(39.0)	2,086,316	1,670,105	(19.9)
Export	123,680	24,626	(27.5)	(80.1)	1,140,472	838,657	(26.5)
Domestic	42,965	76,975	27.7	79.2	945,844	831,448	(12.1)

Source: VSA, KIS

Table 2. Production volume growth

(Tonnes)

	Monthly				Accumulated		
	Aug-21	Aug-22	MoM (%)	YoY (%)	FY11M21	FY11M22	YoY (%)
Steel Pipes							
Production	11,442	20,587	10.0	79.9	365,436	255,050	(30.2)
Inventories	52,606	35,389	(16.2)	(32.7)			
Steel Coat							
Production	173,928	65,935	11.3	(62.1)	1,699,554	1,341,614	(21.1)
Inventories	151,262	51,592	(22.4)	(65.9)			
Steel Coil							
Production*	154,733	73,825	25.2	(52.3)	1,844,171	1,183,170	(35.8)
Inventories	27,755	21,674	36.8	(21.9)			
Total							
Production	340,103	160,347	17.1	(52.9)	3,909,161	2,779,834	(28.9)
Inventories	231,623	108,655	(12.8)	(53.1)			

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.	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
Total assets	17,756	26,620	26,595	26,130	27,647
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
Total liabilities	11,166	15,788	14,375	12,275	11,764
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
Increase in cash	286	(105)	141	3,017	(493)

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
Gross profit	4,626	8,817	6,051	5,695	6,802
SG&A expense	2,668	3,770	4,171	3,557	4,166
Operating profit	1,959	5,047	1,880	2,138	2,636
Financial income	77	367	294	251	294
Interest income	0	0	1	4	11
Financial expense	659	554	540	460	539
Interest expense	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
Earnings before tax	1,374	4,858	1,640	1,933	2,395
Income taxes	221	609	244	290	357
Net profit	1,152	4,249	1,395	1,643	2,039
Net profit of controlling interest	1,153	4,249	1,395	1,643	2,039
EBITDA	3,181	5,708	3,086	3,368	3,894

Key financial data

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
per share data (VND)					
EPS	2,642	8,434	2,319	2,731	3,388
BPS	14,825	21,950	23,929	26,662	30,054
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	(72.5)	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	11.1	10.9	12.0
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
Int.-bearing debt/equity (%)	120.0	60.0	30.0	10.0	0.0
Valuation (X)					
PE	6.9	2.1	7.8	6.6	5.3
PB	1.2	0.8	0.8	0.7	0.6
EV/EBITDA	4.9	2.4	5.0	3.5	2.9

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

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% 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.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 16 Sep 2022.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 16 Sep 2022.

KIS Vietnam Securities Corp. has issued CW with underlying stocks of Hoa Sen Group (HSG) and is the liquidity provider.

Prepared by: Hai Nguyen

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2022 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..