

28 Oct 2022

Hoa Phat Group (HPG)

3Q22 Disappointed earning results

- 3Q22 results below KIS forecast
- Unprecedented loss caused by lower selling prices and high input costs
- Maintain HOLD and earnings are under review

Facts: High input prices eroded profit

HPG' revenue decreased 11.8% yoy to VND34,103bn in 3Q22 driven mainly by steel segment. The 3Q22 NPAT-MI posted a loss of VND1,784bn. The 9M22 results fulfil 65%/31% our Revenue/NPAT-MI forecasts.

In 3Q22, the revenue growth was negatively affected by lower average selling price (construction ASP: -10.8% qoq) and weak final-product sales volume given the low base in 3Q21 (+6.1% qoq, +8.5% yoy). Gross margin squeezed sharply from 17.4% in 2Q22 to 2.9% in 3Q22, according to FS, mainly due to

- Higher input material costs: Aus. Coking coal reached 500USD/tonne during the period.
- Inventory provisioning - HPG made inventory provision of about VND136bn in 3Q22.

Besides, HPG also booked a material forex loss on the back of USD appreciation (total realized and unrealized forex loss about VND1,400bn in 3Q22).

In 3Q22, agriculture segment made a profit of VND99bn, bringing 9M profit backed to positive (about VND56bn).

Pros & cons: Weak demand concerns in 4Q22

Weak demand continues to be our main concern in 4Q22 due to recent aggressive central banks' actions. Besides, the China property crisis and weak global demand from end-use industries will continue to create a downward pressure on global steel prices. In addition, the potential tightening supply of coking coal price due to the weather and labor strikes may continue to affect HPG's gross margin in 4Q22.

Action: Earnings are under review

We maintain HOLD rating on HPG stock as we see the outlook for the industry is still dark. As the selling price and sales volume dropped stronger than our expectation, HPG's earnings are under review.

Below	In line	Above
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vs. KIS forecast

12M rating **HOLD (Maintain)**

12M TP *from N/A*

Up/Downside

Stock data

VNIndex (Oct 28, pt)	1,027
Stock price (Oct 28, VND)	16,800
Market cap (USD mn)	3,933
Shares outstanding (mn)	5,815
52-Week high/low (VND)	43,215/16,400
6M avg. daily turnover (USD mn)	25.15
Free float / Foreign ownership (%)	54.3/20.0
Major shareholders (%)	
Tran Dinh Long	26.1

Valuation

	2021A	2022F	2023F
PE (x)	2.2	2.9	3.2
PB (x)	0.8	0.8	0.7
ROE (%)	46.0	31.8	23.2
DY (%)	2.3	4.6	4.6
EV/EBITDA (x)	2.1	3.0	2.9
EPS (VND)	7,575	5,695	5,244
BPS (VND)	20,296	20,561	25,057

Performance

	1M	6M	12M
Absolute (%)	(22.9)	(48.5)	(61.7)
Relative to VNIndex (%p)	(12.9)	(25.3)	(34.2)

Stock price



Source: Bloomberg

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Table 1. 3Q22 earnings

(VND bn, %, %p)

	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY	Consensus
Sales	38,673.8	44,710.7	44,058.1	37,422.1	34,103.3	(8.9)	(11.8)	N/A
OP	11,042.1	8,367.1	9,267.7	5,683.2	71.5	(98.7)	(99.4)	N/A
OP margin	28.6	18.7	21	15.2	0.2	(15.0)	(28.4)	N/A
EBT	10,978.8	8,038.4	8,922.1	4,379.3	(1,299.9)	(129.7)	(111.8)	N/A
NP	10,350.8	7,419.4	8,206.3	4,022.6	(1,785.7)	(144.4)	(117.3)	N/A

Source: Company data, KIS

■ Company overview

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	5,695	5,244	5,832
BPS	17,873	20,296	20,561	25,057	30,142
DPS	428	381	769	769	769
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	(24.8)	(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	2.6	2.3	4.6	4.6	4.6
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	4.2	2.2	2.9	3.2	2.9
PB	0.9	0.8	0.8	0.7	0.6
EV/EBITDA	4.0	2.1	3.0	2.9	2.3

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