

28 Oct 2022

Hoa Sen Group (HSG)

FY22 performance was dragged down

- 4QFY22 results below KIS forecast
- High-cost inventories and weak global demand severely hit the company's performance
- Maintain HOLD and earnings are under review

Facts: 4QFY22 Performance was severely hit

HSG' revenue decreased significantly 49.7% yoy to VND7,939bn in 4QFY22 driven mainly by the weak global demand. In which, the total export volume in 4QFY22 dropped to 94,522 tonnes, -75.7% yoy, -58.9% qoq. The 4QFY22 NPAT-MI posted a loss of VND886.9bn whilst the gross profit was negative. The main reasons could be

- Inventory provisioning - HSG made inventory provision of about VND557bn in 4QFY22.
- High-cost inventory and lower global selling price amid the downward trend of HRC price and weak export demand.

FY22 Revenue was VND49,710bn, +2% yoy and the NPAT-MI was VND251bn, -94.1% yoy. The FY22 results fulfil 101.3%/15.3% our Revenue/NPAT-MI forecasts.

Pros & cons: Weak demand concerns in 4Q22(1QFY23)

Like peers, 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 downward pressure on global steel prices.

Action: Maintain HOLD rating

We maintain a HOLD rating on HSG stock as we see the outlook for the industry is still dark given the sluggish global demand growth and slower-than-expected local consumption sale.

Below	In line	Above
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vs. KIS forecast

12M rating **HOLD (Maintain)**

12M TP

Up/Downside

Stock data

VNIndex (28 Oct, pt)	1,027
Stock price (28 Oct, VND)	12,250
Market cap (USD mn)	277
Shares outstanding (mn)	598
52-Week high/low (VND)	39,500/11,650
6M avg. daily turnover (USD mn)	7.76
Free float / Foreign ownership (%)	74.5/6.2
Major shareholders (%)	
Le Phuoc Vu	17.2
Tundra Frontier	3.1

Valuation

	FY22F	FY23F	FY24F
PE (x)	5.3	4.5	3.6
PB (x)	0.5	0.5	0.4
ROE (%)	11.1	10.9	12.0
DY (%)	0.0	0.0	0.0
EV/EBITDA (x)	3.9	2.4	2.0
EPS (VND)	2,319	2,731	3,388
BPS (VND)	23,929	26,662	30,054

Performance

	1M	6M	12M
Absolute (%)	(18.3)	(51.2)	(70.9)
Relative to VNIndex (%p)	(8.3)	(26.8)	(42.7)

Stock price



Source: Bloomberg

Hai Nguyen

hai.nt@kisvn.vn

Table 1. 4QFYQ22 earnings

(VND bn, %, %p)

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	QoQ	YoY	Consensus
Sales	15,797.1	16,933.6	12,661.1	12,177.2	7,939.1	(34.8)	(49.7)	N/A
OP	1,079.9	762.4	334.1	464.7	(996.4)	-	-	N/A
OP margin	6.8	4.5	2.6	3.8	(12.6)	(16.4)	(19.4)	N/A
EBT	1,042.7	749.9	291.0	313.0	(997.3)	-	-	N/A
NP	941.1	638.3	234.1	265.0	(886.9)	-	-	N/A

Source: Company data, KIS

■ 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 (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	14,295	15,930	17,958
Capital stock	4,446	4,935	5,981	5,981	5,981
Capital surplus	152	157	157	157	157
Other reserves	36	91	92	94	96
Retained earnings	1,954	5,633	8,065	9,699	11,725
Minority interest	7	17	17	17	17
Shareholders' equity	6,591	10,832	14,312	15,947	17,975

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 expenses	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 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
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

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)

Key financial data

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Per-share data (VND, adj.)					
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
Net debt/equity (%)	120.0	60.0	30.0	10.0	0.0
Valuation (x)					
PE	4.6	1.5	5.3	4.5	3.6
PB	0.8	0.6	0.5	0.5	0.4
EV/EBITDA	4.1	2.0	3.9	2.4	2.0

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Prepared by: Hai Nguyen

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