

14 Mar 2023

# Hoa Sen Group (HSG)

## Sales volume increased on m-o-m basis

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

### Sales volume increased m-o-m in Feb

- Total Feb steel sales volume posted 102,259 tonnes, dropping by 35.0% yoy but increasing 20.0% mom.
- Steel coat volume made up 82.3% of the Feb total sales volume at 84,203 tonnes, +36.6% mom but -24.7% yoy.
- The coated steel export volume (46,537 tonnes) was down by 10.7% yoy but strongly spiked 58.5% mom.
- Domestic volume of steel coat recorded 37,666 tonnes (+16.5% mom, -37.4% yoy) and steel pipes volume posted 18,056 tonnes (-23.5% mom and -60.0% yoy).

### FY5M23 performance down as FY2022 high base

- The FY5M23 (Oct 2023-Feb 2023) total sale decreased 41.2% yoy to 527,462 tonnes as steel pipes volume declined 22.8% yoy to 121,279 tonnes and steel coat fell 45.2% yoy to 406,183 tonnes.
- The total FY5M23 export volume (accounted for 40.9% of total sales: 215,847 tonnes) fell 55.6% yoy while the local sales volume (311,615 tonnes) also declined by 24.3% yoy.

### Rating and recommendation

- We reaffirm HOLD rating in view of multiple sector bottlenecks on unfavorable selling prices, harsh competitiveness, and weak global demand as we examined [in the in-depth flat steel report](#). Earnings are under review.

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Sales (VND bn)	27,540	48,727	49,711	32,198	36,621
chg. (% YoY)	(1.8)	76.9	2.0	(35.2)	13.7
Operating profit (VND bn)	1,959	5,047	565	545	1,067
Net profit (VND bn)	1,153	4,249	250	411	848
EPS (VND)	2,642	8,434	37	683	1,410
chg. (% YoY)	201.6	219.3	(99.6)	1,765.6	106.4
EBITDA (VND bn)	2,606	6,044	1,519	1,717	2,253
PE (x)	5.9	1.8	424.9	22.8	11.0
EV/EBITDA (x)	4.5	2.2	7.6	5.7	4.2
PB (x)	1.0	0.7	0.9	0.8	0.8
ROE (%)	19.1	48.8	2.3	3.7	7.2
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.

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12M rating **HOLD (Maintain)**

12M TP

Up/Downside

### Stock Data

VNIndex (14 Mar, pt)	1,040
Stock price (14 Mar, VND)	15,550
Market cap (USD mn)	394
Shares outstanding (mn)	598
52-Week high/low (VND)	32,334/7,350
6M avg. daily turnover (USD mn)	8.16
Free float / Foreign ownership (%)	74.6/11.9
Major shareholders (%)	
Le Phuoc Vu	16.7

### Performance

	1M	6M	12M
Absolute (%)	4.7	(14.1)	(50.9)
Relative to VNIndex (%p)	4.5	1.5	(24.0)

### Stock price trend



Source: Bloomberg

### Research Department

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**Table 1. Sales volume growth**

(Tonnes)

	Monthly				Accumulated		
	Feb-22	Feb-23	MoM (%)	YoY (%)	5MFY22	5MFY23	YoY (%)
<b>Steel Pipes</b>	<b>45,152</b>	<b>18,056</b>	<b>(23.5)</b>	<b>(60.0)</b>	<b>157,050</b>	<b>121,279</b>	<b>(22.8)</b>
Export	1,564	632	40.1	(59.6)	8,408	3,424	(59.3)
Domestic	43,588	17,424	(24.7)	(60.0)	148,642	117,855	(20.7)
<b>Steel Coat</b>	<b>112,247</b>	<b>84,203</b>	<b>36.6</b>	<b>(25.0)</b>	<b>740,710</b>	<b>406,183</b>	<b>(45.2)</b>
Export	52,107	46,537	58.8	(10.7)	477,451	212,423	(55.5)
Domestic	60,140	37,666	16.5	(37.4)	263,259	193,760	(26.4)
<b>Total Steel Volume</b>	<b>157,399</b>	<b>102,259</b>	<b>20.0</b>	<b>(35.0)</b>	<b>897,760</b>	<b>527,462</b>	<b>(41.2)</b>
Export	53,671	47,169	58.5	(12.1)	485,859	215,847	(55.6)
Domestic	103,728	55,090	(0.7)	(46.9)	411,901	311,615	(24.3)

Source: VSA, KIS

**Table 2. Production volume growth**

(Tonnes)

	Monthly				Accumulated		
	Feb-22	Feb-23	MoM (%)	YoY (%)	5MFY22	5MFY23	YoY (%)
<b>Steel Pipes</b>							
Production	27,415	24,635	39.1	(10.1)	121,046	108,297	(10.5)
Inventories	41,795	37,569	21.7	(10.1)			
<b>Steel Coat</b>							
Production	118,439	107,222	46.6	(9.5)	729,248	466,969	(36.0)
Inventories	77,874	73,389	20.6	(5.8)			
<b>Steel Coil</b>							
Production	120,554	107,063	40.3	(11.2)	685,490	495,277	(27.7)
Inventories	14,468	14,026	(15.2)	(3.1)			
<b>Total</b>							
Production	266,408	238,920	42.9	(10.3)	1,535,784	1,070,543	(30.3)
Inventories	134,137	124,984	15.4	(6.8)			

Source: VSA, KIS,

**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	9,828	9,259	12,929
Cash & cash equivalents	575	516	339	2,001	4,399
Accounts & other receivables	2,024	4,535	1,460	1,484	1,989
Inventory	5,524	12,356	7,374	4,711	5,333
Non-current assets	8,734	7,963	7,196	6,451	5,787
Fixed assets	7,595	6,662	5,959	5,087	4,251
Investment assets	603	682	621	621	621
Others	1,251	1,689	1,110	1,563	1,759
<b>Total assets</b>	<b>17,756</b>	<b>26,620</b>	<b>17,024</b>	<b>15,710</b>	<b>18,716</b>
Advances from customers	209	268	208	193	220
Unearned revenue	0	0	0	0	0
Trade payables	1,455	4,294	1,040	942	1,067
Others	1,316	4,390	705	711	722
ST debt & due bonds	6,023	5,437	4,071	2,571	4,571
LT debt & bonds	2,163	1,399	117	0	0
<b>Total liabilities</b>	<b>11,166</b>	<b>15,788</b>	<b>6,141</b>	<b>4,417</b>	<b>6,580</b>
Controlling interest	6,584	10,815	10,867	11,276	12,120
Capital stock	4,446	4,935	5,981	5,981	5,981
Capital surplus	152	157	157	157	157
Other reserves	36	91	188	188	189
Retained earnings	1,954	5,633	4,542	4,950	5,793
Minority interest	7	17	16	16	16
Shareholders' equity	6,591	10,832	10,883	11,292	12,136

**Cash flow**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
C/F from operations	2,110	1,338	2,844	3,578	746
Net profit	1,152	4,249	250	411	848
Dep'n & Amort'n	1,230	1,186	1,160	1,172	1,186
Net incr. in W/C	(272)	(4,097)	1,434	1,995	(1,288)
C/F from investing	(311)	(130)	(408)	(308)	(365)
Capex	(398)	(319)	(454)	(300)	(350)
Incr. in investment	87	189	46	(8)	(15)
C/F from financing	(1,513.0)	(1,313.0)	(2,650.7)	(1,616.5)	2,000.0
Incr. in equity	(1)	39	49	0	0
Incr. in debt	(1,447)	(1,291)	(2,699)	(1,617)	2,000
Dividends	0	0	0	0	0
C/F from others	0	23	52	0	0
<b>Increase in cash</b>	<b>286</b>	<b>(105)</b>	<b>(215)</b>	<b>1,654</b>	<b>2,380</b>

**Income statement**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Sales	27,540	48,727	49,711	32,198	36,621
COGS	22,913	39,910	44,794	28,659	32,441
Gross profit	4,626	8,817	4,918	3,539	4,180
SG&A expense	2,668	3,770	4,353	2,994	3,113
Operating profit	1,959	5,047	565	545	1,067
Financial income	77	367	373	386	440
Interest income	0	0	1	1	2
Financial expense	659	554	627	451	513
Interest expense	560	355	260	154	274
Other non-operating profit	(3)	(2)	46	3	4
Gains (Losses) in associates, subsidiaries, and JV	0	0	0	0	0
Earnings before tax	1,374	4,858	357	483	998
Income taxes	221	609	106	73	150
Net profit	1,152	4,249	250	411	848
Net profit of controlling interest	1,153	4,249	250	411	848
EBITDA	2,606	6,044	1,519	1,717	2,253

**Key financial data**

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
per share data (VND)					
EPS	2,642	8,434	37	683	1,410
BPS	14,825	21,950	18,197	18,880	20,291
DPS	0	0	0	0	0
Growth (%)					
Sales growth	(1.8)	76.9	2.0	(35.2)	13.7
OP growth	98.5	157.6	(88.8)	(3.5)	96.0
NP growth	212.0	268.7	(94.1)	64.1	106.4
EPS growth	201.6	219.3	(99.6)	1,765.6	106.4
EBITDA growth	46.4	95.5	(72.3)	(0.4)	31.2
Profitability (%)					
OP margin	7.1	10.4	1.1	1.7	2.9
NP margin	4.2	8.7	0.5	1.3	2.3
EBITDA margin	11.6	12.8	3.5	5.3	6.2
ROA	6.6	19.2	1.1	2.5	4.9
ROE	19.1	48.8	2.3	3.7	7.2
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	3,848	570	172
Int.-bearing debt/equity (%)	120.0	60.0	40.0	10.0	0.0
Valuation (X)					
PE	5.9	1.8	424.9	22.8	11.0
PB	1.0	0.7	0.9	0.8	0.8
EV/EBITDA	4.5	2.2	7.6	5.7	4.2

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