

9 May 2023

# Steel

## A Solid Turn-around ?!

### Earnings turned around in 1Q23

Based on our estimate, 1Q23 aggregated revenue of 24 listed steelmakers declined by 37.8% yoy, while 1Q22 aggregated NPATMI turned positive. Although the turn-around was mainly attributed by the reversal of inventories provision, high-cost inventories pressure was believed to be fully relieved. We expect to see positive but thin margins from many industry players in 2Q23F thanks to low input costs (iron ore, coking coal etc) despite the recent drop in ASP.

### Demand continuously weak in 2Q23F

We expect to continue to see the weak demand in 2Q23F but slight improvement compared to 1Q23. We forecast the total sales volume in 2Q23F will be 6.1mn tonnes -6% yoy, +10% qoq. In which, the export volume is expected to up by 10% yoy to over 1.8mn tonnes. We still have not seen any significant improvement in end-use buyers' sentiment. It seems that companies shared the same view when they have recently held the AGM with cautious annual plans for 2023F even though they supposed the worst time for the industry was over. As for input prices, we expect the input prices (coking coal, iron ore etc) will remain at low level in 2Q23F due to weak global demand for steel products. This will, in our opinion, support companies' margins in 2Q23F and 3Q23F.

### Neutral on 2023F outlook

We maintain our Neutral rating on Vietnam's steel sector due to a lack of significant growth in sales volume, which might continue to bottleneck the market's business sales over 2023F. Besides, the slower global economic growth and domestic issues related to bonds and property sector could further threaten the overall performance of the industry. From our perspective, weak demand is still our main concern in 2023F.

## Neutral (Maintain)

Company	Rating	TP (VND)
Hoa Phat Group	HOLD	NA
Nam Kim Steel	HOLD	NA
Hoa Sen Group	HOLD	NA

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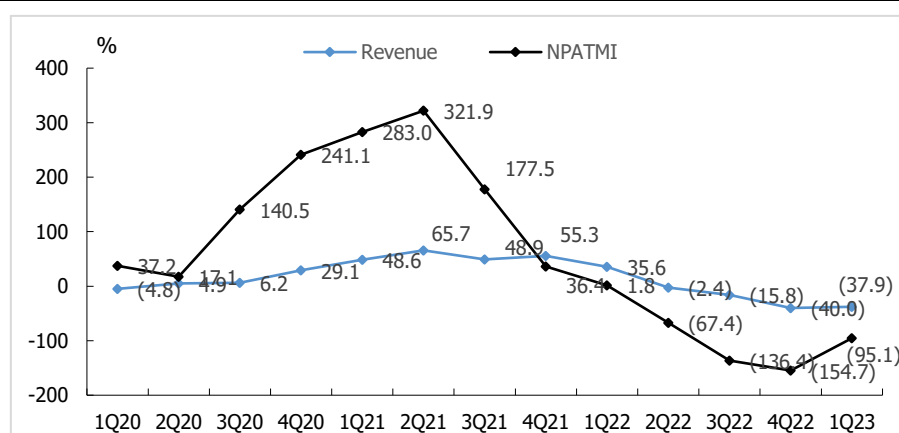
**Table 1. Aggregated 24-company earnings**

(VNDbn, %)

	1Q22	1Q23	QoQ	YoY
Revenue	103,461	64,290	0.5	(37.8)
NPAT-MI	9,561	465	-	(95.1)

Source: Fiinpro, KIS

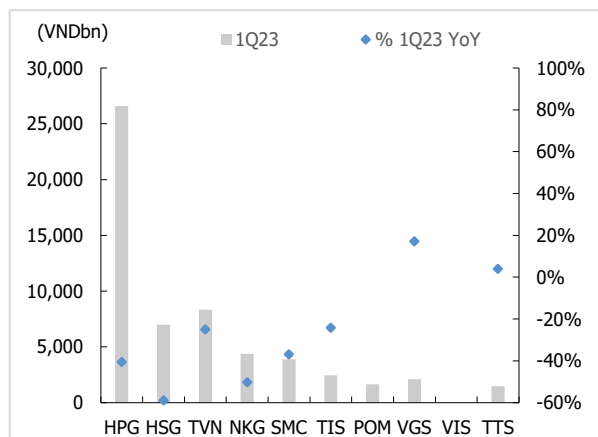
Based on our collection, 1Q23 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. NPAT-MI was back to positive territory but thin in 1Q23. Besides, the revenue growth pace in 1Q23 also declined by 37.8% yoy caused by weak demand from domestic and international markets. As expected, we see the gross margin improved in 1Q23F when the pressure from high-cost inventories have been away. Gross margins are expected to be positive but thin in next quarter thanks to low input costs.

**Figure 1. Net profit was back to positive territory**

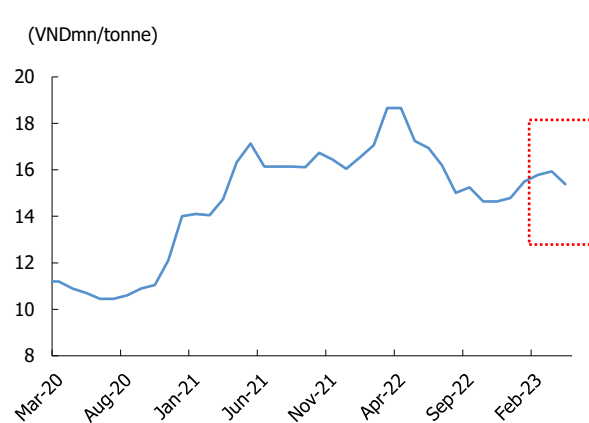
Source: VSA, Fiinpro

**Topline growth was deep down in negative territory in 4Q22**

Breaking down aggregated revenue growth by a specific company, 7 out of top 9 industry players got negative growth. HPG, top the influence in the light of its dominant position, was with negative revenue growth of 40.5% yoy in 1Q23. NKG's revenue growth was at -50.1% yoy while HSG's one witnessed the decline of 58.7% yoy in 1Q23. Among the industry players, VGS outperformed the best with its highest 1Q23 revenue growth of 17.1% yoy. The companies fulfilled around 15-20% of their 2023F revenue targets.

**Figure 2. VGS revenue growth beats the industry**

Source: Company data, Fiinpro

**Figure 3. Selling price has declined since April**

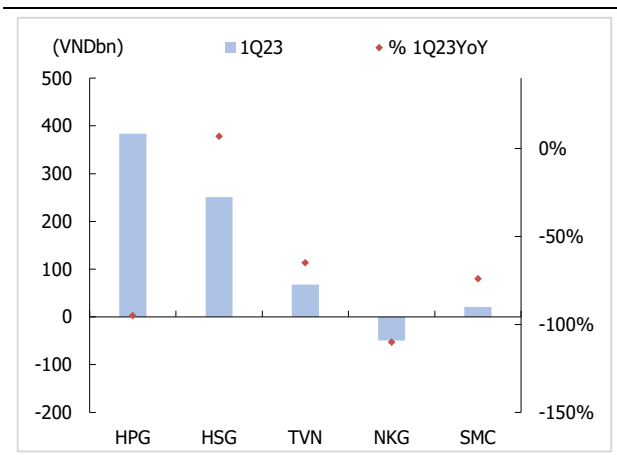
Source: Company data, Fiinpro

As [detailed in our Mar brief sector](#), Vietnam total consumption volume in 1Q23 declined 26.6% yoy to 5.5mn tonnes. Top producer HPG witnessed a decrease of 35.0% yoy in sale volume growth to 1.58mn tonnes and accounted for the largest share of 28.7% of total Vietnam sale volume in 1Q23. NKG generated a significant decline of 24.0% yoy in 1Q22 sales volume growth. HSG produced a significant decline in sale volume growth of 36.0% yoy in 1Q23. The increase in average selling price (ASP) was the main influence for the improvement in margin. Based on the HPG's quoted steel bar prices, we witnessed a 9.6% yoy decline but 7.1% yoy increase in 1Q23.

### Net margin turned around in 1Q23

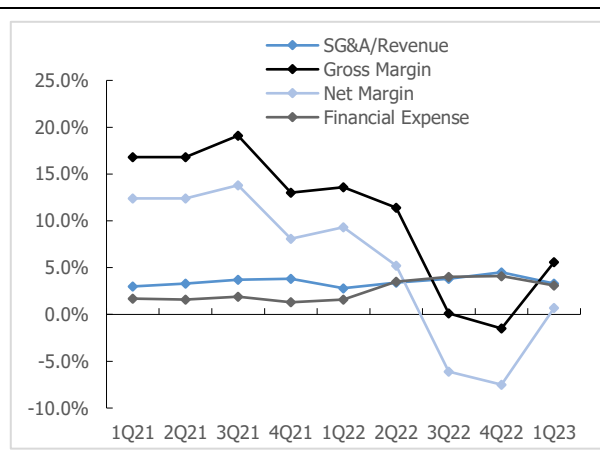
1Q23 witnessed the turn-around in net profit for most industry players. Among the top 9 biggest revenue-generating steelmakers, HSG was the most outstanding player with an 7.0% yoy net profit growth in 1Q23. NKG made a small loss of VND49.3bn. Companies fulfilled around 0-27% of their 2023F net profit guidance. As mentioned, companies set a thin net margins for 2023F annual plan. For instance, HPG planed margin was 5.3% while NKG, HSG were at around 2% and 0.8%, respectively.

**Figure 4. Most companies' net profit turned around**



Source: Company data, Fiinpro

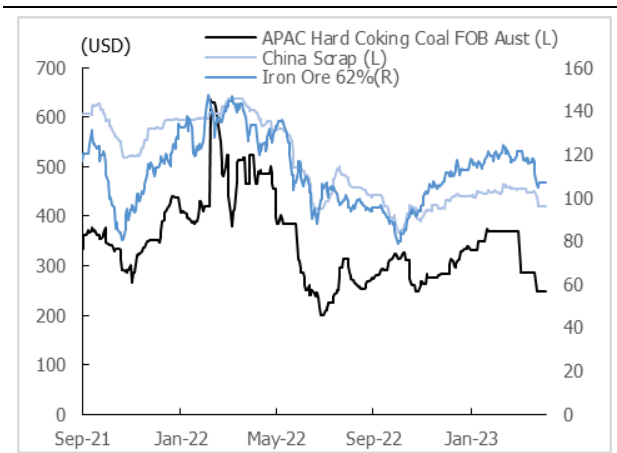
**Figure 5. Better margins achieved in 1Q23**



Source: Company data, Fiinpro

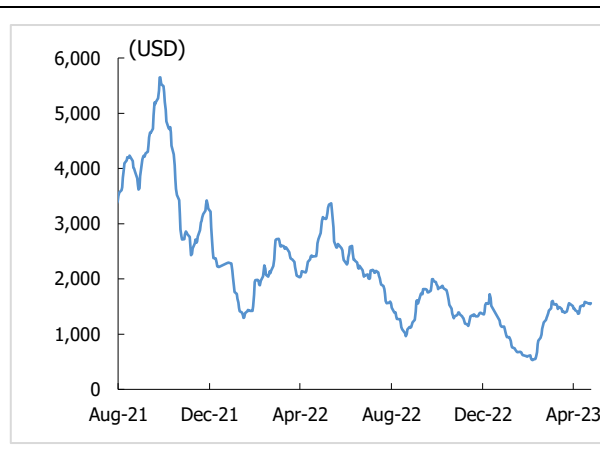
We had seen the turn-around in margins in most steelmakers in 1Q23. Breaking down into details, the margins turn-around was caused mainly by the reversal of inventory provision, higher ASP and the clearance of high-cost inventories beside lower SG&A/Revenue ratio.

**Figure 6. Input prices declined significantly**



Source: Company data, Fiinpro

**Figure 7. BDI rebounded from Jan 2023**



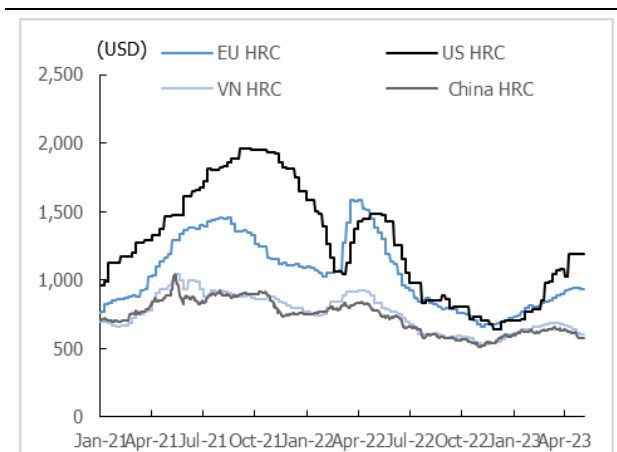
Source: Bloomberg

## Better sales volume in 2Q23F

We expect to continue to see the weak demand in 2Q23F, however, the total sales volume is expected to be better compared to previous quarter. We forecast the total sales volume in 2Q23F will be 6.1mn tonnes -6% yoy, +10% qoq. The export volume is expected to up by 10% yoy to 1.8mn tonnes.

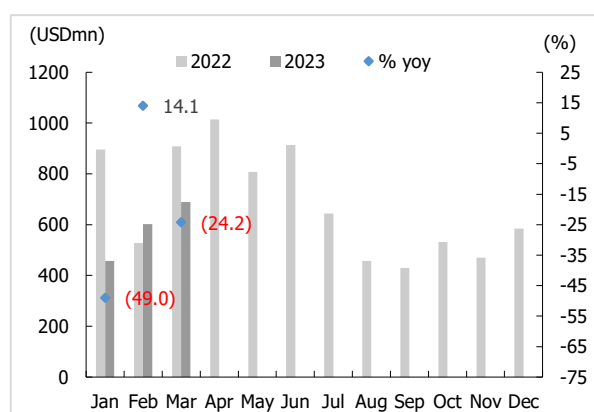
As for input materials, the recent drop in input prices caused by the weaker-than-expected steel demand. Despite the recent revival in the China home sales price, we still see it's not a solid signal for sustainable steel demand and prices. According to our data collection, tier 2 & 3 home sales prices still declined while the recent revival was mainly attributed by tier-1 cities, which implied the unsustainable recovery for the whole industry, then steel demand. We expect the input prices (coking coal, iron ore etc) will remain at low level in 2Q23F. Therefore, we also expect industry players will have better margins in 2Q23F despite the recent decrease in average selling prices.

**Figure 8. Hrc prices diverged among regionals**



Source: VSA

**Figure 9. The 1Q23 total export turnover reached USD1.7bn (-25% yoy)**



Source: GSO

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