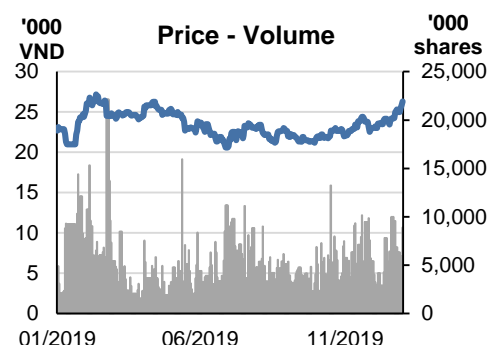


HPG (HOSE) Positive 4Q19 results thanks to Dung Quat

Building Material/Steel

Market price (VND) 25,300



Stock performance (%)

	YTD	1M	3M	12M
Absolute	0%	-4%	-10%	4%
Relative	-1%	-6%	-11%	-7%

Source: Bloomberg, compare to VNIndex

Stock Statistics 21-Jan-20

52-week range (VND)	20.6k-27.2k
Shares o/s (m)	2,761
Mkt cap (VND bn.)	69,855
Mkt cap (\$m)	3,014
% Foreign owned	38.6%
Est. free float (ml. shares)	1,443.2
3m avg. daily vol. (shares)	5,853,205
VND/USD	23,180
Index: VN-Index/HNX	991/106

Source: Bloomberg, KIS

Ownership 21-Jan-20

Chairman & affiliates	32.4%
Dragon Capital	5.0%
Vinacapital	4.9%
CEO Tran Tuan Duong	2.7%

Source: Bloomberg

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Positive 4Q19 result thanks to Dung Quat official launch

Hoa Phat reported 4Q2019 results with revenue of VND17,975bn, up 24.9% YoY, and net profit of VND1,923bn, up 8.8% YoY. For steel segment, revenue was recorded at VND14,289bn, rising 19.8% thanks to stronger sales volume of both long steel (+18.2% YoY), pipe steel (+15.6% YoY) and sheet steel (400% YoY). In addition, agriculture segment kept flying high with revenue reported at VND2,607bn, rocketing 84.8% YoY.

However, gross margin narrowed to 15.8% in 4Q2019, compared to 17.9% in 3Q2019 and 17.4% in 4Q2018 due to the 30% YoY increase of iron ore price and the additional VND210bn D&A of the 1st phase Dung Quat. However, 4Q19 interest expenses were VND270bn, similar to interest expenses of VND266bn in 3Q2019.

As such, in terms of accounting, we estimate that the phase 1 was mostly funded by equity and the phase 2 by debt, which is going to boost interest expenses in the second half of 2020 when all Dung Quat goes online.

2019 business result in line with our expectation

For full year 2019, net revenue was reported at VND63,658bn, completing 91% of its target plan and 101% of our estimation. NPAT was recorded at VND7,578bn, fulfilling 113% of target plan and 102% of our estimation

Based on 4Q19 financial report, we believe that Dung Quat was officially operated in 4Q19 which is in line with our assumption. Therefore, we are going to make no material change to our current forecast for Hoa Phat in 2020.

VNDbn	4Q18	4Q19	2018	2019U	2019 Plan
Net revenue	14,386	17,975	55,836	63,658	70,000
Growth YoY	1.4%	24.9%	21.0%	14.0%	25.4%
Gross profit	2,510	2,836	11,671	11,185	
Gross margin	17.4%	15.8%	20.9%	17.6%	
EBITDA	2,662	3,192	12,810	12,380	
Growth YoY	-18.3%	19.9%	10.2%	-3.4%	
EBITDA margin	18.5%	17.8%	22.9%	19.4%	
Interest expenses	145	270	540	937	
NPAT	1,767	1,923	8,601	7,578	6,700
Growth YoY	-26.4%	8.8%	7.3%	-11.9%	-22.1%
NPAT margin	12.3%	10.7%	15.4%	11.9%	9.6%

BMP FINANCIAL MODEL						BS & CF ITEMS (VNDbn)					
Unit: VNDbn	2016	2017	2018	2019	2020E	2016	2017	2018	2019	2020E	
Net Revenue	33,283	46,162	55,836	62,617	76,062	Increase in WC	1,419	5,214	-5,447	5,549	2,436
Sales growth (%)	21%	39%	21%	12%	21%	Capex	3,445	8,882	27,659	16,463	4,895
Steel	28,855	39,738	46,424	50,631	62,516	Other cash flow items	-202	-1,452	7,946	-	-
Agriculture	1,464	2,895	4,596	7,213	8,645	Free cash flow	3,619	-2,624	-19,298	-11,697	6,465
Real estate	533	760	1,672	1,602	1,602	Share issues	-	5,057	11	-	-
Others	2,629	2,768	3,144	3,171	3,298	Dividends paid	1,102	-	-	-	2,761
COGS	24,533	35,536	44,166	51,231	61,517	Increase in net debt	-2,517	-2,430	19,287	11,697	-3,704
Gross margin (%)	26%	23%	21%	18.2%	19.1%	Net debt, end of year	1,208	-1,221	18,066	29,763	26,058
SG&A	895	1,004	1,121	1,490	1,810	Enterprise value	49,739	47,314	66,618	78,342	74,665
EBITDA	9,499	11,595	12,810	12,744	17,631	Total equity	19,850	32,398	40,623	47,643	53,073
EBITDA margin (%)	28%	25%	22.9%	20.4%	23.2%	Minority interests	106	111	127	155	182
Depr'n & Amort'n	1,643	1,974	2,260	2,848	4,895	Shareholder's equity	19,745	32,287	40,496	47,489	52,891
Operating profit	7,856	9,622	10,550	9,896	12,735	BVPS (VND, bonus-adjusted)	5,856	11,694	14,667	17,199	19,156
Operating margin (%)	24%	21%	19%	16%	17%	Net debt / equity (%)	6%	-4%	44%	62%	49%
Net interest expenses	142	371	376	843	2,699	Net debt / EBITDA (x)	0.13	-0.11	1.41	2.34	1.48
As % of avg. net debt	6%	5651%	4%	4%	10%	Total assets	33,227	53,022	78,223	97,386	99,823
Interest cover (x)	55.5	25.9	28.0	11.7	4.7	Net debt = debts – cash & equivalent					
Other profit/loss	-13	38	-103	-41	-	Key ratios & Valuation					
Tax	1,096	1,274	1,471	1,545	1,135	2016	2017	2018	2019	2020E	
Effective tax rate (%)	14%	14%	15%	14%	11%	ROE (%) (excl minority interest)	38.6%	30.8%	23.6%	16.9%	17.7%
Net profit	6,606	8,015	8,601	7,466	8,901	ROA (%)	19.9%	15.1%	11.0%	7.7%	8.9%
Net margin (%)	20%	18%	15%	12%	12%	ROIC (%)	34.2%	31.8%	19.8%	12.0%	14.1%
Minorities	4	8	28	28	28	WACC (%)	14.4%	15.0%	11.5%	10.3%	12.6%
Net attributable profit	6,602	8,007	8,573	7,439	8,874	PER (x)	12.7	8.5	7.7	9.0	7.7
Number of shares (m)	843	1,517	2,124	2,761	2,761	PBR (x)	0.6	0.8	0.9	1.0	0.9
EPS (VND, bonus-adjusted)	1,799	2,689	2,965	2,533	2,957	PSR (x)	1.5	1.0	0.9	0.8	0.6
EPS growth (%)	83%	50%	10%	-15%	17%	EV/EBITDA (x)	5.2	4.1	5.2	6.1	4.2
DPS (VND)	375	-	-	-	1,000	EV/Sales (x)	1.5	1.0	1.2	1.3	1.0
Payout ratio	21%	-	-	-	34%	Dividend yield (%) (bonus-adjusted)	1.6%	-	-	-	4.4%

EBITDA = Net revenue – (COGs -Depr'n&Amort'n)– SG&A expenses

EBIT = EBITDA – Depr'n&Amort'n

Net interest expenses = interest expenses – interest income

Other profit/loss consists of other financial income/expenses, profit share from JVs/associates and other income/loss

Payout ratio = Dividend paid / Net attributable profit

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Recommendation System

BUY: where we believe prospective 12 months VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -5% to 15%.

SELL: where we believe it will be -5% or less.

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