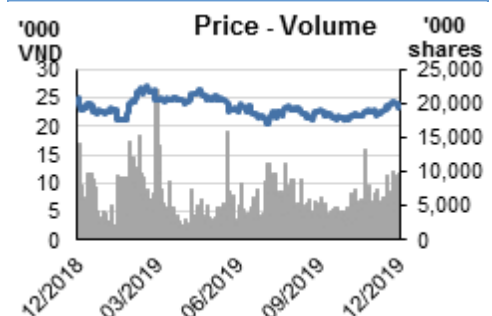


HPG (HOSE) Site visit to Dung Quat Complex

Rating **OVERWEIGHT**

Construction Material/Steel

Market price (VND)	22,550
1-Y target price (VND)	28,000
1-Y price return (%)	24.2%
1-Y dividend yield (%)	4.4%
1-Y total return (%)	28.6%



Selling price improves

After mentioning a rock bottom of gross margin in our latest report about 2020 outlook for steel market, we see that price of steel products is climbing. Data from our sources shows that order price of rebar of Vinakyoei, Posco SSVina and Pomina increased by VND100-150 per kg, ~1%MoM. For HRC, selling price of Formosa went up by USD10-20 per ton, ~2%MoM. For coated steel, order price of Hoa Sen rose by around VND200-500 per kg, ~2%MoM.

Hoa Phat is also experiencing a similar situation as selling price increased by VND150-200 per kg, ~1-2%MoM, for both rebar and pipe steel.

No new significant impact on Vietnam steel market from DOC decision

On 16 Dec 2019, The U.S. Department of Commerce (DOC) announced its final decision to impose duties of more than 450% on Vietnam corrosion-resistant steel and cold-rolled steel using Taiwanese and Korean HRC. These products produced in South Korea and Taiwan are shipped to Vietnam for additional minor processing before being exported to the U.S for tax avoidance. In our point of view, there is no new significant impact on Vietnamese producers because (1) FDI producers rather than local producers are the main targets (2) before this final decision, temporary duties effective from Aug 2018 have cut steel export to the U.S. from Vietnam by more than 50% in 2019.

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-3%	2%	2%	-7%
Relative	-12%	8%	6%	-11%

Source: Bloomberg, compare to VNI

Updates on other tariffs

For the safeguard tariff of Vietnam on imported billet and long steel, after issuing the Decision 2605/QD-BCT on 22 Aug 2019, MOIT started conducting a survey of nationwide steelmakers. Up to now, all related parties have sent the survey back to MoIT for further investigation.

Stock Statistics 18-Dec-19

52-week range (VND)	20.6k-27.2k
Shares o/s (m)	2,761
Mkt cap (VND bn.)	63,919
Mkt cap (\$m)	2,758
% Foreign owned	38.1%
Est. free float (ml. shares)	1,443.2
3m avg. daily vol. (shares)	5,199,623
VND/USD	23,175
Index: VN-Index/HNX	954/103

Source: Bloomberg, KIS

For the investigation of Thailand to impose anti-dumping tax of 7.64%-51.61% on Vietnam steel pipe, a final decision will be published after a hearing on 13 Dec 2019. Even in the worst case that this tax will come into effect, we expect to see no significant impact because Vietnam steel pipe producers and Hoa Phat only export 12% and 3% of their production, respectively.

Environmental control

Recently, mass media has alerted of water pollution near Dung Quat area. Department of Natural Resources and Environment are finding the reason and we will update the result later. Notably, during conversation with some local people, we see that their concerns about Dung Quat, up to now, is not air nor water pollution but the noise from the construction of Dung Quat complex.

Ownership 18-Dec-19

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

Source: Fiinpro, KIS

In addition, we observe Hoa Phat's remarkable efforts in both air, water and solid waste treatment. To limit air pollutants, they use dust filter bag, electrostatic precipitators, dry coke stamping technology, recovery of heat for electricity generation and build sulfur removal tower. To reduce water pollution, Hoa Phat has built a closed-loop water treatment system (only around 2% of water evaporized during cooling process is resupplied from Tra Bong river) which is capable of recycling millions cubic meters of water per day for production. Meanwhile, solid waste like slag is processed further for producing cement additives.

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Fig 01. 200k-DWT Dung Quat port



Source: KIS

Fig 02. Warehouse



Source: KIS

Fig 03. Industrial coke process



Source: KIS

Fig 04. 110KV Electric Grid



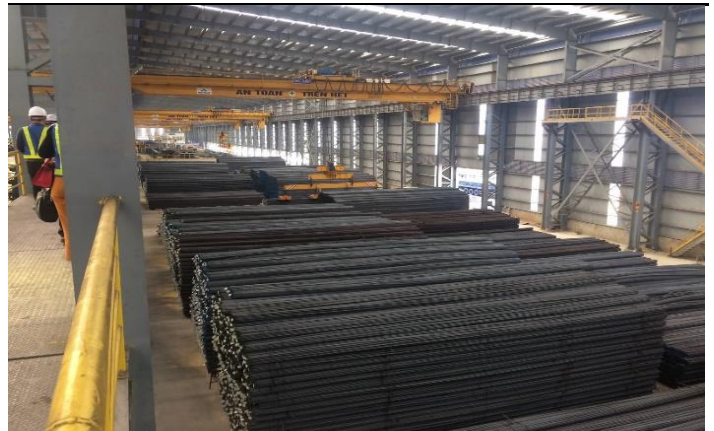
Source: KIS

Fig 05. Rolling factory



Source: KIS

Fig 06. Long steel product



Source: KIS

FINANCIAL MODEL						BS & CF ITEMS (VNDbn)					
Unit: VNDbn	2016	2017	2018	2019E	2020E	2016	2017	2018	2019E	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	<i>Net debt = debts – cash & equivalent</i>					
Other profit/loss	-13	38	-103	-41	-	Key ratios & Valuation	2016	2017	2018	2019E	2020E
Tax	1,096	1,274	1,471	1,545	1,135	ROE (%) (excl minority interest)	38.6%	30.8%	23.6%	16.9%	17.7%
Effective tax rate (%)	14%	14%	15%	14%	11%	ROA (%)	19.9%	15.1%	11.0%	7.7%	8.9%
Net profit	6,606	8,015	8,601	7,466	8,901	ROIC (%)	34.2%	31.8%	19.8%	12.0%	14.1%
Net margin (%)	20%	18%	15%	12%	12%	WACC (%)	14.4%	15.0%	11.5%	10.3%	12.6%
Minorities	4	8	28	28	28	PER (x)	12.7	8.5	7.7	9.0	7.7
Net attributable profit	6,602	8,007	8,573	7,439	8,874	PBR (x)	0.6	0.8	0.9	1.0	0.9
Number of shares (m)	843	1,517	2,124	2,761	2,761	PSR (x)	1.5	1.0	0.9	0.8	0.6
EPS (VND, bonus-adjusted)	1,799	2,689	2,965	2,533	2,957	EV/EBITDA (x)	5.2	4.1	5.2	6.1	4.2
EPS growth (%)	83%	50%	10%	-15%	17%	EV/Sales (x)	1.5	1.0	1.2	1.3	1.0
DPS (VND)	375	-	-	-	1,000	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

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

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

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

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