

**HPG (HOSE) 3Q2019 Weak Demand**

**Rating OVERWEIGHT**

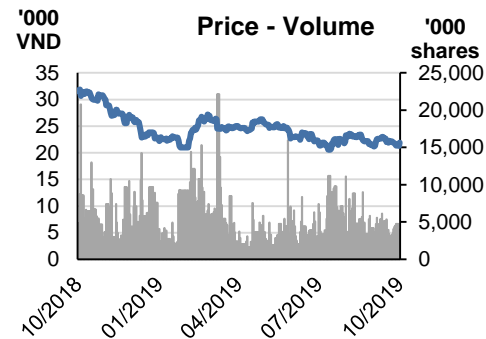
**Construction Material/Steel**

Market price (VND)	<b>21,900</b>
1-Y target price (VND)	<b>28,000</b>
1-Y price return (%)	28%
1-Y dividend yield (%)	5%
1-Y total return (%)	<b>32%</b>

**Weaker demand**

Hoa Phat's long steel consumption in 3Q2019 was 621k metric tons, slightly lower than 649k metric tons of 2Q2019 because of rain season. However, consumption growth was only 3.6% YoY, lower than 17.3% YoY of 2Q2019 and 28.7% YoY of 1Q2019. In aggregate, Hoa Phat sold 1.97mn metric tons in 9M2019.

For pipe steel segment, volume growth was 9.2% YoY in 3Q019 from the increase of 12.0% YoY in 2Q2019. Total volume in 9M2019 was 0.54mn metric tons, increasing 12.3% YoY.



**And weaker price**

From the peak of USD113 per ton at the end of Jun 2019, iron ore started decreasing to USD94 per metric ton because of the slowdown in China steel production (8M2019 crude steel production growth was 7.7% YoY, lower than 9.1% YoY of 6M2019).

Combined with the weaker steel output demand mentioned above and the decrease of 5.6% QoQ of scrap price, we estimate that long steel ASP of Hoa Phat in 3Q2019 decreased by 3.4% QoQ.

**Dung Quat project update**

For the 1st phase: The 1st blast furnace is still in pilot run and we expect that it will officially go online in November when the 2nd blast furnace starts its pilot run.

For the 2nd phase: the construction of the 1st blast furnace is along with the construction of the rolling factory. The 1st blast furnace will likely start pilot run in Mar 2020.

**Stock performance (%)**

	YTD	1M	3M	12M
Absolute	-8%	2%	1%	-31%
Relative	-20%	1%	-2%	-32%

Source: Bloomberg, compare to VNI

**3Q2019 business result preview**

Given current conditions, we estimate that 3Q2019 revenue and net profit of Hoa Phat at VND14,098bn, increasing 5.1% YoY and VND1,696bn, decreasing 29.6% YoY. We also adjust our estimate for 2019 and 2020. Accordingly, for FY2019, revenue and net profit is revised at VND62,442bn and VND7,111bn. For FY2020, we estimate revenue and net profit at VND79,805bn and VND9,381bn

As a result, we value HPG share at **VND28,000** at the end of 2020. Therefore, we maintain our **OVERWEIGHT** recommendation.

**Stock Statistics 08-Oct-19**

52-week range (VND)	20.6k-31.8k
Shares o/s (m)	2,761
Mkt cap (VND bn.)	60,468
Mkt cap (\$m)	2,606
% Foreign owned	37.8%
Est. free float (ml. shares)	1,439.5
3m avg. daily vol. (shares)	5,306,309
VND/USD	23,202
Index: VN-Index/HNX	988/104

Source: Bloomberg, KIS

**Ownership 08-Oct-19**

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

Source: Fiinpro, KIS

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## Earnings projection

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2018	2019E	2020E
<b>Sales</b>	<b>13,001</b>	<b>14,261</b>	<b>14,188</b>	<b>14,386</b>	<b>14,963</b>	<b>15,633</b>	<b>14,908</b>	<b>16,938</b>	<b>55,836</b>	<b>62,442</b>	<b>79,805</b>
Steel	10,874	11,736	11,889	11,924	11,964	12,171	11,428	13,440	46,424	49,003	64,801
Agriculture	816	1,196	1,174	1,411	1,753	1,809	1,827	1,845	4,596	7,234	8,645
Real estate	660	406	303	304	437	656	656	656	1,672	2,404	2,404
Others	651	923	822	747	809	998	998	998	3,144	3,803	3,955
<b>Sales YoY Growth %</b>	<b>26.7%</b>	<b>34.4%</b>	<b>13.1%</b>	<b>12.9%</b>	<b>15.1%</b>	<b>9.6%</b>	<b>5.1%</b>	<b>17.7%</b>	<b>21.0%</b>	<b>11.8%</b>	<b>27.8%</b>
Steel	19.3%	31.3%	7.8%	11.9%	10.0%	3.7%	-3.9%	12.7%	16.8%	5.6%	32.2%
Agriculture	62.4%	134.4%	46.9%	30.1%	115.0%	51.3%	55.6%	30.8%	58.7%	57.4%	19.5%
Real estate	484.4%	13.9%	477.1%	27.2%	-33.8%	61.6%	116.4%	115.8%	119.9%	43.7%	0.0%
Others	21.9%	14.5%	23.9%	-2.2%	24.2%	8.1%	21.4%	33.6%	13.6%	21.0%	4.0%
<b>Gross profit</b>	<b>2,850</b>	<b>2,801</b>	<b>3,124</b>	<b>2,510</b>	<b>2,622</b>	<b>3,015</b>	<b>2,534</b>	<b>2,667</b>	<b>11,279</b>	<b>10,838</b>	<b>14,975</b>
Steel	2,464	2,464	2,794	2,179	2,206	2,500	1,961	2,093	9,902	8,761	12,772
Agriculture	0	43	96	133	154	85	142	143	179	523	625
Real estate	290	167	113	76	136	266	266	266	543	934	934
Others	96	126	121	122	126	165	165	165	655	621	645
<b>Gross margin (%)</b>	<b>21.9%</b>	<b>19.6%</b>	<b>22.0%</b>	<b>17.4%</b>	<b>17.5%</b>	<b>19.3%</b>	<b>17.0%</b>	<b>15.7%</b>	<b>20.2%</b>	<b>17.4%</b>	<b>18.8%</b>
Steel	22.7%	21.0%	23.5%	18.3%	18.4%	20.5%	17.2%	15.6%	21.3%	17.9%	19.7%
Agriculture	0.0%	3.6%	8.1%	9.4%	8.8%	4.7%	7.7%	7.7%	3.9%	7.2%	7.2%
Real estate	43.9%	41.2%	37.1%	25.0%	31.2%	40.5%	40.5%	40.5%	32.5%	38.8%	38.8%
Others	14.8%	13.7%	14.8%	16.4%	15.6%	16.5%	16.5%	16.5%	20.8%	16.3%	16.3%
<b>Operating profit</b>	<b>2,592</b>	<b>2,580</b>	<b>2,883</b>	<b>2,108</b>	<b>2,308</b>	<b>2,653</b>	<b>2,188</b>	<b>2,273</b>	<b>10,550</b>	<b>9,422</b>	<b>13,166</b>
Growth (%)	19.5%	42.4%	16.9%	-22.1%	-11.0%	2.8%	-24.1%	7.8%	9.6%	-10.7%	39.7%
Margin (%)	19.9%	18.1%	20.3%	14.7%	15.4%	17.0%	14.7%	13.4%	18.9%	15.1%	16.5%
<b>NPAT</b>	<b>2,223</b>	<b>2,202</b>	<b>2,408</b>	<b>1,767</b>	<b>1,812</b>	<b>2,051</b>	<b>1,696</b>	<b>1,551</b>	<b>8,601</b>	<b>7,111</b>	<b>9,381</b>
Growth (%)	14.9%	43.2%	12.5%	-26.4%	-18.5%	-6.9%	-29.6%	-12.2%	7.3%	-17.3%	31.9%
Margin (%)	17.1%	15.4%	17.0%	12.3%	12.1%	13.1%	11.4%	9.2%	15.4%	11.4%	11.8%

FINANCIAL MODEL						BS & CF ITEMS (VNDbn)					
Unit: VNDbn	2016	2017	2018	2019E	2020E	2016	2017	2018	2019E	2020E	
<b>Net Revenue</b>	<b>33,283</b>	<b>46,162</b>	<b>55,836</b>	<b>62,442</b>	<b>79,805</b>	Increase in WC	1,419	5,214	-5,447	5,517	3,146
Sales growth (%)	21%	39%	21%	12%	28%	Capex	3,445	8,882	27,659	26,939	14,563
Steel	28,855	39,738	46,424	48,402	64,801	Other cash flow items	-202	-1,452	7,946	-	-
Agriculture	1,464	2,895	4,596	7,234	8,645	<b>Free cash flow</b>	<b>3,619</b>	<b>-2,624</b>	<b>-19,298</b>	<b>-22,539</b>	<b>-3,478</b>
Real estate	533	760	1,675	2,404	2,404	Share issues	-	5,057	11.42	-	-
Others	2,629	2,768	3,144	3,803	3,955	Dividends paid	1,102	4	-	-	2,761
<b>COGS</b>	<b>24,533</b>	<b>35,536</b>	<b>44,166</b>	<b>51,605</b>	<b>64,830</b>	Increase in net debt	-2,517	-2,430	19,287	12,110	6,239
Gross margin (%)	26%	23%	21%	17.4%	18.8%	<b>Net debt, end of year</b>	<b>1,208</b>	<b>-1,221</b>	<b>18,066</b>	<b>40,604</b>	<b>46,843</b>
SG&A	895	1,004	1,121	1,590	1,809	Enterprise value	48,040	45,615	64,918	87,485	93,751
<b>EBITDA</b>	<b>9,499</b>	<b>11,595</b>	<b>12,836</b>	<b>12,270</b>	<b>18,061</b>	<b>Total equity</b>	<b>19,850</b>	<b>32,398</b>	<b>40,623</b>	<b>47,269</b>	<b>53,100</b>
EBITDA margin (%)	28.0%	25.0%	23.0%	19.7%	22.6%	Minority interests	106	111	127	155	182
Depr'n & Amort'n	1,643	1,974	2,005	2,848	4,895	<b>Shareholder's equity</b>	<b>19,745</b>	<b>32,287</b>	<b>40,496</b>	<b>47,115</b>	<b>52,918</b>
<b>Operating profit</b>	<b>7,856</b>	<b>9,622</b>	<b>10,550</b>	<b>9,422</b>	<b>13,166</b>	BVPS (VND, bonus-adjusted)	5,856	11,694	14,667	17,064	19,166
Operating margin (%)	24%	21%	19%	15%	16%	Net debt / equity (%)	6%	-4%	44%	86%	88%
Net interest expenses	142	371	376	800	2,710	Net debt / EBITDA (x)	0.13	-0.11	1.41	3.31	2.59
As % of avg. net debt	6%	-	4%	3%	8%	<b>Total assets</b>	<b>33,227</b>	<b>53,022</b>	<b>78,223</b>	<b>107,831</b>	<b>120,644</b>
Interest cover (x)	55.5	25.9	28.0	11.8	4.9	<i>Net debt = debts – cash &amp; equivalent</i>					
Other profit/loss	-13	38	-103	-41	-	<b>Key ratios &amp; Valuation</b>					
Tax	1,096	1,274	1,471	1,471	1,076	2016	2017	2018	2019E	2020E	
Effective tax rate (%)	14%	14%	15%	13%	10%	ROE (%) (excl minority interest)	38.6%	30.8%	23.6%	16.1%	18.6%
<b>Net profit</b>	<b>6,606</b>	<b>8,015</b>	<b>8,601</b>	<b>7,111</b>	<b>9,381</b>	ROA (%)	19.9%	15.1%	11.0%	6.6%	7.7%
Net margin (%)	20%	18%	15%	11%	12%	ROIC (%)	34.2%	31.8%	19.8%	10.6%	12.3%
Minorities	4	8	28	28	28	WACC (%)	14.4%	15.0%	11.5%	9.1%	10.3%
<b>Net attributable profit</b>	<b>6,602</b>	<b>8,007</b>	<b>8,573</b>	<b>7,083</b>	<b>9,353</b>	PER (x)	12.2	8.2	7.4	9.2	7.1
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
<b>EPS (VND, bonus-adjusted)</b>	<b>1,799</b>	<b>2,689</b>	<b>2,965</b>	<b>2,411</b>	<b>3,117</b>	PSR (x)	1.4	1.0	0.8	0.7	0.6
EPS growth (%)	83%	50%	10%	-19%	29%	EV/EBITDA (x)	5.0	3.9	5.1	7.1	5.2
DPS (VND)	1,500	-	-	-	1,000	EV/Sales (x)	1.4	1.0	1.2	1.4	1.2
Payout ratio (%)	21%	0%	0%	0%	32%	Dividend yield (%) (bonus-adjusted)	1.7%	0.0%	0.0%	0.0%	4.5%

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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