

3 Apr 2020

## Hoa Phat Group (HPG)

12M rating **HOLD (Maintain)**

### 1Q20 preview: COVID-19 impact is still negligible

#### Volume offsets narrow margin

We estimate 1Q20 long steel of Hoa Phat at 700k tonnes, up 0.6% YoY, of which selling volume to the South may exceed 80k tonnes, up 93.5% YoY, thanks to the operation of Dung Quat complex. Combined with billet consumption of around 320k tonnes, we estimate long steel and billet consumption at 1.02mn tonnes in 1Q20, +46% YoY. We believe this surge comes from Dung Quat complex, which has added 500k tonnes per quarter to Hoa Phat's capacity, +74% YoY.

Despite the 10.7% YoY decrease of China rebar average price in 1Q20, domestic rebar price was quite stable. In our opinion, the billet selling activities of Hoa Phat in 1Q20 reduced the competition pressure in the rebar market. There was also the 3.9% ytd increase of pipe steel price which may be a temporary situation.

We estimate 1Q20 revenue of Hoa Phat at VND16,882bn, up 12.8% YoY. Given the fact that iron ore is remaining at the high level of around USD91 per tonne, +10% YoY, and the additional VND600bn of D&A and interest, we estimate NPAT at VND1,546bn, -14.6% YoY.

#### COVID-19 impact to be worse in 2Q20

We expect the impact will be the most severe in 2Q20 after the Prime Minister has requested people to reduce daily spending down to only basic need in at least 15 days from 01 Apr 2020 in order to contain the virus spreading. Hoa Phat has also saw another effect of the virus as Italian engineers cannot go to Vietnam, delaying the progress of the 2<sup>nd</sup> phase of Dung Quat

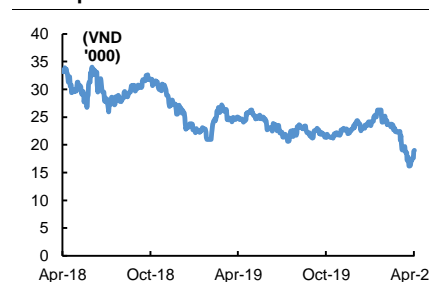
#### Stock Data

VNIndex (Apr 01, pt)	680
Stock price (Apr 01, VND)	17,250
Market cap (USD mn)	2,019
Shares outstanding (mn)	2,761
52-Week high/low (VND)	34,150/16,200
6M avg. daily turnover (USD mn)	6.15
Free float / Foreign ownership (%)	51.5/36.6
Major shareholders (%)	
Chairman & affiliates	32.4
Dragon Capital	5.0
Vinacapital	4.9
CEO Tran Tuan Duong	2.7

#### Performance

	1M	6M	12M
Absolute (%)	-0.2	-0.2	-0.3
Relative to VNIndex (%p)	0.0	0.1	0.0

#### Stock price trend



Source: Bloomberg

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	46,162	9,622	8,007	2,689	49.5	11,626	6.4	3.0	0.6	30.8	0.0
2018A	55,836	10,550	8,573	2,965	10.3	12,810	5.8	4.3	0.7	23.6	0.0
2019	63,658	9,743	7,508	2,556	-13.8	12,381	6.7	5.4	0.8	17.0	0.0
2020F	74,761	10,580	6,228	2,120	-17.0	15,218	8.1	4.1	0.7	12.3	0.0
2021F	83,624	14,967	10,473	3,565	68.2	20,517	4.8	2.6	0.6	17.9	0.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

Vinh Chu

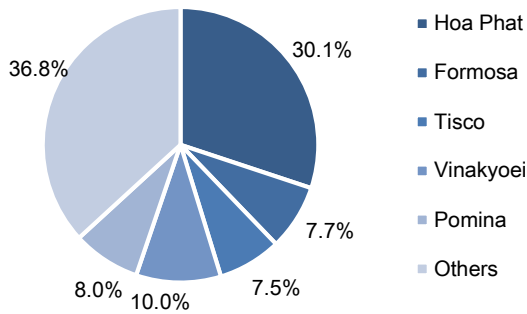
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**Table 1. Earnings trend and outlook**

(VND bn, million tonnes, %, %p)

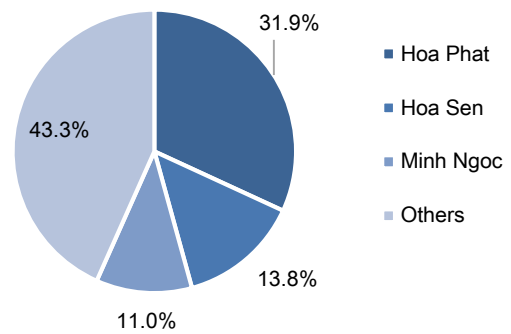
	2019				2020F	2019	2020F	1Q20F		
	1Q	2Q	3Q	4Q	1QF			QoQ	YoY	Consensus
<b>Volume</b>	<b>869</b>	<b>840</b>	<b>803</b>	<b>1,009</b>	<b>866</b>	<b>3,520</b>	<b>4,167</b>	<b>(14.2)</b>	<b>(0.4)</b>	
Long steel	697	649	621	808	705	2,775	3,385	(12.7)	1.2	
Pipe steel	172	191	181	201	161	745	782	(20.0)	(6.6)	
<b>Net sales</b>	<b>14,963</b>	<b>15,633</b>	<b>15,087</b>	<b>17,975</b>	<b>16,882</b>	<b>63,658</b>	<b>74,761</b>	<b>(6.1)</b>	<b>12.8</b>	
Steel	11,964	12,171	12,291	14,808	13,679	51,233	61,442	(7.6)	14.3	
Agriculture	1,753	1,809	1,816	2,607	1,925	7,985	8,766	(26.2)	9.8	
Real estate	437	656	255	275	437	1,622	1,622	59.0	-	
Others	809	998	725	286	841	2,818	2,930	194.3	4.0	
<b>Gross profit</b>	<b>2,622</b>	<b>3,028</b>	<b>2,703</b>	<b>2,849</b>	<b>2,483</b>	<b>11,203</b>	<b>12,274</b>	<b>(12.9)</b>	<b>(5.3)</b>	
Steel	2,206	2,500	2,289	2,152	1,989	9,147	10,181	(7.6)	(9.9)	
Agriculture	154	91	160	470	196	875	891	(58.4)	27.4	
Real estate	136	268	103	132	136	639	639	3.5	-	
Others	126	169	151	96	162	542	564	68.2	28.5	
<b>Gross margin</b>	<b>17.5</b>	<b>19.4</b>	<b>17.9</b>	<b>15.9</b>	<b>14.7</b>	<b>17.6</b>	<b>16.4</b>	<b>(1.1)</b>	<b>(2.8)</b>	
Steel	18.4	20.5	18.6	14.5	14.5	17.9	16.6	0.0	(3.9)	
Agriculture	8.8	5.0	8.8	18.0	10.2	11.0	10.2	(7.9)	1.4	
Real estate	31.2	40.9	40.4	47.9	31.2	39.4	39.4	(16.7)	-	
Others	15.6	16.9	20.9	33.7	19.2	19.2	19.2	(14.4)	3.7	
<b>Operating profit</b>	<b>2,308</b>	<b>2,653</b>	<b>2,326</b>	<b>2,466</b>	<b>2,128</b>	<b>9,743</b>	<b>10,580</b>	<b>(13.7)</b>	<b>(7.8)</b>	
EBT	2,172	2,481	2,162	2,291	1,870	9,097	8,349	(18.4)	(13.9)	
Net profit	1,812	2,051	1,788	1,894	1,546	7,578	6,298	(18.4)	(14.6)	
<b>NP of controlling interest</b>	<b>1,802</b>	<b>2,037</b>	<b>1,748</b>	<b>1,888</b>	<b>1,537</b>	<b>7,508</b>	<b>6,228</b>	<b>(18.6)</b>	<b>(14.7)</b>	
EBITDA	2,891	3,266	2,965	3,270	3,159	12,381	15,218	(3.4)	9.3	
EBITDA margin	19.3	20.9	19.7	18.2	18.7	19.4	20.4	0.5	(0.6)	
OP margin	15.4	17.0	15.4	13.7	12.6	15.3	14.2	(1.1)	(2.8)	

**Figure 1. Hoa Phat long steel market share, 2M20**



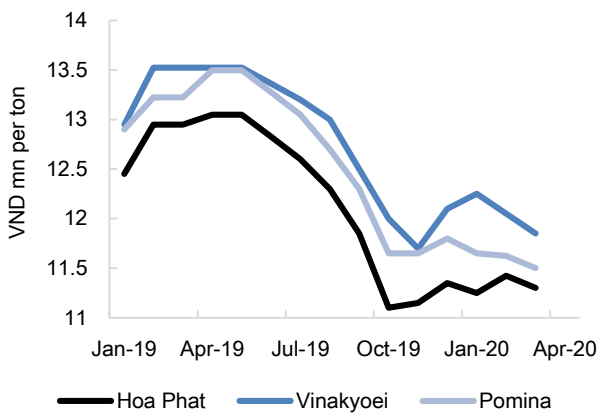
Source: VSA, KIS

**Figure 2. Hoa Phat pipe steel market share, 2M20**



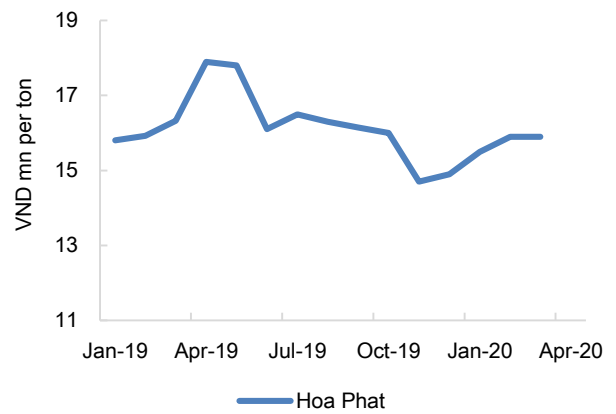
Source: VSA, KIS

**Figure 3. Rebar steel price fluctuation**



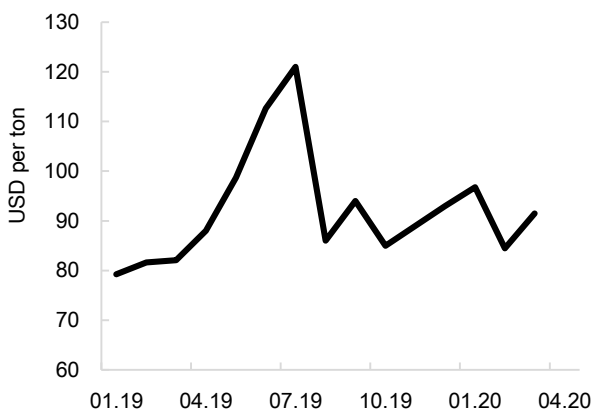
Source: KIS

**Figure 4. Pipe steel fluctuation**



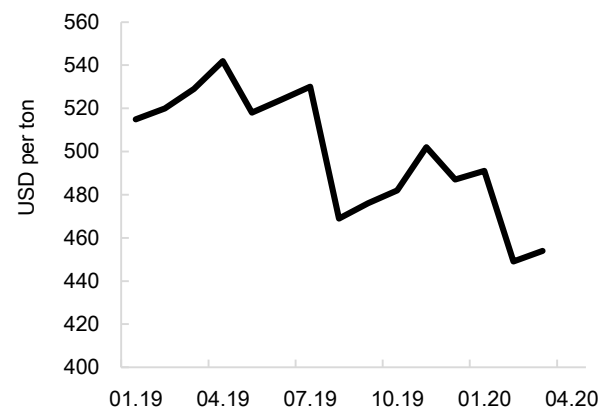
Source: KIS

**Figure 5. Iron ore price fluctuation**



Source: Bloomberg, KIS

**Figure 6. HRC fluctuation**



Source: Bloomberg, KIS

**■ Company overview**

Hoa Phat Group (HPG) is the No.1 steel producer in Vietnam with the market share of 26.1% for long products and 31.5% for pipe products in 2019. Hoa Phat is one of the few local companies that has a value chain from iron ore to finished steel. Most of Hoa Phat steel billet is manufactured using BOF technology. In the recent years, aside from aggressively expanding its steel capacity, Hoa Phat is promoting the development of agriculture with animal feed, beef, pork and poultry eggs.

**Balance sheet**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	32,506	23,566	28,926	36,888	45,214
Cash & cash equivalents	14,201	6,240	5,939	9,574	15,820
Accounts & other receivables	6,555	3,210	3,575	4,198	4,696
Inventory	11,749	14,115	19,412	23,116	24,698
Non-current assets	18,875	51,136	69,287	69,287	69,287
Fixed assets	18,858	51,070	69,261	69,261	69,261
Investment assets	17	67	26	26	26
Others	1,642	3,521	3,577	3,577	3,577
<b>Total assets</b>	<b>53,022</b>	<b>78,223</b>	<b>101,791</b>	<b>109,753</b>	<b>118,079</b>
Advances from customers	824	361	409	480	537
Unearned revenue	3	10	31	36	40
Trade payables	6,789	12,898	16,859	20,076	21,450
Others	28	24	25	25	25
ST debt & bonds	11,326	11,186	13,301	17,115	19,145
LT debt & bonds	1,654	13,119	23,379	18,117	12,436
<b>Total liabilities</b>	<b>20,625</b>	<b>37,600</b>	<b>54,003</b>	<b>55,850</b>	<b>53,632</b>
Controlling interest	32,176	40,369	47,422	53,650	64,123
Capital stock	15,171	21,239	27,611	27,611	27,611
Capital surplus	3,202	3,212	3,212	3,212	3,212
Other reserves	406	792	741	741	741
Retained earnings	13,397	15,126	15,858	22,086	32,559
Minority interest	111	127	183	253	324
Shareholders' equity	32,287	40,496	47,605	53,903	64,447

**Cash flow**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	5,092	17,493	8,585	9,903	15,449
Net profit	8,015	8,601	7,580	6,298	10,544
Dep'n & Amort'n	2,005	2,260	2,638	4,638	5,550
Net incr. in W/C	(4,927)	6,633	(1,633)	(1,034)	(645)
C/F from investing	(17,926)	(20,533)	(18,698)	(4,638)	(5,550)
Capex	(8,875)	(27,594)	(21,622)	(4,638)	(5,550)
Incr. in investment	(9,051)	7,061	2,924	-	-
C/F from financing	2,624	19,298	12,675	(929)	(944)
Incr. in equity	5,057	11	0	-	-
Incr. in net debt	(2,430)	19,287	12,675	(5,081)	(9,899)
Dividends	(4)	-	-	-	-
C/F from others	(0)	(1)	0	0	0

**Income statement**

(VND bn)

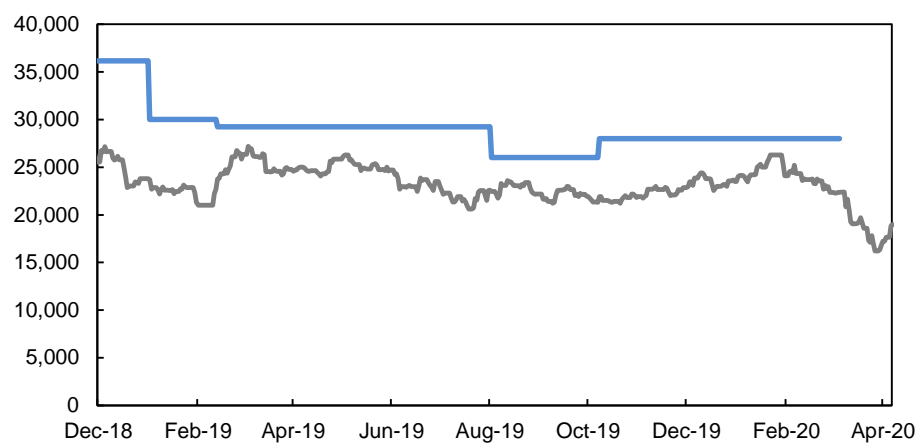
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	46,162	55,836	63,658	74,761	83,624
Operating profit	9,622	10,550	9,743	10,580	14,967
Financial income	186	294	471	277	342
Interest income	109	163	277	277	342
Financial expenses	556	772	1,182	2,508	2,518
Interest expenses	480	540	937	2,508	2,518
Other non-operating profit	36	(1)	66	-	-
Gains (Losses) in associates, subsidiaries and JV	(0)	-	(1)	-	-
<b>Earnings before tax</b>	<b>9,288</b>	<b>10,071</b>	<b>9,097</b>	<b>8,349</b>	<b>12,791</b>
Income taxes	1,274	1,471	1,518	2,051	2,248
<b>Net profit</b>	<b>8,015</b>	<b>8,601</b>	<b>7,580</b>	<b>6,298</b>	<b>10,544</b>
Net profit of controlling interest	8,007	8,573	7,509	6,228	10,473
<b>EBITDA</b>	<b>11,626</b>	<b>12,810</b>	<b>12,381</b>	<b>15,218</b>	<b>20,517</b>

**Key financial data**

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	2,689	2,965	2,556	2,120	3,565
BPS	11,694	14,667	17,241	19,431	23,224
DPS	0	0	0	0	0
Growth (%)					
Sales growth	38.7	21.0	14.0	17.4	11.9
OP growth	20.8	18.9	15.3	14.2	17.9
NP growth	17.4	15.4	11.9	8.4	12.6
EPS growth	49.5	10.3	(13.8)	(17.0)	68.2
EBITDA growth	22.0	10.2	(3.3)	22.9	34.8
Profitability (%)					
OP margin	20.8	18.9	15.3	14.2	17.9
NP margin	17.4	15.4	11.9	8.4	12.6
EBITDA margin	25.2	22.9	19.4	20.4	24.5
ROA	15.1	11.0	7.4	5.5	8.4
ROE	30.8	23.6	17.0	12.3	17.8
Dividend yield	-	-	-	-	-
Dividend payout ratio	-	-	-	-	-
Stability					
Net debt (VND bn)	-1,221	18,066	30,741	25,704	16,167
Net debt/equity (%)	(3.8)	44.5	64.3	47.7	25.1
Valuation (x)					
PE	6.4	5.8	6.7	8.1	4.8
PB	0.6	0.7	0.8	0.7	0.6
EV/EBITDA	3.1	4.3	5.5	4.1	2.6

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target (VND)	% vs. avg. price	% vs. high (low)
HPG	03 Apr 2020	Hold			
	26 Mar 2020	Hold			
	18 Feb 2020	Buy	28,000		
	18 Dec 2019	Buy	28,000		
	02 Aug 2019	Buy	26,000		
	03 Apr 2019	Buy	29,231		
	02 Jan 2019	Buy	30,000		
	19 Nov 2018	Buy	36,154		



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Prepared by: Vinh Chu

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