

06 Sep, 2021

Hoa Sen Group (HSG)

Jul 2021 – Operational updates

On Aug 25, Hoa Sen Group released its Jul business updates and Vietnam Steel Association (VSA) released some worthy headlines on the Jul sales of the company. Here are some key issues worthy of note.

Rosy export volume amid tepid local demand in Jul

Total July steel sales volume posted 189,474 tonnes, increased by 19% yoy but plunged 5.8% mom. Of which, steel coat volume made up 157,845 metric tons, +1.7% yoy and +30.3% mom driven by the proliferated oversea market with an export volume of 123,088 tonnes, +20.2% mom and +61.9% yoy. Steel pipes volume, which is domestically consumed, is severely hit by the production interruption due to the southern lockdown and hence, dropped 12.6% yoy and 32% mom to 30,109 tonnes.

Overall, the sale volume in 10 months (Oct 2020-Jul 2021) came in at 1.9mn tonnes, +51.9% yoy on the back of the steel coat volume growth of 53.3% yoy to 1.4mn tonnes. The total Jul export volume accounted for 67.2%, +14.9%p yoy amid the management's strategy skewed in favor of the export market.

Hedging on the commodity price rally

HSG's inventory as of end-Jul spiked by around 21.7-88.9% mom and 22.2-100% yoy based on VSA figures. We are positive on the strategy that stocking up more inventory helps HSG to shelter from the whirlwind of the input price increase and reap a gross margin expansion if HSG could transfer the surge of raw material to the end-users.

Robust earnings driven by stellar sales

In Jul 2021, HSG recorded a VND302bn net profit, +124% yoy thanks to double revenue growth of 97% yoy to VND4,921bn. Sales were skyrocketed thanks to a 65% yoy rise in the average selling price (ASP) besides a 19% yoy rise in volume. We estimate that the July ASP could mount to VND25.9mn/tonne vs VND15.7mn/tonne in the same period last year. Hence, net profit margin improved to 6.1% in July 2021 vs 5.4% in Jul, 2020

| Yr to | Net Sales | OP | NP | EPS | % chg | EBITDA | PE | EVEBITDA | PB | ROE | DY |
|---------|-----------|----------|----------|--------|---------|----------|-------|----------|-------|-------|------|
| Sept | (VND bn) | (VND bn) | (VND bn) | (VND) | (YoY) | (VND bn) | (x) | (x) | (x) | (%) | (%) |
| FY17A | 26,149 | 2,104 | 1,331 | 3,824 | (49.92) | 2,809 | 6.8 | 7.35 | 1.77 | 27.42 | 3.44 |
| FY18A | 34,100 | 1,265 | 409 | 1,063 | (72.2) | 2,290 | 6.26 | 7.19 | 0.5 | 7.63 | 0 |
| FY19A | 28,034 | 987 | 369 | 837 | (17.92) | 2,179 | 9.8 | 5.98 | 0.66 | 6.95 | 0 |
| FY20A | 27,539 | 1,958 | 1,152 | 2,589 | 196.77 | 3,180 | 9.06 | 5.67 | 1.58 | 19 | 0 |
| FY9M21A | 32,929 | 3,959 | 3,308 | 7,693* | | 4,893 | 5.21* | 4.74* | 1.99* | 46.63 | 0 |

Note: Net profit and EPS are based on figures attributed to controlling interest; Fiscal Year starts on October (*) TTM

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12M rating **Non-rated**

12M TP **N.A**

Up/Downside *N.A*

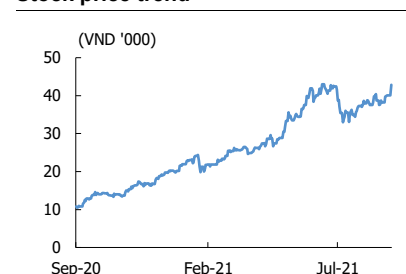
Stock Data

| | |
|------------------------------------|---------------|
| VNINDEX (06 Sept, pt) | 1,346 |
| Stock price (06 Sept, VND) | 42,850 |
| Market cap (USD mn) | 920 |
| Shares outstanding (mn) | 489 |
| 52-Week high/low (VND) | 43,000/10,500 |
| 6M avg. daily turnover (USD mn) | 18.40 |
| Free float / Foreign ownership (%) | 68.4/10.9 |
| Major shareholders (%) | |
| Le Phuoc Vu | 16.7 |
| Hoa Sen Holdings Group | 3.6 |
| Korea Investment Management | 2.1 |

Performance

| | 1M | 6M | 12M |
|--------------------------|------|------|-------|
| Absolute (%) | 12.8 | 68.6 | 308.1 |
| Relative to VNINDEX (%p) | 12.3 | 52.8 | 254.2 |

Stock price trend



Source: Bloomberg

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Dimming net margin in Jul

Comparing on a mom basis, we see the net profit slumped by 46.2% in spite of revenue growth by 27.2%, and the net profit margin was contracted by 8.4%p. While digging a much fuller review on the COGS and SGA sales, we speculate that the higher price of raw material could be another attribute.

Conservative annual guidance already fulfilled

For FY20-21F, HSG sets targets of VND33tn revenue and a VND1.5tn net profit. However, the results in 10 months were far exceeding with revenue and NPAT were VND37.8tn (+75% yoy) and VND3.6tn (+339% yoy), completing 115%/245% of the company's guidance.

Table 1: Sales volume growth (Tonnes)

| | Monthly | | | | Accumulated | | |
|---------------------------|----------------|----------------|--------------|----------------|------------------|------------------|-------------|
| | 07/2021 | 07/2020 | MoM (%) | YoY (%) | 10/2020-7/2021 | 10/2019-7/2020 | YoY (%) |
| Steel Pipes | 30,109 | 34,466 | (32) | (12.64) | 433,627 | 307,146 | 41.1 |
| Domestic | 26,865 | 29,156 | (33.3) | (7.9) | 397,078 | 291,359 | 36.2 |
| Export | 3,224 | 5,310 | (20.1) | (39.3) | 36,549 | 15,787 | 131.5 |
| Steel Coat | 157,845 | 121,132 | 1.7 | 30.3 | 1,486,044 | 956,844 | 55.3 |
| Domestic | 34,757 | 45,117 | (34.2) | (23.0) | 505,801 | 472,661 | 7.0 |
| Export | 123,088 | 76,015 | 20.2 | 61.9 | 980,243 | 484,183 | 102.4 |
| Total Steel Volume | 187,954 | 155,598 | (5.8) | 20.8 | 1,919,671 | 1,263,990 | 51.8 |
| Domestic | 61,622 | 74,273 | (33.8) | (17.0) | 902,879 | 764,020 | 18.1 |
| Export | 126,312 | 81,325 | 18.7 | 55.3 | 1,016,792 | 499,970 | 103.3 |

Source: Company, VSA, KIS

Table 2: Production volume growth (Tonnes)

| | Monthly | | | | Accumulated | | |
|------------------------|---------|---------|---------|---------|----------------|----------------|---------|
| | 07/2021 | 07/2020 | MoM (%) | YoY (%) | 10/2020-7/2021 | 10/2019-7/2020 | YoY (%) |
| Steel Pipes | | | | | | | |
| Production | 21,947 | 33,934 | (42.1) | (35.3) | 353,994 | 310,027 | 14.1 |
| Inventories | 54,090 | 37,809 | 21.7 | 43.1 | | | |
| Steel Coat | | | | | | | |
| Production | 177,601 | 108,117 | 12.4 | 64.3 | 1,525,626 | 947,774 | 60.9 |
| Inventories | 72,822 | 59,703 | 0 | 22.0 | | | |
| Roll Steel Coil | | | | | | | |
| Production | 171,931 | 138,130 | (4.6) | 24.5 | 1,689,438 | 1,174,033 | 43.9 |
| Inventories | 30,206 | 15,106 | 88.9 | 100.0 | | | |

Source: Company, VSA, KIS

Company overview & Glossary

Founded in 2001, HSG is a leading manufacturer of galvanized steel sheets (capacity of 2.7mn tonnes per year capacity, making up 37% market share as of end-FY20) in Vietnam. Other products include steel pipes (capacity 990,000 tonnes per year) and plastic pipes. HSG also has its own retail distribution network with 536 branches.

Balance sheet

(VND bn)

| FY-ending Sept. | FY17A | FY18A | FY19A | FY20A | FY9M21A |
|---------------------------------|----------|----------|----------|----------|----------|
| Current assets | 10,991.4 | 9,218.4 | 6,252.0 | 8,123.3 | 15,942.2 |
| Cash & cash equivalent | 292.4 | 492.4 | 365.0 | 575.3 | 529.2 |
| Accounts & other receivables | 1,828.0 | 2,119.0 | 1,339.0 | 2,024.0 | 3,766.0 |
| Inventory | 8,871.0 | 6,607.0 | 4,548.0 | 5,524.0 | 11,647.0 |
| Non-current assets | 8,185.5 | 9,736.7 | 9,235.5 | 8,197.4 | 7,462.8 |
| Investment assets | 1,424.5 | 1,611.7 | 593.5 | 602.4 | 557.8 |
| Fixed assets | 6,761.0 | 8,125.0 | 8,642.0 | 7,595.0 | 6,905.0 |
| Others | 2,262.5 | 2,300.4 | 1,738.2 | 1,435.8 | 1,756.7 |
| Total assets | 21,439.4 | 21,255.5 | 17,225.7 | 17,756.5 | 25,161.7 |
| Accounts & other payables | 4,413.0 | 1,758.0 | 2,060.0 | 2,969.0 | 8,214.0 |
| ST debt & bond | 9,015.0 | 10,880.0 | 6,707.0 | 6,023.0 | 5,452.0 |
| LT debt & financial liabilities | 2,841.0 | 3,466.0 | 2,990.0 | 2,174.0 | 1,639.0 |
| Total liabilities | 16,269.0 | 16,104.0 | 11,757.0 | 11,166.0 | 15,305.0 |
| Controlling interest | 5,133.5 | 5,116.1 | 5,460.9 | 6,584.6 | 9,839.3 |
| Capital stock | 3,500.0 | 3,849.9 | 4,234.7 | 4,446.3 | 4,446.3 |
| Capital surplus | 152.0 | 152.0 | 152.0 | 152.0 | 157.0 |
| Other Reserves | 34.5 | 59.2 | 53.2 | 32.3 | 99.0 |
| Retained earnings | 1,447.0 | 1,055.0 | 1,021.0 | 1,954.0 | 5,137.0 |
| Minority interest | 37.2 | 35.9 | 7.6 | 6.6 | 16.7 |
| Shareholders' equity | 5,170.7 | 5,152.0 | 5,468.5 | 6,591.2 | 9,856.0 |

Income statement

(VND bn)

| FY-ending Sept. | FY17A | FY18A | FY19A | FY20A | FY9M21A |
|--|----------|----------|----------|----------|----------|
| Sales | 26,149.0 | 34,441.4 | 28,034.8 | 27,539.5 | 32,929.5 |
| COGS | 21,730.8 | 30,464.3 | 24,836.2 | 22,913.1 | 26,586.6 |
| Gross profit | 4,418.3 | 3,977.1 | 3,198.6 | 4,626.4 | 6,342.9 |
| SG&A expense | 2,314.0 | 2,711.6 | 2,211.6 | 2,667.5 | 2,383.3 |
| Operating profit | 2,104.3 | 1,265.5 | 987.0 | 1,958.9 | 3,959.6 |
| Financial income | 53.9 | 179.5 | 63.2 | 77.1 | 233.6 |
| Interest income | 0.4 | 1.7 | 1.3 | 2.8 | N/a |
| Financial expense | 589.2 | 970.7 | 802.6 | 659.1 | 392.7 |
| Interest expense | 482.3 | 811.7 | 746.0 | 560.1 | 248.4 |
| Other non-operating profit | 73.7 | 54.4 | 222.5 | (3.3) | 8.7 |
| Gains (Losses) in associates, subsidiaries, and JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings before tax | 1,642.6 | 529.2 | 470.1 | 1,373.6 | 3,809.1 |
| Income taxes | 311.0 | 120.0 | 100.7 | 221.4 | 500.4 |
| Net profit | 1,331.7 | 409.2 | 369.4 | 1,152.2 | 3,308.8 |
| Net profit of controlling interest | 1,331.7 | 409.2 | 369.4 | 1,152.5 | 3,308.8 |
| EBITDA | 2,809.3 | 2,290.5 | 2,179.0 | 3,188.9 | 4,850.6 |

Cash flow

(VND bn)

| FY-ending Sept. | FY17A | FY18A | FY19A | FY20A | FY9M21A |
|--|----------|----------|----------|----------|----------|
| C/F from operating | (2173.6) | 397.7 | 5245.3 | 2107.7 | 962.7 |
| Net profit | 1331.7 | 409.2 | 369.4 | 1152.2 | 3308.8 |
| Depreciation | 705.0 | 1025.0 | 1192.0 | 1230.0 | 891.0 |
| Amortization | 0 | 0 | 0 | 0 | 0 |
| Net incr. in W/C | (4116.3) | (763.9) | 3785.7 | (333.8) | (3250.0) |
| Others | (94.0) | (272.6) | (101.8) | 59.3 | 12.9 |
| C/F from investing | (3994.0) | (2339.6) | (802.4) | (310.6) | 8.0 |
| CAPEX | (3967.3) | (2512.0) | (781.6) | (390.4) | (165.0) |
| Net loan granted & purchases of debt instruments | 3.2 | 0.6 | (30.6) | 66.3 | (18.0) |
| Net purchases of investment in affiliates | (30.6) | 165.9 | 4.0 | 8.9 | 188.0 |
| Other | 0.7 | 5.9 | 5.8 | 4.6 | 3.0 |
| C/F from financing | 5888.6 | 2142.7 | (4639.3) | (1511.8) | (1102.1) |
| Incr. in equity | 34.6 | (1.3) | (1.1) | (0.8) | 8.9 |
| Incr. in debts | 6197.0 | 2535.0 | (4558.0) | (1447.0) | (1051.0) |
| Dividends | (196.0) | (350.0) | (0.2) | 0.0 | 0.0 |
| Others | (147.0) | (41.0) | (80.0) | (64.0) | (60.0) |
| C/F from others | (6.0) | (3.0) | 8.0 | 0.0 | 17.0 |
| Increase in cash | (278.6) | 227.6 | (211.9) | 286.2 | (69.0) |

Key financial data

| FY-ending Sept. | FY17A | FY18A | FY19A | FY20A | FY9M21A |
|------------------------------|--------|--------|--------|--------|---------|
| per share data (VND) | | | | | |
| EPS | 3,824 | 1,063 | 837 | 2,589 | 7,639* |
| BPS | 14,665 | 13,293 | 12,903 | 14,815 | 20,118* |
| DPS | 357.7 | 0 | 0 | 0 | 0* |
| Growth (%) | | | | | |
| Sales growth | 46.1 | 31.71 | (18.6) | (1.8) | - |
| OP growth | (2.4) | (39.8) | (22.0) | 97.6 | - |
| NP growth | (11.4) | (69.2) | (11.7) | 219 | - |
| EPS growth | (49.9) | (72.2) | (17.9) | 196.7 | - |
| EBITDA growth | 3.7 | (18.4) | (4.8) | 45.9 | - |
| Profitability (%) | | | | | |
| OP margin | 8.0 | 3.6 | 3.5 | 7.0 | 11.9 |
| NP margin | 5.0 | 1.1 | 1.3 | 4.1 | 10.0 |
| EBITDA margin | 10.7 | 6.6 | 7.7 | 11.5 | 14.8 |
| ROA | 7.4 | 1.7 | 2.0 | 6.7 | 18.3* |
| ROE | 27.4 | 7.6 | 6.9 | 19 | 46.6* |
| Dividend yield | 3.4 | 0 | 0 | 0 | 0 |
| Dividend payout ratio | 9.3 | 0 | 0 | 0 | 0 |
| Stability | | | | | |
| Net debt (VND bn) | 11,558 | 13,850 | 9,404 | 7,611 | 6,928 |
| Int.-bearing debt/equity (%) | 54.8 | 67.2 | 54.6 | 32.8 | 27.9 |
| Valuation (X) | | | | | |
| PE | 6.8 | 6.2 | 9.8 | 9.0 | 5.2* |
| PB | 1.7 | 0.5 | 0.6 | 1.5 | 1.9* |
| EV/EBITDA | 7.3 | 7.2 | 5.9 | 5.6 | 4.7* |

Note: (*): Trailing Twelve Month
Fiscal Year starts on October

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