

14 Sep 2021

# Nam Kim Steel JSC (NKG)

## July 2021 – Operational updates

Vietnam Steel Association (VSA) released some worthy headlines on the July sales of the company. Here are some key issues worthy of note.

### Mixed July performance

The July sales volume slowed down comparing mom basis but went up on yoy. In detail, total July steel sales volume posted 82,665 tonnes, increased by 22.6% yoy but plunged 18.9% mom. Steel coat volume made up most of the July sale (91.3%) at 75,483 tonnes, +46.8% yoy but -15.6% mom. The exported steel coat volume (61,950 tonnes) performed splendidly +75.1% yoy even experienced a slight decrease of 2.4% mom in July. The domestic markets contributed minor impact to total sales volume: Domestic market of steel coat was 13,533 tonnes (-15.7% yoy; -48% mom,) and steel pipes volume recorded 7,182 tonnes (-42.2% mom and -55.2% yoy).

### The accumulated sales volume still brisk despite a tepid July

The July performance suffered from the local sluggish demand due to the Southern lockdown which interrupted the production and supply chain. However, the total sale volume in 7 months came in at 603,939 tonnes, +66.2% yoy on the back of the steel coat volume growth of 56.7% yoy to 494,634 tonnes and the steel pipes growth of 127.9% yoy to 109,061 tonnes. The total export volume (accounted for 58.6%; 354,187 tonnes) grew +132.3% yoy and the local sales volume (249,752 tonnes) went up 18.4% yoy amid the management's strategy skewed in favor of expansion of sale channels export markets.

### Hedging on the commodity price rally

Based on VSA figures, NKG's inventory as of end-July moved in contrast trends but in line with current business environments. Steel pipes' inventory dropped -27.2% mom, -17.3% yoy to 5,607 tonnes, which could be explained by the impact of COVID-19 resurgence that suspended the production and consumption. Steel coat inventory, on the other side, increased 9.1% mom, spiked 415.6% yoy following the hedging demand.

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)	(%)	(%)
2017A	12,619	1,024	707	5,279	(30.5)	1,344	7.5	8.3	1.7	31.3	2.5
2018A	14,881	390	57	315	(94.9)	811	125.2	13.7	2.4	1.9	0
2019A	12,176	62	47	251	(28.4)	504	157.4	20.2	2.4	1.5	0
2020A	11,559	509	295	1,574	534.1	885	25.1	11.3	2.3	9.5	1.9
6M21A	11,862	1,435	1,166	6,680*	-	1,624	5.9*	5.5*	1.9*	39.1*	0

Note: Net profit and EPS are based on figures attributed to controlling interest  
(\* ) TTM

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12M rating **Non-rated**

12M TP **N.A**

Up/Downside *N.A*

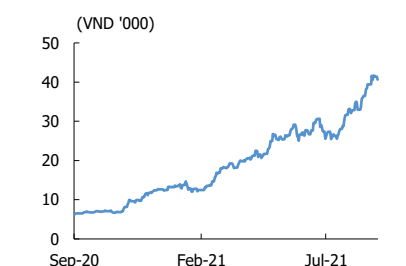
### Stock Data

VNIndex (13 Sep, pt)	1,341
Stock price (13 Sep, VND)	40,650
Market cap (USD mn)	390
Shares outstanding (mn)	218
52-Week high/low (VND)	41,650/6,453
6M avg. daily turnover (USD mn)	8.14
Free float / Foreign ownership (%)	60.8/14.0
Major shareholders (%)	
Ho Minh Quang	15.47
Vo Hoang Vu	12.53
UNICOH Specialty Chemicals Co	8.31

### Performance

	1M	6M	12M
Absolute (%)	24.0	123.8	550.5
Relative to VNINDEX (%p)	202.8	109.6	497.3

### Stock price trend



Source: Bloomberg

**Hai Nguyen**

hai.nt@kisvn.vn

## Inventory risk immaterial

Overseas market helps NKG to overcome the negative impact of Covid on domestic market. According to the company, NKG enjoys the higher gross margin thanks to low-cost inventory and higher steel selling prices in the international markets.

If both upstream (HRC) and downstream (steel coat and steel pipes) prices maintain the upward, NKG can enjoy higher or maintain margins. In addition, the company is signing a back-to-back forward contract with secured margin for export orders, per management. Therefore, we believe the risk is still low.

## Annual guidance almost fulfilled

For 2021, NKG sets targets of VND16tn revenue and a VND600bn net profit. The results in 1H2021 of revenue and NPAT were VND11.8tn (+148.9% yoy) and VND1166bn (+1883.8% yoy), completing 74.1%/194.4% of the company's guidance, respectively. 2Q21 net profit was VND847.5bn (vs. only VND17bn in 2Q20, and up 166% qoq) while net sales tripled to VND7,010bn (up 203% yoy and up 44.5% qoq).

**Table 1. Sales volume growth**

	Monthly				Accumulated		
	Jul-21	Jul-20	MoM (%)	YoY (%)	7M21	7M20	YoY (%)
<b>Steel Pipes</b>	<b>7,182</b>	<b>16,018</b>	<b>(42.2)</b>	<b>(55.2)</b>	<b>109,305</b>	<b>47,853</b>	<b>128.4</b>
Domestic	7,182	16,018	(42.2)	(55.2)	109,061	47,853	127.9
Export	-	-	-	-	244	-	-
<b>Steel Coat</b>	<b>75,483</b>	<b>51,432</b>	<b>(15.6)</b>	<b>46.8</b>	<b>494,634</b>	<b>315,471</b>	<b>56.8</b>
Domestic	13,533	16,051	(48)	(15.7)	140,691	163,027	(13.7)
Export	61,950	35,381	(2.4)	75.1	353,943	152,444	132.18
<b>Total Steel Volume</b>	<b>82,665</b>	<b>67,450</b>	<b>(18.9)</b>	<b>22.6</b>	<b>603,939</b>	<b>363,324</b>	<b>66.2</b>
Domestic	20,715	32,069	(46.1)	(35.4)	249,752	210,880	18.4
Export	61,950	35,381	(2.4)	75.1	354,187	152,444	132.4

Source: Company, VSA, KIS Research

**Table 2. Production volume growth**

	Monthly				Accumulated		
	Jul-21	Jul-20	MoM (%)	YoY (%)	7M21	7M20	YoY (%)
<b>Steel Pipes</b>							
Production	5,087	16,050	(48.9)	(68.3)	104,673	47,530	120.2
Inventories	5,607	6,777	(27.2)	(17.3)			
<b>Steel Coat</b>							
Production	82,919	50,852	(25.4)	63.1	556,444	337,315	65
Inventories	88,853	17,234	9.1	415.6			

Source: Company, VSA, KIS Research

## Company overview & Glossary

Founded in 2002, Nam Kim Steel is one of Vietnam's largest manufacturers of galvanized steel sheets and steel pipes (a combined market share of 13% in H1 2021) for use in residential, industrial and civil construction.

**Balance sheet**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	6M21A
Current assets	5,705	3,823	4,244	4,397	10,213
Cash & cash equivalent	508	658	778	588	1,260
Accounts & other receivables	1,107	744	876	1,437	2,994
Inventory	4,090	2,420	2,589	2,371	5,958
Non-current assets	3,992	3,975	3,506	3,185	3,062
Investment assets	132	443	49	58	97
Fixed assets	3,859	3,532	3,457	3,126	2,965
Others	451	290	243	121	509
Total assets	10,174	8,122	8,064	7,763	13,945
Accounts & other payables	1,053	723	1,953	1,577	5,344
ST debt & bond	4,503	3,201	2,388	2,520	3,741
LT debt & financial liabilities	1,677	1,226	705	484	288
Total liabilities	7,234	5,150	5,047	4,582	9,373
Controlling interest	2,940	2,971	3,016	3,181	4,571
Capital stock	1,300	1,820	1,820	1,820	1,820
Capital surplus	766	766	766	766	944
Others	43	71	74	18	93
Retained earnings	830	313	356	576	1,713
Minority interest	0	0	0	0	0
Shareholders' equity	2,940	2,971	3,016	3,181	4,571

**Income statement**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	6M21A
Sales	12,619	14,811	12,176	11,559	11,862
COGS	11,250	14,018	11,835	10,690	9,946
Gross profit	1,368	792	341	869	1,916
SG&A expense	344	402	278	359	480
Operating profit	1,024	390	62	509	1,435
Financial income	115	97	107	89	54
Interest income	3	27	30	27	54
Financial expense	377	430	275	281	157
Interest expense	267	338	237	222	104
Other non-operating profit	19	5	195	3	10
Gains (Losses) in associates, subsidiaries, and JV	0	0	0	0	0
Earnings before tax	781	62	90	320	1,342
Income taxes	74	4	42	25	176
Net profit	707	57	47	295	1,166
Net profit of controlling interest	707	57	47	295	1,166
EBITDA	1,344	811	504	885	1,624

**Cash flow**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	6M21A
C/F from operating	(1456)	2335	1180	15	(433)
Net profit	707	57	47	295	1,166
Depreciation & Amortization	319	421	441	376	189
Net incr. in W/C	(2,507)	1,905	950	(645)	(1,955)
Others	23	(48)	(258)	(10)	166
C/F from investing	(1,440)	(194)	(229)	(345)	(224)
CAPEX	(1,027)	(427)	156	(54)	(49)
Net loan granted & purchases of debt instruments	(388)	215	(511)	371	(47)
Net purchases of investment in affiliates	(27)	0.0	105	0.0	(138)
Other	3	17	20	28	10
C/F from financing	2,815	(1,772)	(1,336)	(218)	1,260
Incr. in equity	811	0	0	(78)	233
Incr. in debts	2,138	(1,748)	(1,314)	(67)	1,038
Dividends	(129)	(1)	0	0.0	0
Others	(5)	(23)	(21)	(21)	(10)
C/F from others	0	(0)	0	0	0
Increase in cash	(81)	368	(385)	143	602

**Key financial data**

FY-ending Dec.	2017A	2018A	2019A	2020A	6M21A
per share data (VND)					
EPS	5,279	315	251	1,574	6,680*
BPS	20,567	14,897	15,221	16,110	23,772*
DPS	595.2	0	0	250	0
Growth (%)					
Sales growth	41.2	17.4	(17.8)	(5.1)	-
OP growth	28.6	(61.9)	(83.9)	709.9	-
NP growth	36.6	(91.9)	(17.5)	524.3	-
EPS growth	(30.5)	(94.9)	(28.4)	543.1	-
EBITDA growth	39.6	(39.7)	(37.8)	75.5	-
Profitability (%)					
OP margin	8.1	2.6	0.5	4.4	12.1
NP margin	5.6	0.4	0.4	2.6	9.8
EBITDA margin	10.7	5.5	4.1	7.7	10.7
ROA	8.5	0.6	0.5	3.7	14.1*
ROE	31.3	1.9	1.5	9.5	39.1*
Dividend yield	2.5	0	0	1.9	0
Dividend payout ratio	11.2	0	0	15.8	0
Stability					
Net debt (VND bn)	3,981	6,086	3,965	3,016	2,783
Int.-bearing debt/equity (%)	210.1	149.0	102.5	94.4	88.1
Valuation (X)					
PE	7.5	125.2	157.4	25.1	5.9*
PB	1.7	2.4	2.4	2.3	1.9*
EV/EBITDA	8.3	13.7	20.2	11.3	5.5*

(\*): Trailing Twelve Month

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Prepared by: Hai Nguyen

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