

8 Oct 2021

Steel

Non-rated

Resilient growth in 3Q21

Earnings growth to boom in 2Q21 and sustain in 3Q21

Based on our estimate, 2Q21 aggregated revenue of listed steelmakers jumped 63.4% yoy, while 2Q21 aggregated NPATMI soared 328% yoy. We think this momentum growth could sustain in 3Q21 driven by Vietnam's brisk sales volume in July and August of total 4mn tonnes. 3Q21 net profit of HPG, HSG, NKG and TLH are widely rumored to record around VND9.5tn, VND950bn, VND650bn, and VND105bn, +2.5x/2.1x/6.8x/8.5x yoy backed by 1) Buoyant demand from the U.S. and EU 2) expanding gross margin.

Lockdowns put minimal hindrance on steel makers

The COVID-19 outbreak in the Southern disrupted supply chains. But the extent of impact varies by company depending on their prioritized consumption markets and business continuity plan. The companies skewing in favor of global export could barely be hit due to the robust demand and favorable selling price in overseas markets. Specifically, some domestically-consumed products like construction steel, steel pipe, or plastic pipe could be hit while the steel coat could shield against the headwinds. Overall, we see an immaterial weight on the 3Q21 market given the major suppliers are actively seeking to go abroad.

U.S and EU the largest opportunities to flat steel exporters

The expanding gap of hot-rolled coil prices in the US and EU vs Vietnam represents a lucrative opportunity for steel sheet suppliers to export to these countries. Hence, based on GSO numbers, the Vietnam export value to the US and EU saw a spectacular magnitude of growth up to 2.4x -5.5x in 1H21 and Vietnam's total steel export turnover is still on the rise amid the lockdown. The July and August export turnover posted two consecutive months of over USD1bn and August set the highest export value of USD1.5bn in 2019-2021. We see the export to the US and EU could still be a key driver of earnings growth in 3Q21.

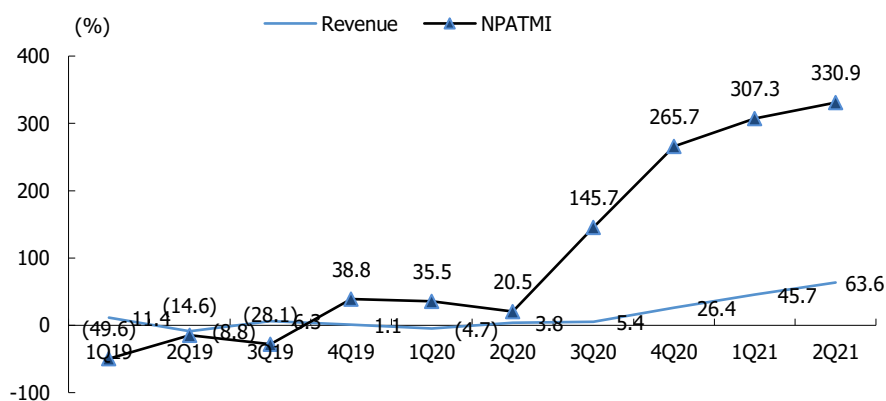
Buoyant selling price propels gross margin expansion

The combination of the sharp HRC price increase and the enormous demand in exporting markets spurred the gross margin expansion of NKG and HSG in 1H21. Not only the flat steel producers but the long steel makers also benefit from the rising selling steel prices. We note that construction steel prices up by 49.3% yoy/14% qoq to VND16.4mn/tonne in 2Q21 and stay solid in 3Q21. Strong selling prices underpinned gross margin expansion in 2Q21 to around 12.9%-32.6%. The high gross margin could be secured in 3Q21 given the current landscape of ballooning selling prices.

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Based on our collection, 2Q21 aggregate earnings momentum growth of listed steel companies on three bourses continued accelerating. Net profit boomed threefold in 2Q21 from the low base of 2Q20 (+20.5% yoy) and even higher than that of 307.3% yoy in 1Q21. 2Q21 net profit set a record since 2019. It was partially spurred by the skyrocketed revenue growth of 63.6%. However, the revenue growth pace in 2Q21 lagged behind the ballooning net profit speed, implying that the gross margin expansion was also another fuel engine.

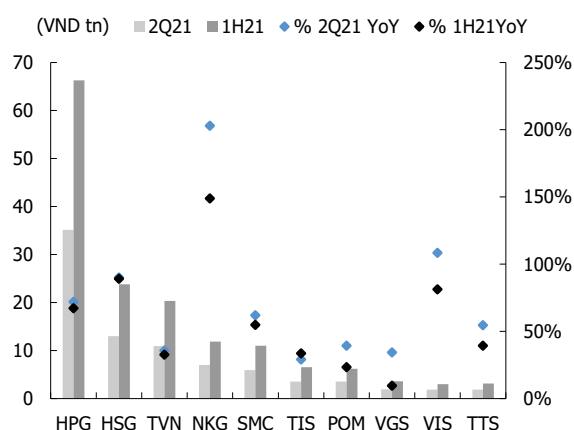
Figure 1. Listed steelmakers earned a record net profit growth in 2Q21



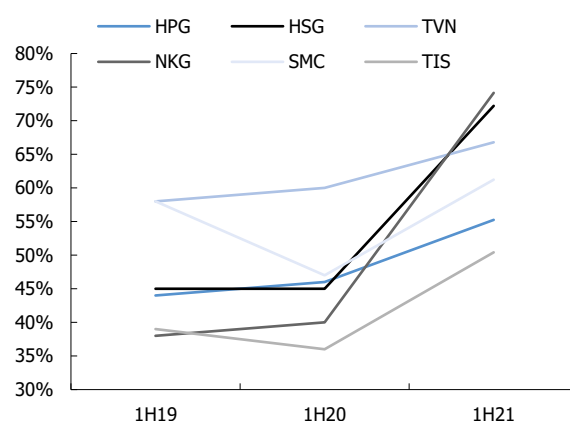
Source: Company data, Fiinpro

Sales volume led the topline industry growth in 1H21

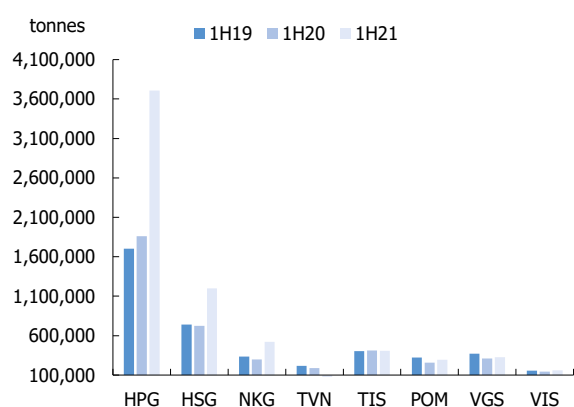
Breaking down aggregate revenue growth by a specific company, HPG top the influence in the light of its dominant position. HPG revenue grew by 72% yoy and accounted for the biggest market share to 36.2% of total aggregated revenue in 2Q21. The runner-up, far below the top one, was HSG thanks to its 90% yoy revenue growth to VND12tn in 2Q21. Among the top ten biggest listed steelmakers, NKG outperformed the most amid its highest 2Q21 revenue growth of 2 times yoy. The spectacular growth of NKG was also seen in 1H21 revenue with 148.9% yoy. Overall, the listed steel producers performed splendidly in 2Q21, bringing the 1H21 aggregate revenue growth to 54.4% yoy. The better-than-expected revenue growth in 1H21 ramped up the company's completion of AGM guidance. They fulfilled around 58-72% of their FY21 targets, much larger than 46-53% witnessed in 1H20.

Figure 2. HPG revenue growth far exceeded industry

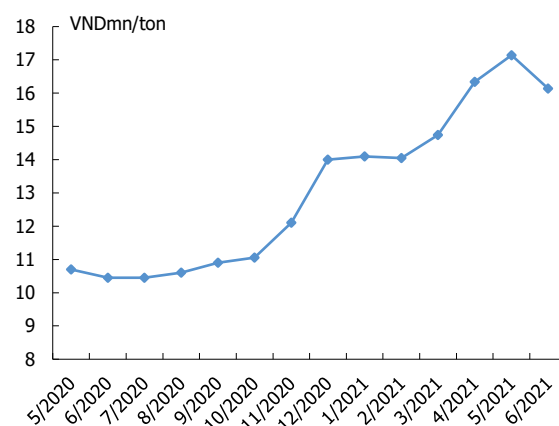
Source: Company data, Fiinpro

Figure 3. Leaders reaped higher revenue completion

Source: Company data, Fiinpro

Figure 4. Sales volume growth propelled the most

Source: Company data, Fiinpro

Figure 5. but the selling price also boosted

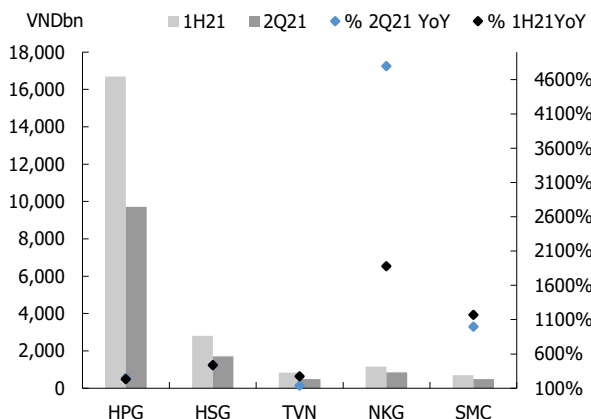
Source: Company data, Fiinpro

As details in our brief sector in August, Vietnam generated a fast accelerating consumption volume growth in 1H21 up to 35.8% yoy to 14.1mn tonnes. This was attributed to top producer HPG who recorded a 99% yoy sale volume growth to 3.7mn tonnes and accounted for the largest shares of 26.2% of total Vietnam sale volume in 1H21. HSG and NKG also generated higher sale volume growths of 65% yoy and 76% yoy in 1H21. However, the average selling price (ASP) was also another greater influence.

Gross margin expansion bolsters the bottom-line in 1H21

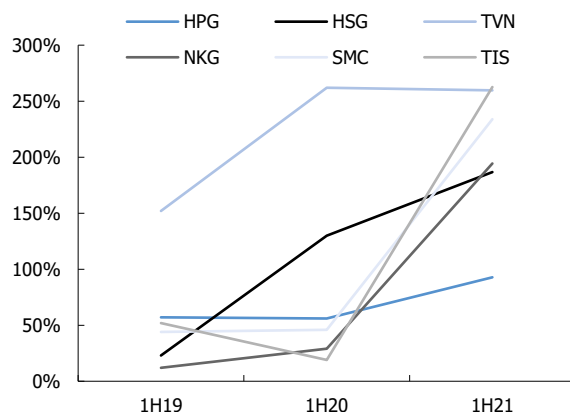
Most of the leading players earned net profit growth by times in 2Q21 and 1H21 despite their lower revenue growth. The most outstanding player among the top ten biggest revenue-generating steelmakers was NKG with 47.9x of net profit growth in 2Q21 and 18.8x in 1H21. HPG recorded much lower net profit growth at 2.5x in 2Q21 and 2.3x in 1H21 but influenced the most to industry net profit growth thanks to its leading profit-generated player.

Figure 6. The net profit growth boomed by times



Source: Company data, Fiinpro

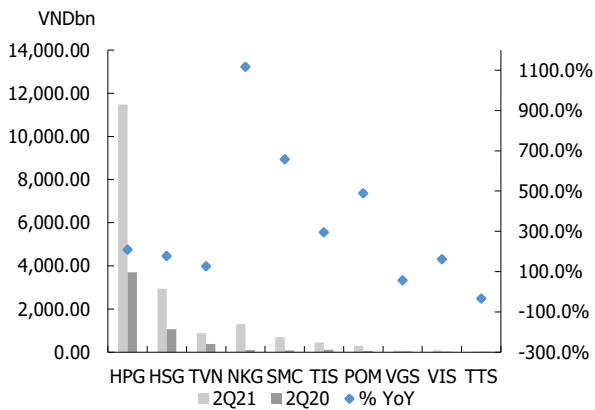
Figure 7. Their 1H21 net profit were also by times beyond their annual guidance.



Source: Company data, Fiinpro

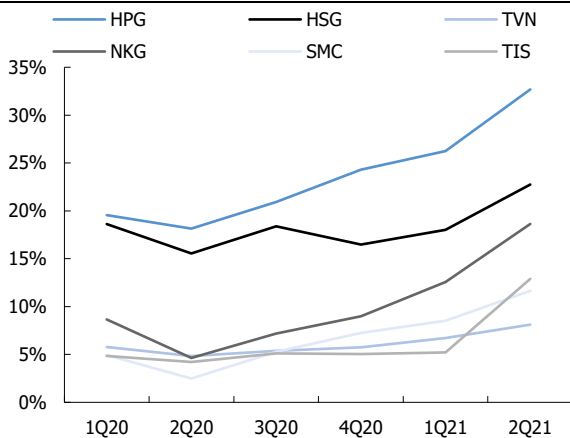
Margin expansion, coupled with top-line growth drove net profit. 2Q21 gross profit margins enlarged sharply to 4-32% from 3-18% at 2Q20. Specifically, NKG enjoyed an 18.6% gross margin in 2Q21 vs 4.6% in 2Q20 while the top producer HPG stretched to 32.7% in 2Q21, +14.5% yoy p. This was thanks to better inventory management post-restructuring, low-priced inventories, and the strong uptrend in steel prices over this period.

Figure 8. Gross profit growth exploded by times



Source: Company data, Fiinpro

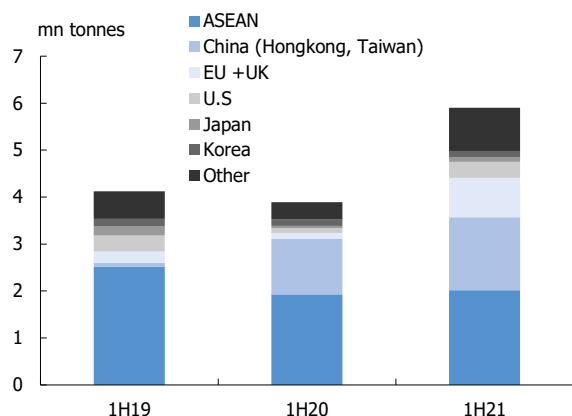
Figure 9. Gross margin also expanded by rising ASP



Source: Company data, Fiinpro

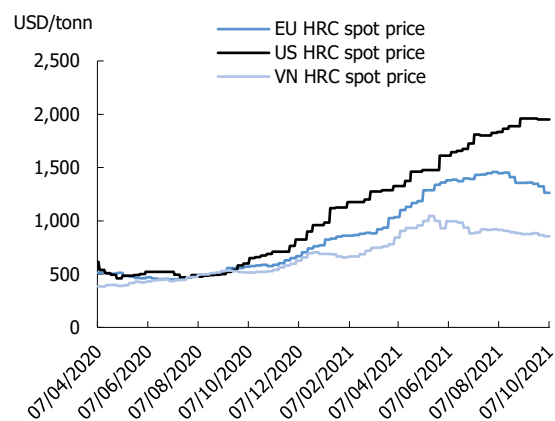
The solid pent-up demand after the lockdown of the U.S. and E.U. triggers the abundant import volume from developing markets. The booming consumption also fuels the hot-rolled coil price (HRC) in those markets. As of end-Sep, prices of HRC in the U.S. and E.U. continued to increase to USD1,950/tonne and USD1,324/tonne respectively, enlarging a huge gap versus Vietnam's HRC prices of just USD865/tonne. This offers lucrative opportunities for steel sheet suppliers to export to these countries (with export margins secured on back-to-back forward contracts). The U.S.'s import volume in 1H21 soared 2.4x to 340,000 tonnes and E.U's import volume skyrocketed by 5.5x to 840,000 tonnes, based on the Vietnam Steel Association (VSA). The combination of the sharp HRC price increase and the enormous volume demand in exporting markets spurred the gross margin expansion of NKG and HSG in 1H21.

Figure 10. EU and US market stimulate export volume



Source: MOIT, GSO

Figure 11. The increasing gap of HRC prices also offers lucrative chances to export to EU and US



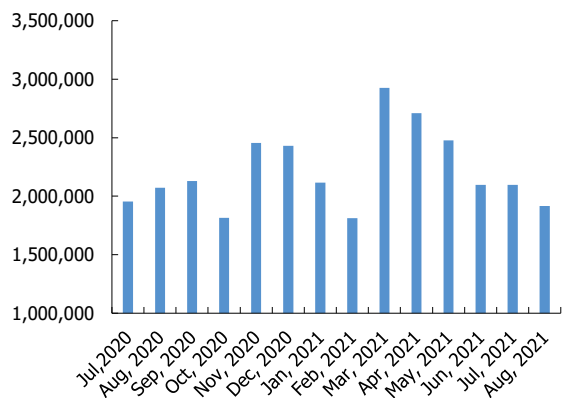
Source: Bloomberg,

3Q21 earnings growth is still booming

The COVID-19 outbreak in the South region disrupted supply chains as companies could neither deliver goods nor ensure timely deliveries due to lack of human resources. But the extent of impact varies by company depending on their prioritized consumption markets and their business continuity plan (BCP). The companies skewing in favor of global export could barely hit due to the resilient demand and attractive selling price in the overseas markets. Specifically, some domestically-consumed products like construction steel, steel pipe or plastic pipe could be slightly impacted while the steel coat could shield against the headwinds.

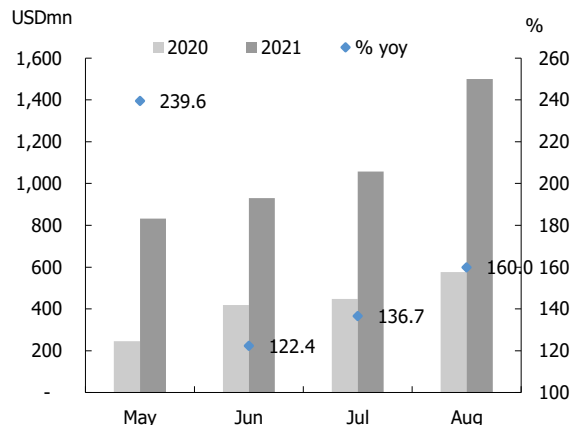
Based on GSO numbers, Vietnam steel export turnover is still on the rise and steel sales volume remains healthy. July and August recorded the two consecutive months of over USD1bn value and August set the highest export value of USD1.5bn. The sales volume in July and August 2021 kept the same last-year period of 4mn tonnes. Notably, the announcements of monthly sales of HSG and NKG in July and August are still positive. In July 2021, HSG recorded a VND302bn net profit, +124% yoy thanks to double revenue growth of 97% yoy to VND4.9tn. In August, HSG realized a VND320bn net profit, +47% yoy, +5.9% mom while revenue growth was 66% yoy, -4.4% mom to VND4.7tn. HPG posted a 3Q21 sales volume of 1.9mn tonnes, the same in 2Q21 and up 62% yoy. 3Q21 net profit of HPG, HSG, NKG and TLH are widely rumored to record around VND9.5tn, VND950bn, VND650bn, and VND105bn, + 2.5x/2.1x/6.8x/8.5x.

Figure 13. Vietnam sales volumes in July and August stayed healthy despite lockdown



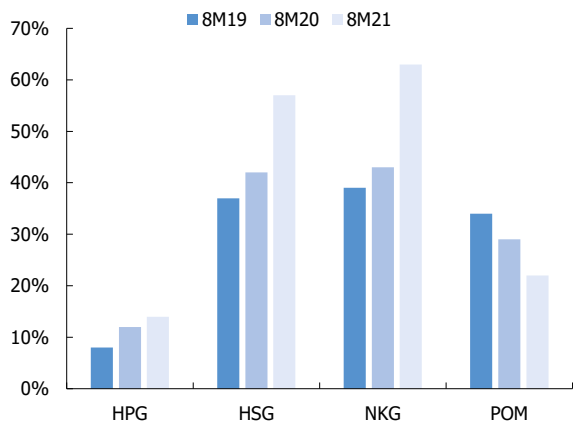
Source: VS

Figure 14. The export turnover set a record of USD1.5bn in August



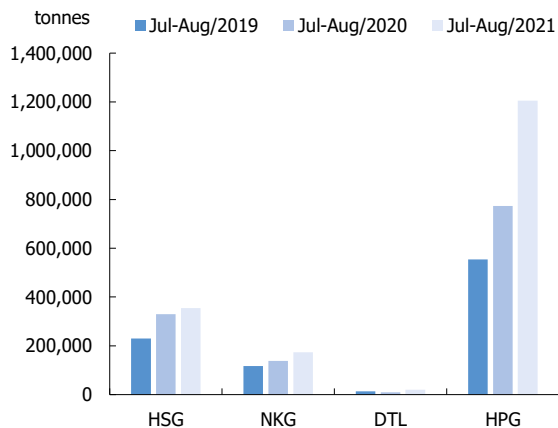
Source: VSA

Figure 15. % export out of total sale volume



Source: MOIT, GSO

Figure 16. 3Q21 earnings growth could be bullish



Source: VSA

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