

11 Feb 2022

# Steel

## Domestic demand revival outlook in 1Q22F

**Non-rated**

### Earnings growth slowdown in 4Q21

Based on our estimate, 4Q21 aggregated revenue of 24<sup>(1)</sup> listed steelmakers jumped 55.3% yoy, while 4Q21 aggregated NPATMI increased by 36.4% yoy. The NPATMI growth was softer after peaking at 321.9% in 2Q21, then slowdown due to the high base seen in 2H20.

### Gross margin squeezing, albeit to a different extent

The flat domestic selling price and narrowing HRC regional gaps accompanied by some higher input costs caused the continuous squeeze in gross margin trend among most steelmakers in 4Q21. The decrease varies from -0.1%p to -13.6%p qoq and from -1.85%p to -17.4%p yoy. Some second-tier companies made gross profit loss in 4Q21 that caused by COVID-19 consequences: labor shortage and weak regional market demand.

### Export opportunity continues in 2022F

Based on GSO, export revenue growth in 4Q21 continued to be far exceeding volume growth (USD3,355mn, +114% yoy vs 3.239 million tonnes, +14.5% yoy). The total 2021 export revenue and volume posted at USD11,722mn, +124% yoy and 11.96mn tonnes, +22% yoy, respectively. The gap of hot-rolled coil prices in the US and EU vs Vietnam has been narrowing since Oct, however, thanks to global infrastructure spending and the recent steel export policy of China, we believe that the HRC price gaps will be maintained and the flat steel makers are still the beneficiaries in 2022F, especially HRC producers, even though the margin will not be as good as the one in 2021.

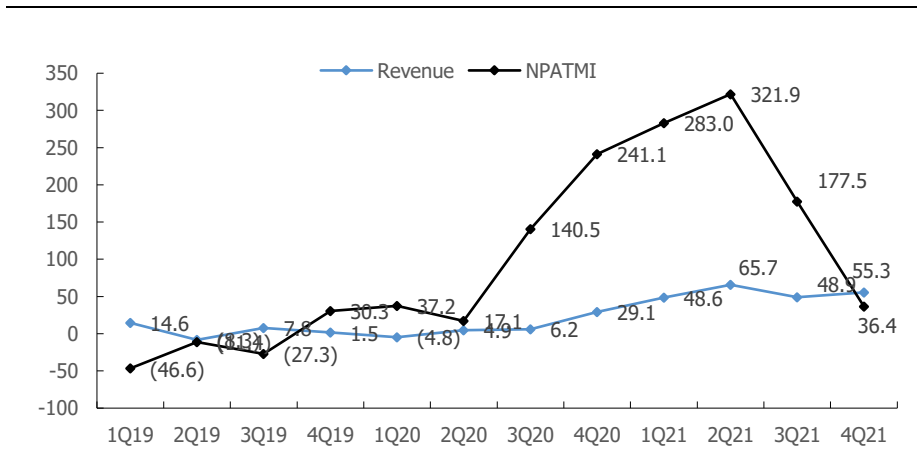
### High expectation for domestic demand revival

The Congress passed a new fiscal package on 11 Jan 22, in which, VND113,850bn for infrastructure development in 2022F-23F period. Along with high vaccine coverage rate and new fiscal packages, the accelerated infrastructure spending is expected to push the domestic demand revival in 2022F. We expect steelmakers, who was significantly affected by COVID-19, could reap the benefit from the rebound.

<sup>(1)</sup> 30 listed companies in 3Q21 report. The change is aimed to optimize data. The 24-company aggregated revenue makes up around 95% of total.

Based on our collection, 4Q21 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. Net profit growth decelerated to 36.4% yoy in 4Q21 from the peak of 2Q21. The revenue growth pace in 4Q21 was at around 55.3% yoy. It was not surprising that the growth was slow due to high base 4Q20. However, the revenue growth pace was higher than net profit growth implying there were also other headwinds on net profit growth.

**Figure 1. Low net profit growth in 4Q21 due to 4Q20 high base**

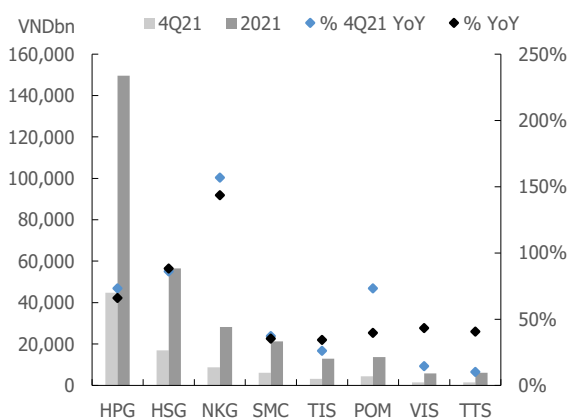


Source: VSA, Fiinpro

### Sales volume led the topline industry growth in 4Q21

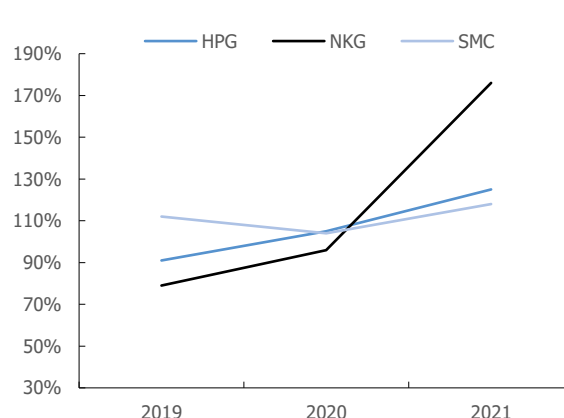
Breaking down aggregated revenue growth by a specific company, HPG top the influence in the light of its dominant position with revenue growth of 66% yoy in 4Q21. HSG kept the revenue growth pace at 86% yoy to VND16.9tn in 4Q21. Among the steelmakers, NKG continued to outperform the best with its highest 4Q21 revenue growth of 156% yoy. The spectacular growth of NKG was also seen in 2021 revenue with 143% yoy. The revenue growth of HPG in 2021 was +66% yoy. The better-than-expected revenue growth in 2021 ramped up the companies' completion of AGM guidance. They fulfilled around 50-176% of their FY21 revenue targets (81-122% in 2020).

**Figure 2. HPG revenue growth far exceeded industry**



Source: Company data, Fiinpro

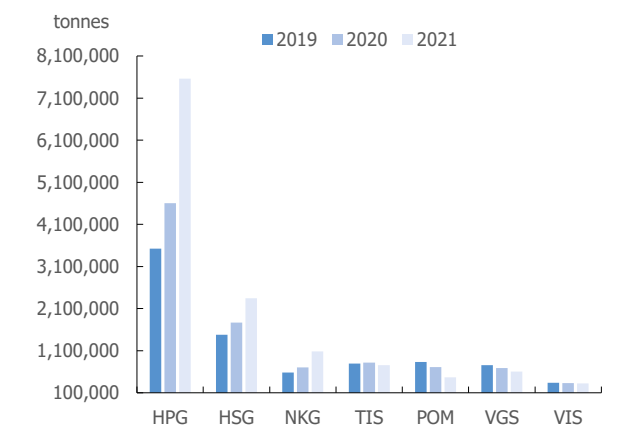
**Figure 3. Leaders reaped higher revenue completion**



Source: Company data, Fiinpro

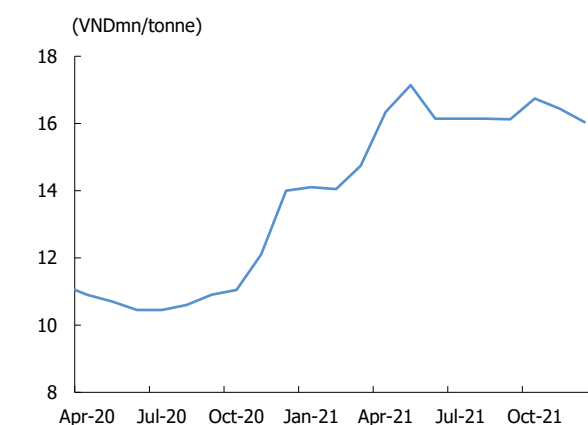
As detailed in our Dec brief sector, Vietnam generated a fast-accelerating consumption volume growth in 2021 of 30.9% yoy to 27.1mn tonnes. This was attributed to top producer HPG who recorded a 63.8% yoy sale volume growth to 7.56mn tonnes and accounted for the largest share of 27.8% of total Vietnam finished-steel sale volume in 2021. HSG and NKG also generated higher sale volume growths of 32.6% yoy and 54% yoy in 2021. In addition, the average selling price (ASP) was also another greater influence. Based on the HPG's quoted steel bar prices, we witness a 32.4% yoy in 4Q21 and 45% yoy in 2021.

**Figure 4. Sales volume growth is a leading catalyst**



Source: Company data, Fiinpro

**Figure 5. But selling price also boosted**

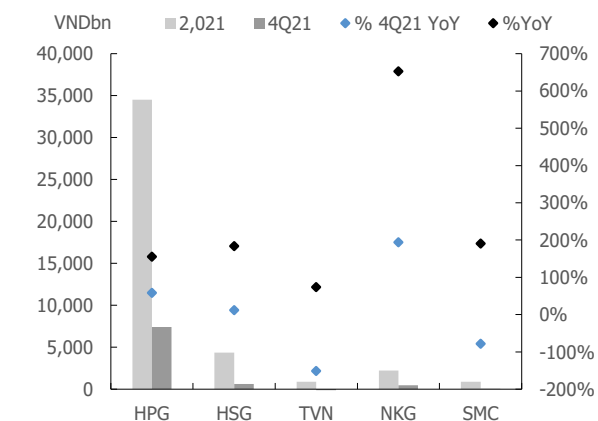


Source: HPG's steel bar price, Fiinpro

### Net margin compressed among steel makers in 4Q21

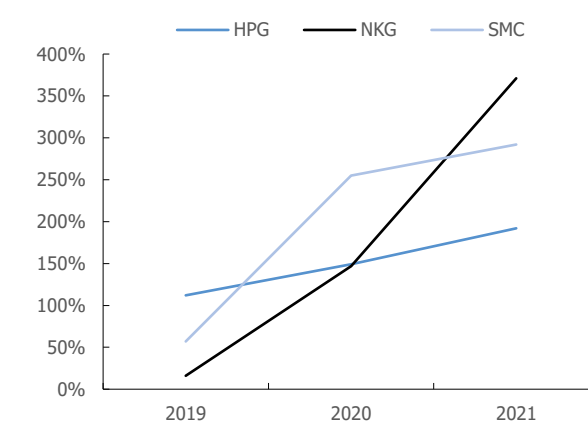
4Q21 was a tough time since only a few leading players saw their positive net profit growth. Among the top ten biggest revenue-generating steelmakers, TIS was the most outstanding player with a 2.3x yoy net profit growth in 4Q21 and 5.5x yoy in 2021. HPG, dominating the absolute net profit of VND7.4tn reaped a net profit growth of 59% yoy in 4Q21 and 155% yoy in 2021. The fast-growing net profit in 2021 ramped up the company's completion of AGM target. They fulfilled around 40-390% of their 2021F net profit guidance, smaller than 4.3-571% witnessed in 2020.

**Figure 6. The 2021 net profit growth boomed by times**



Source: Company data, Fiinpro

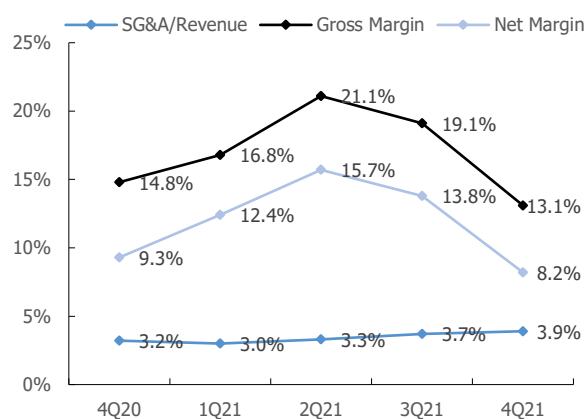
**Figure 7. Their 2021 net profit were also by times beyond their annual guidance.**



Source: Company data, Fiinpro

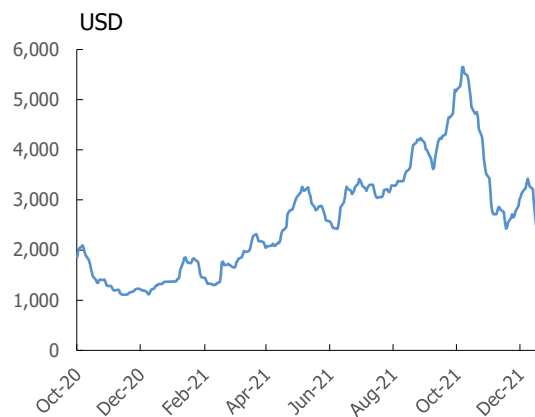
In 4Q21, we saw a net margin declined in most steel makers. Average net margin slumped to 8.2% in 4Q21 from 15.7% in 2Q21 and 9.3% in 4Q20. Breaking down into details, net margin squeeze was hit by a combination of a 6%p qoq gross margin decrease and a 0.2%p qoq SG&A/sales increase.

**Figure 8. Net margin squeezed from 2Q21 peak due to higher costs**



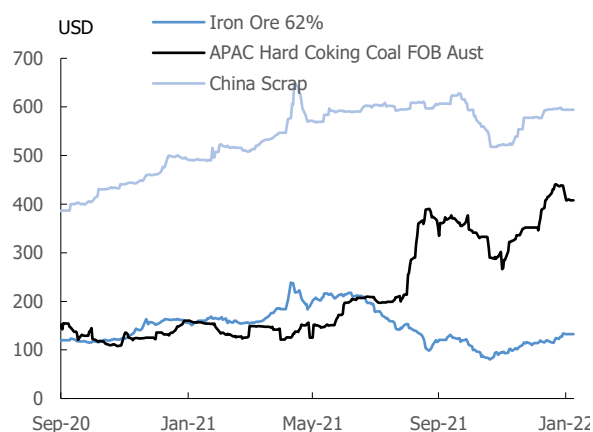
Source: Company data, Fiinpro

**Figure 9. BDI retreated significantly in 4Q21 from October peak**



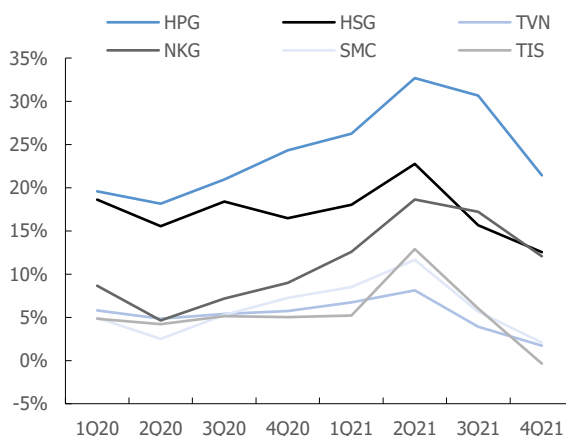
Source: Bloomberg

**Figure 10. Material input prices back to the uptrend in 4Q21**



Source: Bloomberg

**Figure 11. Gross margin narrowed in 2H21**



Source: Company data, Fiinpro

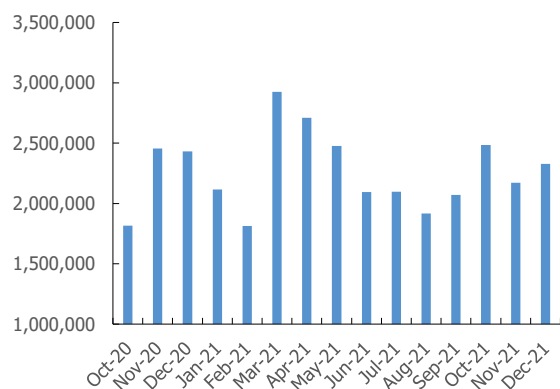
### 1Q22F demand growth outlook is brisk

Based on recent policies and aggressive actions from both Vietnam and China governments, we believe the governments are trying to lower the material input prices to control the inflation, therefore, we think that there is not much more room for steel price to increase in 1Q22F despite the global restraint on input materials. We expect the domestic selling price will be maintained around the current level in 1Q22F thanks to positive signals about infrastructure spending and domestic demand revival.

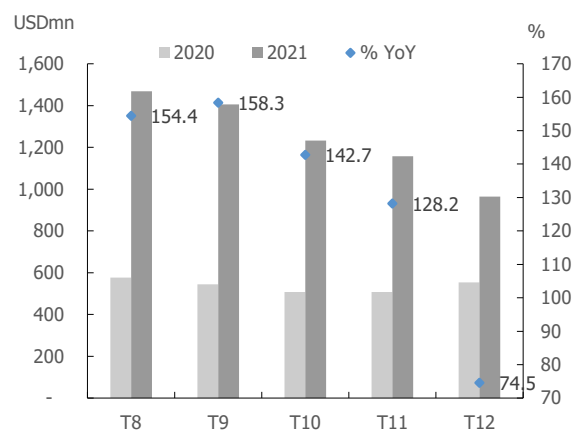
The market is believing export activity to continue to contribute significantly to 2022F industry earnings. The global infrastructure spending for economic growth and recent changes in export & import policies of big global steel consumers and producers (China cancelled steel export rebate; US cut tariffs on Japanese steel etc.) will maintain the export opportunity for flat-steel makers in Vietnam. However, we expect to see the lower magnitude on earning contribution due to lower HRC price gap among regional markets (EU vs Vietnam; US vs Vietnam) and domestic market re-target of steel makers when demand revives. According to GSO, the est. export turnover posted a +40% yoy but the est. export volume decreased by 17% yoy in Jan.

In addition, despite a surge in the number of COVID-19 daily cases after Tet holiday, we still believe in the revival of domestic consumption thanks to the accelerating public spending and high vaccine coverage rate in Vietnam that helps to avoid the construction-activity suspension.

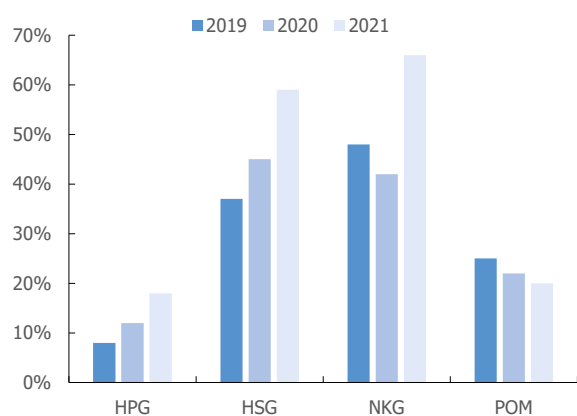
We also expect a compressing gross margin in 1Q22F for BOF-deployed steel mills caused by recent global supply restraint of the coking coal. However, the pressure from coal price spike will be partly offset by low iron-ore price.

**Figure 12. Vietnam sales volumes brisk in 4Q21**

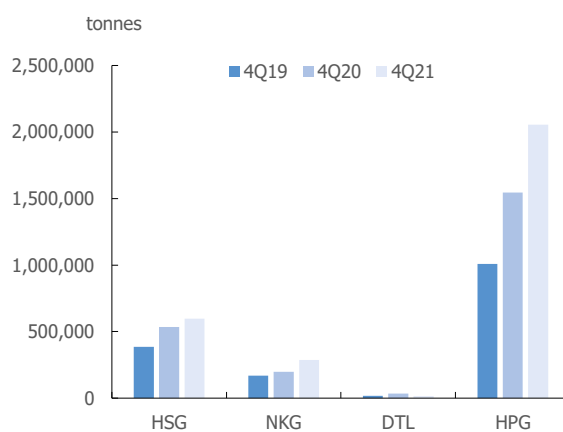
Source: VSA

**Figure 13. The 2021 export turnover reached USD11.8bn**

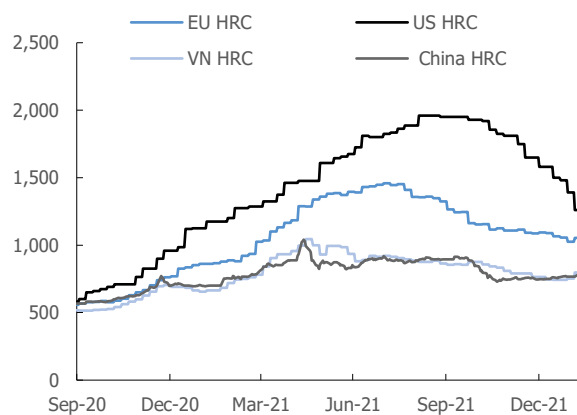
Source: VSA

**Figure 14. % export out of total sale volume**

Source: MOIT, GSO

**Figure 15. Solid 4Q21 sales volume**

Source: VSA

**Figure 16. The narrowing gap of HRC prices in 4Q21**

Source: Bloomberg,

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