

# Hoa Phat (HPG)

## Concerns raised over input volatility

### Margin squeezed by the coking coal price rally in 2022F

The pent-up demand for the energy post-COVID19 and geopolitical tension created the price volatility for steel and input materials, especially coking coal, amid higher global infrastructure spending and China steel export constraints. We estimate gross margin contraction by 4.4%p from 27.4% in 2021 to 23.0% in 2022F. In addition, we expect to see the coking coal price will be cool down from late 2Q22F or early 3Q22F thanks to better production outlook from China and Indonesia.

### Dung Quat II fires up the earnings growth in 2024F-26F

DQSC 2 will have a total capacity of 5.6 million tonnes per annum. The DQSC 2 is expected to launch commercial products by 2024F, which will be a future growth driver for the company. In addition, the scale of real estate business and new added ones: containers, home appliances would fuel the future growth. Container segment is expected to generate VND8,000-10,000bn net sale in FY22/23 per the management.

### Earnings sustain in 2022F-23F before booming from 24F

The revenue growth in 2022-23F is supported by the volume growth of HRC and steel pipes with 16.7% yoy and 25% yoy in 2022F and 16.7% yoy and 10% yoy in 2023F, respectively. The NPAT growth, however, is forecasted at -3% and -8% in 2022F-23F caused by high input prices in 2022F and the decline in ASP from 2023F onwards. 2024F is expected to witness the booming in revenue and NPAT growth with 18.3% and 11% respectively when DQSC 2 launches its commercial products.

### Initiate coverage with a HOLD recommendation

We utilize blended valuation to arrive at VND51,930/share implying PE 7.0x in 2022F, offering 12% upside with a decent 31.8% ROE. Our current valuation has not yet included potential property development and home appliances and container segments as they have the potential becoming future fuel. Therefore, we see ample upside potential if HPG successfully engaged in this business. Risks are the commodity price fluctuation and raw material supply disruption.

	2020F	2021A	2022F	2023F	2024F
Sales (VND bn)	90,119	149,680	179,232	171,671	203,104
OP (VND bn)	17,123	37,664	37,589	35,943	40,455
EBT (VND bn)	15,357	37,057	35,855	34,110	38,489
NP (VND bn)	13,450	34,478	33,317	30,675	34,114
EBITDA (VND bn)	21,899	43,751	43,956	43,709	48,902
Net debt (VND bn)	32,319	16,505	34,825	27,497	15,214
OP margin (%)	19.0	25.2	21.0	20.9	19.9
ROE (%)	25.2	46.0	31.8	23.2	21.3
Dividend yield (%)	0.9	0.8	2.2	2.2	2.2
EPS (VND, adj.)	3,958	7,575	7,404	6,817	7,581
chg. (% YoY)	46.2	91.4	(2.3)	(7.9)	11.2
BPS (VND, adj.)	17,873	20,296	26,729	32,574	39,185
DPS (VND, adj.)	428	381	1,000	1,000	1,000
PE (x)	11.7	6.1	6.3	6.8	6.1
PB (x)	2.6	2.3	1.7	1.4	1.2
EV/EBITDA (x)	8.5	5.1	5.5	5.4	4.6

Note: Net profit, EPS and ROE attributed to controlling interest

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## Company

### In-depth

### Steel

8 Apr 2022

12M rating **HOLD (Initiate)**

12M TP **51,930** from *N/A*

Up/Downside **+14.1%** (incl 10% on par cash dividend)

#### Stock data

VNIndex (Apr 08, pt)	1,482
Stock price (Apr 08, VND)	46,400
Market cap (USD mn)	9,077
Shares outstanding (mn)	4,473
52-Week high/low (VND)	58,000/36,431
6M avg. daily turnover (USD mn)	48.85
Free float / Foreign ownership (%)	54.3/22.0
Major shareholders (%)	
Mr Tran Dinh Long	26.1

#### EPS revision (KIS estimates, VND)

	Previous	Revised	(%)
2022F	-	-	-
2023F	-	-	-

#### Performance

	1M	6M	12M
Absolute (%)	(6.2)	(16.7)	27.8
Relative to VNIndex (%p)	(6.8)	(25.1)	6.4

#### Stock price



Source: Bloomberg

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## What is the report about?

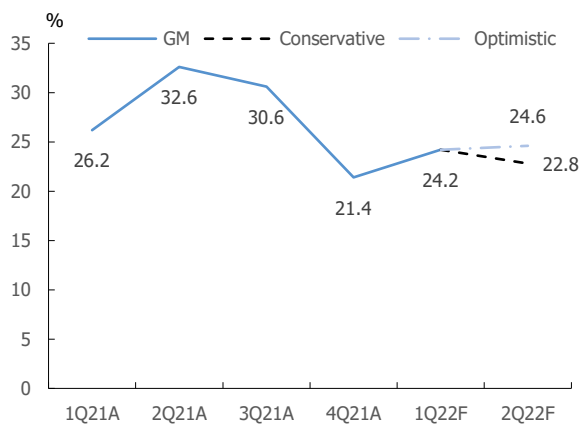
- Gross margin concern amid the rising fuel cost
- Long-term growth catalyst and balanced vertical integration strategy
- HOLD on the slowdown of bottom line growth

# I. Gross margin fluctuation amid the rising fuel cost in 2022F

## 1. Coking coal price spike would hit HPG's gross margin

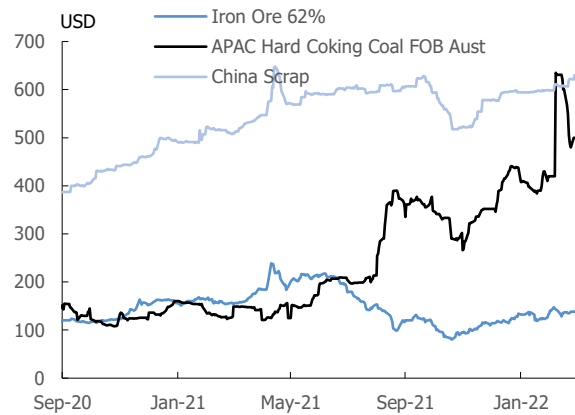
The tightened coking-coal supply along with higher global demand have pushed the price to increase significantly from 3Q21 and reached a short-term peak in 1Q22. The increasing price was partly offset by the decline in price of iron ore in previous quarters, however, we conservatively expect to see the 2Q22 gross margin of HPG will be compressed to 22.8% after recovering in 1Q22 (24.2%) when most input material prices are in uptrend, especially the spike in coking-coal price caused by the geopolitical tension.

**Figure 1. Gross margin estimation for 2Q22F with coking coal price variable**



Source: Korea Investment & Securities

**Figure 2. Coking coal price surged since 3Q21**



Source: Bloomberg

However, we expect to see the coking coal price will cool down from late 2Q22F or early 3Q22F based on (1) the better weather condition in Indonesia could support production volume from 2Q22F and (2) China plans to boost domestic production capacity to cut reliance on coal import. While Indonesia's production cut and China's mining operation halt were two of the main factors that drove the coal price to surge over the last quarters, the reverse of those two factors is expected to strongly contribute to stabilizing coal price amid the uncertainty of the sanction lifting.

## 2. Cost pass-through ability is resilient thanks to supply-demand dynamics

The increasing infrastructure spending post-COVID19 (USD1.2tn package in USA, USD1.35tn package in India etc) is expected to fuel the steel demand around the world. In Vietnam, the Congress passed a new fiscal package on 11

Jan 22, in which, VND113,850bn (approximately USD4.95bn) for infrastructure development in 2022-2023 period. The infrastructure package is expected to be disbursed in April 2022 and prioritised in major projects such as North-South expressway, Long Thanh International Airport etc. Besides, thanks to high vaccination coverage rate, the construction activities are expected not to be suspended as they were in 2021. In addition, stronger global demand along with global supply disruption caused by the recent geopolitical tension would maintain the export opportunity for domestic steel makers. Vietnam Steel Association (VSA) expects the domestic market will grow at the rate of 15-20% yoy in 2022F.

As for Hoa Phat, in 2M2022, the company has successfully utilized the revival of domestic demand post Tet and the increase in steel demand for infrastructure projects such as the Vinh Tuy bridge (Phase 2), the North-South Highway, the Trung Luong- My Thuan Highway and hospitals in Ho Chi Minh and airport maintenance to achieve the impressive sales volume. HPG has also successfully signed export contracts for construction steel products up until the end of May 2022F with total volume of 720,000 tonnes. The key export markets include Singapore, Hong Kong, Japan, Korea and Cambodia. More specially, HPG exported the 35,000-tonne HRC to Italy in Feb 2022. However, the current company's strategy is to focus mainly on the domestic market.

Global steel prices had started to increase in late 2020 thanks to the global post-COVID19 economic recovery and China steel-production constraints. The upward trend had lasted over 2021 with the different growth rates among steel products. In 1Q2022, the impact of geopolitical tension has pushed the price further and we expect to see the steel price will reach its peak in 2Q22 before reversing to long-term downtrend. Thanks to the significant surge in steel selling price from Feb 2022 and lower-cost inventory, we expect to see the expansion of gross margin in 1Q22F to 24.2%. The 1Q22 NPATMI is forecasted at VND8,900bn +27.7% yoy. However, the gross margin will be compressed in 2Q22F due to the impact of input price volatility.

**Table 1. Sales volume growth**

(Tonnes)

	Monthly				Accumulated		
	Feb-21	Feb-22	MoM (%)	YoY (%)	2M21	2M22	YoY (%)
<b>Steel Pipes</b>	<b>53,225</b>	<b>78,538</b>	<b>55.6</b>	<b>47.6</b>	<b>93,219</b>	<b>129,007</b>	<b>38.4</b>
Export	1,595	1,163	(41.1)	(27.1)	3,853	3,139	(18.5)
Domestic	51,630	77,375	59.6	49.9	89,366	125,868	40.8
<b>Steel Coat</b>	<b>16,984</b>	<b>27,361</b>	<b>(35.8)</b>	<b>61.1</b>	<b>42,345</b>	<b>69,988</b>	<b>65.3</b>
Export	1,673	6,993	(77.4)	318.0	19,151	37,955	98.2
Domestic	15,311	20,368	74.6	33.0	23,194	32,033	38.1
<b>Steel Roll</b>	<b>175,194</b>	<b>238,577</b>	<b>4.6</b>	<b>36.2</b>	<b>427,589</b>	<b>466,695</b>	<b>9.1</b>
Export	0	35,473	-	-	0	35,473	-
Domestic	175,194	203,104	(11.0)	15.9	427,589	431,222	0.8
<b>Construction</b>	<b>189,548</b>	<b>447,200</b>	<b>17.1</b>	<b>135.9</b>	<b>375,928</b>	<b>828,954</b>	<b>120.5</b>
Export	30,098	57,179	(51.0)	90.0	67,260	173,864	158.5
Domestic	159,450	390,021	47.1	144.6	308,668	655,090	112.2
<b>Total Steel Volume</b>	<b>434,951</b>	<b>791,676</b>	<b>12.6</b>	<b>82.0</b>	<b>939,081</b>	<b>1,494,644</b>	<b>59.2</b>
Export	33,366	100,808	(32.6)	202.1	90,264	250,431	177.4
Domestic	401,585	690,868	24.9	72.0	848,817	1,244,213	46.6

Source: Company, VSA, KIS

## II. Dung Quoc 2 triggers the catalyst growth in medium prospect

### 1. Double steel capacity in 2024F

Dung Quat Integrated Steel Complex (DQSC) 2 will have a total capacity of 5.6mn tonnes per annum, consisting of 4.6mn tonnes of flat steel products and 1mn tonnes of construction steel. The total investment for this project is proposed at VND85tn with VND70tn for Capex and VND15tn for working capital. The DQSC 2 is expected to launch commercial products by 2024F.

According to the Vietnam Steel Association (VSA), Vietnam's annual demand for HRC is around 12mn tonnes while its domestic capacity is currently only around 10mn tonnes per annum (including the current capacity of HPG and Formosa Ha Tinh). HPG expects to replace imported-HRC products in the domestic market with its HRC product from the new complex.

**Table 2. DQSC2 is expected to start operation in 2024F** (Tonnes)

CAPACITY	FY21A	FY22F	FY23F	FY24F	FY25F
<b>Hai Duong (BOF)</b>					
Billet	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Construction Steel	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
<b>Hung Yen (EAF)</b>					
Billet	400,000	400,000	400,000	400,000	400,000
Construction Steel	300,000	300,000	300,000	300,000	300,000
<b>Dung Quoc (BOF)</b>					
Billet	4,500,000	4,500,000	4,500,000	10,100,000	10,100,000
HRC	3,000,000	3,000,000	3,500,000	8,100,000	8,100,000
Construction Steel	3,000,000	3,000,000	3,000,000	4,000,000	4,000,000
<b>Total Constr' Steel</b>	<b>5,800,000</b>	<b>5,800,000</b>	<b>5,800,000</b>	<b>6,800,000</b>	<b>6,800,000</b>
<b>Total HRC</b>	<b>3,000,000</b>	<b>3,000,000</b>	<b>3,500,000</b>	<b>8,100,000</b>	<b>8,100,000</b>
<b>Steel Sheet</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>
<b>Steel Pipes</b>	<b>900,000</b>	<b>900,000</b>	<b>900,000</b>	<b>1,100,000</b>	<b>1,100,000</b>

Source: Company, VSA, KIS

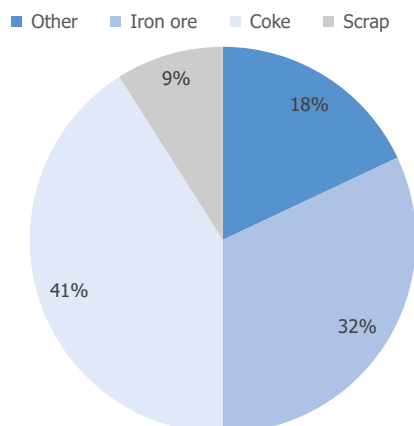
### 2. Bolstering non-steel operation

#### **HPG reduces resource supplier dependence**

Recently, HPG successfully bought the Roper Valley mine in Australia with a capacity of 4mn tonnes per annum. HPG is planning to acquire more mines to reduce the impact of the input price volatility and secure the margins. As for iron ore, with the current crude steel capacity, the total demand is around 14mn tonnes per annum. With current self-supply at around 500,000 tonnes, HPG is targeting to buy more mines in the future to meet at least 50% of annual iron ore demand. According to the company, the Roper Valley mine is expected to fully supply iron ore to HPG in 2023F after technology-testing phase.

While total iron-ore and coking-coal cost will account for around 70% of total production cost (the varying percentage depends on the input price of each material), HPG plans to invest in coal mining businesses in Australia as well. The mining investment for both important input materials would help HPG expand the margins going forward.

**Figure 3. Rebar Production Cost Breakdown (BOF Hai Duong - Estimation for 1Q22)**



Source: Company data, KIS

**Figure 4. Roper Valley Mine reserves are estimated at 320mn tonnes**



Source: Company data, KIS

**HPG creates new output channels for its steel products**

Amid the over-supply concern for HRC products, after DQCS 2 finished, the container manufacturing business is considered the great response from HPG management from our perspective. With the current condition of the container manufacturing market, where China manufacturers are dominant and tightening the supply for higher selling price, we believe that there is no doubt that HPG will be well-positioned in the market as a lower-cost manufacturer. The first contribution of 250,000TEU factory (Phase 1) to sales and profits will be made from 4Q22F. For the first full year of operation, HPG targets to sell up to 120,000-150,000 TEUs. The company can be flexible to make either 20ft or 40ft containers, depending on market demand.

**Table 3. Container factory project**

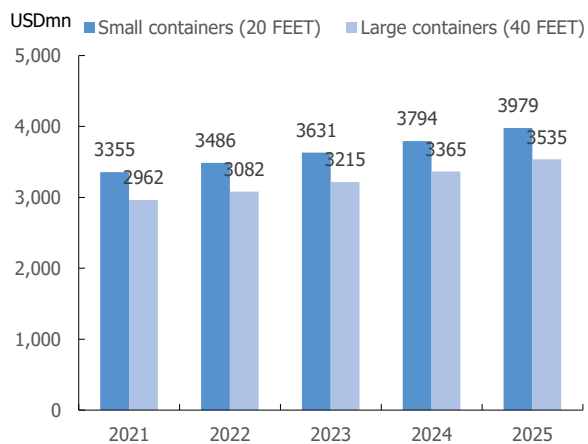
(TEUs, VNDtn)

	Capacity	Capex	Bank Loan	Equity	Starting for operation
Phase 1	250,000	2.5	1.0	1.5	4Q22
Phase 2	250,000	2.5	1.0	1.5	
<b>Total</b>	<b>500,000</b>	<b>5.0</b>	<b>2.0</b>	<b>3.0</b>	

Source: Company data, KIS

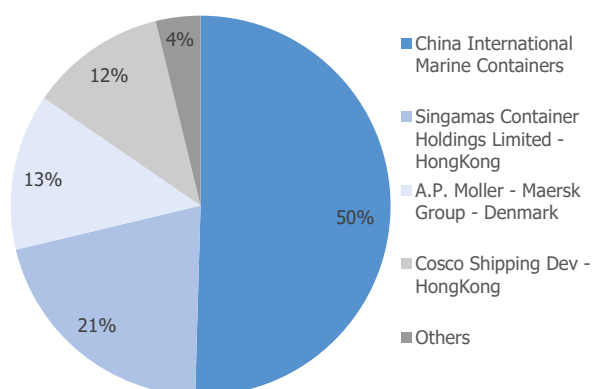
The full-designed-capacity (500,000 TEU per annum) factory is expected to use at least 1mn tonnes HRC per year. In addition, HPG is proactive in sourcing new export markets. Beside the current export market, for example: Cambodia, Korea, Japan, Hoa Phat also received orders from US, Italy, Mexico etc. The growing domestic demand for HRC over years along with the export-market expansion would take away any over-supply concerns for HRC product from the new steel complex.

**Figure 5. Global shipping container market size and forecast, by container size**



Source: AMR

**Figure 6. Chinese manufacturers dominate the global shipping container market (2020)**



Source: AMR

**Figure 7. Container factory phase I with a designed capacity of 250,000 TEU per annum, starting on 25 Nov 2021**



Source: Central construction JSC, KIS

**Real Estate contribution to increase**

HPG is planning to increase the scale of its real estate business. The main focus will be on residential development in Hanoi, Danang, Ho Chi Minh and other big cities. Currently, there is no major residential projects that are expected to be handed over in 2022F. As for industrial projects, Phoi Noi A IP expansion project (92.5ha) and Yen My II IP expansion project (70ha) have started to receive the deposit in 2022F.

On 28 May 2021, HPG received the approval from The People’s Committee of Can Tho Province, Mekong Delta area, to conduct a survey for three residential development projects with a land bank size covering more than 540ha: 88.2ha in Cai Rang, 6.24ha in Ninh Kieu and 452ha in Binh Thuy. Besides land purchases, HPG is considering doing M&A transactions to accelerate landbank acquisitions. On 22 Feb 2022, the BOD approved the decision to increase the capital contribution at Hoa Phat Real Estate Development JSC by VND3,300bn.

Beside the increasing the proportion in the group’s earnings, the scale of HPG’s real estate business also has a positive effect on the construction steel consumption of its steel segment.

**Home Appliances Segment**

On 22 Sept 2021, HPG established a new entity specializing in the home appliances segment with chartered capital of VND1,000bn. HPG holds a 99.9% stake in this company, which will specialize in electrical household and refrigeration products.

In addition to freezers and air conditioners under its Funiki brand, the company now plans to expand this product portfolio to electrical household goods such as air purifiers, water purifiers, steam fans, and other related products such as washing machines etc. HPG also plans to export these products in the future.

**To sum up**

In our opinion, we highly appreciate the balanced vertical integration strategy although it takes some time to reap the reward. The combination of forwarding integration and backward integration is expected to help HPG control supplies, reduce costs, increase the efficiency and also reduce the odd of supply disruption and supplier dominance.

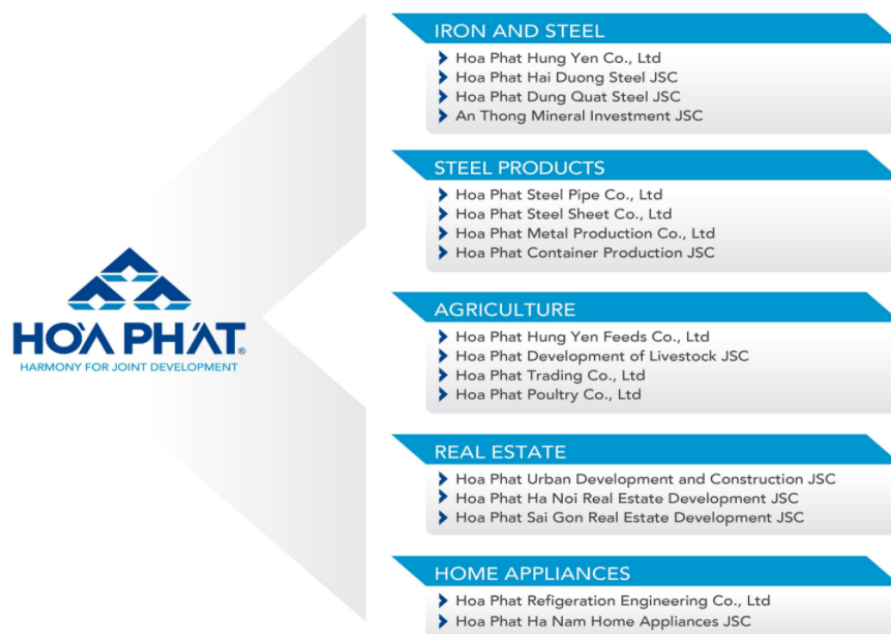
**3. New operating model, better management outcome**

**Furniture segment divestment**

On 05 Jan 2021, HPG also released its BOD's resolutions No.1, 2, 3, and 4, dated 04 January 2021, regarding the group's restructuring plan. Of which, Resolution No.1 focuses on the divestment of its furniture business, while others focus on the merger of existing businesses/subsidiaries into 4 corporations. At the end of 1Q21, there was a one-off item of VND500bn booked from the furniture segment divestment in 1Q21 preliminary earnings.

Instead of the eleven subsidiaries previously, HPG now operates in five sectors including Iron and Steel, Steel Products, Agriculture, Real Estate and Home Appliances, which is supposed to optimize the managerial and operational processes.

**Figure 8. HPG new business organization chart**



Source: Company data, KIS



### III. Earnings are upbeat from 2024F onwards

We notice that the impact of new business lines such as home appliances, container and new real estate projects are not yet included into the model, therefore, the forecasted growth rate from 2023F may not fully show the potential growth rate of HPG.

#### 1. Earnings growth slows down in 2022F-23F after the record in 2021

We project the total revenue could reach VND179,232bn, +19.7% yoy in FY22F, VND171,671bn, -4.2% yoy in FY23F while projected net profit slightly decreases in FY22-FY23F with VND33,417bn (-3.2% yoy), VND30,767bn (-7.9% yoy) respectively. The growth in revenue is based on (1) the increase in ASP (+9.7% yoy) and (2) the revival of steel pipes sales volume (+25% yoy) in 2022F, and higher sales volume for HRC sales volume thanks to the addition of rolling capacity (+16.7% yoy) in 2023F.

We expect to see the ASP reaches the peak at around VND19.3mn/tonne in 2Q22F caused by the temporary shortage of steel before returning to a downward trend up to 2026F. The forecasted downtrend in the ASP is also the main reason for the negative growth in FY23F despite the higher total sales volume. In addition, we also expect to see HPG will increasingly export finished-steel products rather than semi-final ones from 2022F thanks to the expansion of export markets amid higher global demand.

As for the net profit, we forecast HPG will be hit by high input material prices in 2022F. However, as we expect (1) the reverse of coking coal price at the end of 2Q22 or the early of 3Q22F and (2) the increase global iron-ore production as well as (3) the self-supply iron-ore capability of HPG from 2023F, the 2023F net profit is forecasted to decrease by 7.9% yoy amid ASP-downtrend expectation.

#### 2. Earnings growth finds the new catalyst in 2024F-26F

From 2024F, we expect to see the growth in both top and bottom lines thanks to the operation of DQSC2. We project the total revenue could reach VND203,104bn, +18.3% yoy in 2024F, VND232,280bn, +14.3% yoy in 2025F while projected net profit is VND34,216bn (+11.2% yoy), VND34,476bn (+0.8% yoy).

The growth in revenue is based on mainly the significant HRC-sales-volume growth with 71.4% yoy in 2024F and 25% yoy in 2025F. However, the forecasted decline in HRC margin in this period will lead to the flat in net profit. Other finished-steel-product growth rates vary from 0% to 12.8% yoy due to capacity constraints.

**Table 4. Margin assumptions, HPG**

	FY21A	FY22F	FY23F	FY24F	FY25F
Gross margin	27.6	23.0	22.9	22.0	19.7
SG&A as a % of net sales	2.3	2.0	2.0	2.1	2.1
Pretax margin	24.8	20.0	19.9	19.0	16.6
Net margin	23.1	18.6	17.9	16.8	14.8

Source: Company data, KIS

**Table 5. Steel sales volume growth assumptions**

(VND/kg, Tonnes)

	FY21A	FY22F	FY23F	FY24F	FY25F
Construction steel sales volume	3,889,683	5,010,000	5,390,500	5,471,000	6,171,000
% total volume growth		28.8	7.6	1.5	12.8
Steel Pipes sales volume	675,364	843,750	928,125	974,531	1,023,258
% total volume growth		24.9	10.0	5.0	5.0
Steel Coat sales volume	428,785	430,000	440,000	440,000	440,000
% total volume growth		0.3	2.3	0	0
HRC sales volume	2,570,419	3,000,000	3,500,000	6,000,000	7,500,000
% total volume growth		16.7	16.7	71.4	25.0
Steel Bar – ASP	16,000	17,560	15,600	14,820	14,100
% growth		9.7	(11.2)	(5.0)	(5.0)

Source: Company data, KIS

## IV. Valuation and recommendation

### 1. Valuation and recommendation

Our forecast subjects some assumptions below:

**1. Fluctuating ASP given capacity constraints:** we expect to see that the annual ASP reaches the peak in 2022F due to the short-term imbalance in supply & demand caused by the geopolitical tension between Russia and Ukraine. Besides, HPG almost reaches its max capacity in 2022F and 2023F before DQCS 2 starts the operation in 2024F, therefore, it leads to the decreasing forecasted revenue in the steel segment in 2023F.

The geopolitical tension also compresses the gross margin in 2022F due to the increase in price of input materials: coking coal, iron ore, scraps. The mixed movement of ASP and input price in 2022F and 2023F leads to the decline in net profit in both years before DQSC 2- the important earning growth driver goes online.

**2. The revival of domestic demand and the expansion of export markets:** we expect to see the revival of the domestic market from 2022F and the sales volume recovery of finished-steel products, which were seriously hit by COVID-19, for example, steel pipes. In addition, the expansion of export markets amid higher global demand is expected to increase the sales of finished steel products rather than semi-finished products next years.

**3. Container manufacturing, home appliances, and new real estate projects excluded:** Given the lack of information from those projects, we have not included the contribution of containers, home appliances, and the impact of new real estate projects into our model yet. This may create an upside risk to our forecasts.

#### **HOLD rating**

We initiate the coverage of HPG stock with HOLD rating based on the outlook in FY22F-24F. We value HPG at 7x 2022F PE (50% weight) combined with DCF valuation (50%) to arrive at a target price of VND51,930. We have a HOLD rating for HPG given (1) steady medium growth in the domestic and international construction industry to benefit HPG's steel business, (2) capacity additions to boost steel sales volume over the next 3 years and (3) proactive in the expansion of markets. In each segment, we apply the same WACC at 13%, assuming: 1) a risk-free rate of 3%, 2) a beta of 1.15 and 3) an equity risk premium of 10%.

Our target price of VND51,930 (upside of 12% from the current share price) is based on weighting of 1) a forward PE of 7.0x on the average EPS over 2022F-23F and 2) a DCF over a 5-year projection period. Our DCF-based target price is VND54,079. We used a WACC of 13% and terminal growth rate of 2% to reflect growth prospects for the steel industry in emerging countries. Our forward PE-based target price is VND49,777, based on a target PE multiple of 7.0X applied to average EPS over the period 2022F-23F. We believe HPG should deserve to trade at a premium to median PE of its regional peers given 1) HPG's our high ROE projection of 31.8% (vs. peer median of 18%) 2) HPG's our low net debt estimates of 20-30% in 2022F-23F (vs peer median of 40%). Therefore, we applied a 22.8% premium over its regional peers' 2022-23F PE of 5.7x, which translates into a target 2022F PE multiple of 7x for HPG.

**Table 6. Cost of equity**

Item	%
Beta	1.15
Risk free rate (*)	3.0
Equity risk premium (*)	10.0
Cost of equity	14.5

Source: KIS

(\*) may subject the change under new economic conditions

**Table 7. WACC calculation**

Item	%
Cost of debt	11.0
Target debt to capital	34.9
Tax rate	6.8
<b>WACC</b>	<b>13.0</b>

Source: KIS

**Table 8: DCF Valuation**

	(VNDbn)				
FCFF	2022F	2023F	2024F	2025F	2026F
EBIT	37,589	35,943	40,455	40,856	43,830
less: tax	(2,438)	(3,343)	(4,272)	(4,131)	(4,366)
add: depreciation	6,367	7,767	8,447	9,447	9,807
less: capex	(7,000)	(35,000)	(17,000)	(25,000)	(9,000)
(increase) / decrease in NWC	(12,625)	(1,648)	(11,211)	(3,979)	1,079
<b>Unlevered free cash flow</b>	<b>22,187</b>	<b>4,190</b>	<b>17,424</b>	<b>20,264</b>	<b>42,605</b>
PV of FCF	22,187	3,687	13,591	13,982	25,989
PV of Terminal Value	226,118				
<b>Total PV of Operations</b>	<b>307,752</b>				
Discount factor	10.0%				
Plus: Cash	29,288				
Less: Debt	(64,113)				
Less: Minority Interest	(255)				
Equity Value	241,897				
Shares Outstanding, Million	4,473				
<b>Target price (VND)</b>	<b>54,079</b>				

Source: KIS

**Table 9. PE Valuation, based on our estimation**

Metrics	FY22F	FY23F	Avg.22F-23F
EPS (VND)	7,404	6,817	7,111
Regional median multiple (x)	5.0	6.4	5.7
Premium	40%	9.3%	22.8%
Target multiple (x)	7	7	7
<b>Implied value per share (VND)</b>	<b>49,777</b>		

Source: KIS

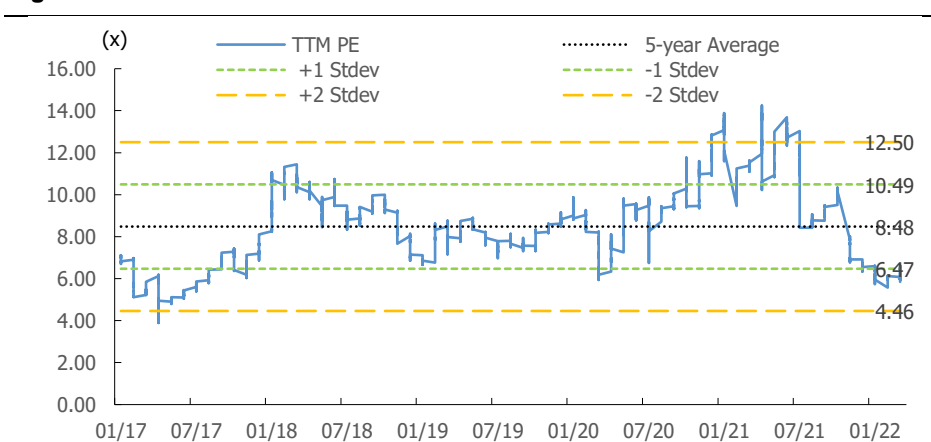
**Table 10. Blended Valuation**

(VND)

Metrics	Implied price	Weight	Weight value
Price/EPS, 1-yr forward at 7.0x	49,777	50%	24,889
DCF	54,079	50%	27,040
<b>Consensus HPG's target share price (rounded)</b>			<b>51,930</b>

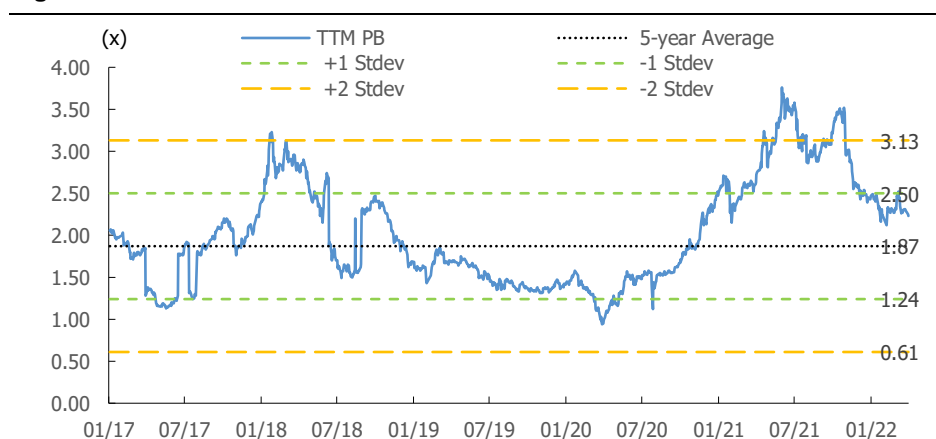
Source: KIS

**Figure 9. TTM PE at 5.85x on 31 Mar 2022**



Source: Fiinpro, KIS

**Figure 10. TTM PB at 2.23x on 31 Mar 2022**



Source: Fiinpro, KIS

## 2. Sensitivity Analysis

**Figure 11. Sensitivity analysis of our blended target price for HPG (VND/share)**

	Long term growth rate (g):				
	1.3%	1.5%	2.0%	2.5%	3.0%
<b>14.5%</b>	46,617	46,926	47,742	48,626	49,588
<b>14.0%</b>	47,789	48,128	49,026	50,002	51,066
<b>13.5%</b>	49,065	49,438	50,428	51,509	52,692
<b>13.0%</b>	50,421	50,833	51,930	53,129	54,449
<b>12.5%</b>	51,911	52,367	53,584	54,923	56,402
<b>12.0%</b>	54,041	54,558	55,939	57,465	59,161
<b>11.5%</b>	55,807	56,383	57,930	59,648	61,568

Source: KIS

**Table 11. Regional Peer Valuations**

	TP (Local)	Upside	3-year EPS growth	PE (x)			EV/EBITDA (x)			PB (x)			Dividend yield (%)		ROE		Net Gearing
				FY21	FY22F	FY23F	FY21	FY22F	FY23F	FY21	FY22F	FY23F	FY22F	FY23F	FY21	FY22F	
Jsw Steel Ltd	758	3%	35.2%	22.3	7.9	9.9	8.1	5.9	6.5	3.8	2.7	2.2	1.1	1.1	19.0	37.0	107.4
Tata Steel Ltd	1,620	24%	41.2%	20.5	4.3	7.0	5.6	3.7	5.2	2.1	1.5	1.2	1.8	1.5	9.9	38.6	90.3
Hindalco Inds	687	21%	40.6%	24.4	9.5	8.6	7.0	6.2	5.8	1.9	1.6	1.4	0.9	1.1	5.6	18.1	72.3
Nmdc Ltd	193	18%	2.7%	7.6	5.1	6.9	4.3	3.2	4.3	1.7	1.4	1.3	8.3	6.7	21.8	29.4	(12.9)
Jindal Steel & P	597	12%	10.9%	10.3	6.2	8.1	3.4	4.0	5.0	1.7	1.4	1.2	0.1	0.2	11.4	24.2	48.5
Nippon Steel Cor	2,694	24%	-19.7%	3.3	3.8	6.0	4.8	4.3	5.7	0.6	0.6	0.6	6.6	5.8	20.5	18.2	66.6
Jfe Holdings Inc	2,038	18%	-15.9%	3.7	3.6	5.4	5.3	5.1	6.3	0.5	0.5	0.5	8.2	6.0	15.6	15.4	96.2
Bluescope Steel	24	13%	-23.8%	4.2	4.1	7.3	2.6	2.5	3.9	1.1	1.1	1.0	2.4	2.4	32.3	29.4	(9.8)
Angang Steel-A	5	48%	-5.8%	4.8	4.6	4.3	N/A	3.1	3.0	N/A	0.5	0.5	7.9	8.4	14.4	11.8	22.0
Baoshan Iron & A	10	52%	2.0%	5.7	5.5	5.6	N/A	3.9	3.9	0.8	0.8	0.7	9.1	8.7	14.3	13.6	15.4
Maanshan Iron-A	5	26%	-1.6%	5.7	5.1	5.1	N/A	4.1	4.1	0.9	0.8	0.8	9.8	9.9	17.4	16.6	44.6
Pangang Group -A	6	50%	21.2%	24.2	17.6	15.6	N/A	13.6	13.3	4.3	3.0	2.5	-	-	14.4	18.0	(6.8)
Fosun Intl	13	50%	16.6%	5.7	4.3	4.0	6.6	7.8	7.7	0.4	0.4	0.4	5.7	6.4	7.8	9.6	35.8
Posco Holdings I	404,706	38%	-11.8%	3.4	5.0	5.2	2.3	3.1	3.1	0	0.4	0.4	5.3	5.0	14.0	9.3	8.0
<b>Overseas average</b>				<b>10.4</b>	<b>6.2</b>	<b>7.1</b>	<b>5.0</b>	<b>5.0</b>	<b>5.6</b>	<b>1.6</b>	<b>1.2</b>	<b>1.0</b>					
<b>Overseas median</b>				<b>5.7</b>	<b>5.0</b>	<b>6.4</b>	<b>5.0</b>	<b>4.1</b>	<b>5.1</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>					
<b>Hoa Phat Grp Jsc</b>	51,930	12.2%	0.03%	6.1	6.3	6.8	5.1	5.5	5.4	2.3	1.7	1.4	2.1	2.1	46.0	31.8	18.2

Note: As of April 1st 22 close

Source: Bloomberg, KIS

### 3. Potential catalysts and risks

**Potential catalysts** include

- Slower-than-expected decline in steel selling price,
- DQSC2 starts the operation earlier than expected.

**Risks:**

- The input prices remain high longer than expected. The high input costs could compress the margins of the company much more than we expected.
- The new DQSC2's products experience a more-intense-than-expected competition on domestic market from other domestic and international low-cost steel makers.

■ **Company overview**

Hoa Phat (HPG) is a leading industrial manufacturing group in Vietnam operating in 5 key businesses: Iron & steel; steel sheet & steel pipe; real estate, agriculture and home appliances.

**Balance sheet**

(VND bn)

FY-ending Dec.	2020F	2021A	2022F	2023F	2024F
Current assets	56,747	94,154	98,203	98,068	131,560
Cash & cash equivalents	21,823	40,708	29,288	31,615	51,899
Accounts & other receivables	6,125	7,662	9,968	10,159	12,965
Inventory	26,287	42,135	54,467	51,831	61,618
Non-current assets	74,764	84,082	120,490	138,233	145,345
Fixed assets	65,562	69,281	69,914	97,148	105,701
Investment assets	6,983	10,573	45,583	35,593	33,603
Others	4,427	7,069	8,583	8,976	10,042
<b>Total assets</b>	<b>131,511</b>	<b>178,236</b>	<b>218,693</b>	<b>236,301</b>	<b>276,905</b>
Advances from customers	1,257	788	1,792	1,717	2,031
Unearned revenue	51	26	26	26	26
Trade payables	10,916	23,729	27,233	23,559	26,036
Others	5,926	5,700	5,971	6,187	6,426
ST debt & due bonds	36,799	43,748	50,748	44,748	51,748
LT debt & bonds	17,343	13,465	13,365	14,365	15,365
<b>Total liabilities</b>	<b>72,292</b>	<b>87,456</b>	<b>99,135</b>	<b>90,602</b>	<b>101,632</b>
Controlling interest	59,071	90,625	119,303	145,352	174,822
Capital stock	33,133	44,729	44,729	44,729	44,729
Capital surplus	3,212	3,212	3,212	3,212	3,212
Other reserves	934	922	955	986	1,020
Retained earnings	21,792	41,763	70,407	96,425	125,862
Minority interest	149	155	255	347	450
Shareholders' equity	59,220	90,780	119,558	145,699	175,272

**Cash flow**

(VND bn)

FY-ending Dec.	2020F	2021A	2022F	2023F	2024F
C/F from operations	11,587	27,466	27,889	36,628	31,657
Net profit	13,506	34,521	33,417	30,767	34,217
Dep'n & Amort'n	4,776	6,087	6,367	7,767	8,447
Net incr. in W/C	(6,695)	(13,142)	(11,895)	(1,906)	(11,007)
C/F from investing	(18,495)	(20,404)	(32,618)	(20,269)	(13,077)
Capex	(11,916)	(12,116)	(42,010)	(25,010)	(15,010)
Incr. in investment	(6,579)	(8,288)	9,392	4,741	1,933
C/F from financing	16,053.7	1,729.4	2,427.1	(9,472.9)	3,527.1
Incr. in equity	3	11	0	0	0
Incr. in debt	17,471	3,423	6,900	(5,000)	8,000
Dividends	(1,420)	(1,704)	(4,473)	(4,473)	(4,473)
C/F from others	6	(16)	0	0	0
Increase in cash	9,146	8,792	(2,302)	6,887	22,107

**Income statement**

(VND bn)

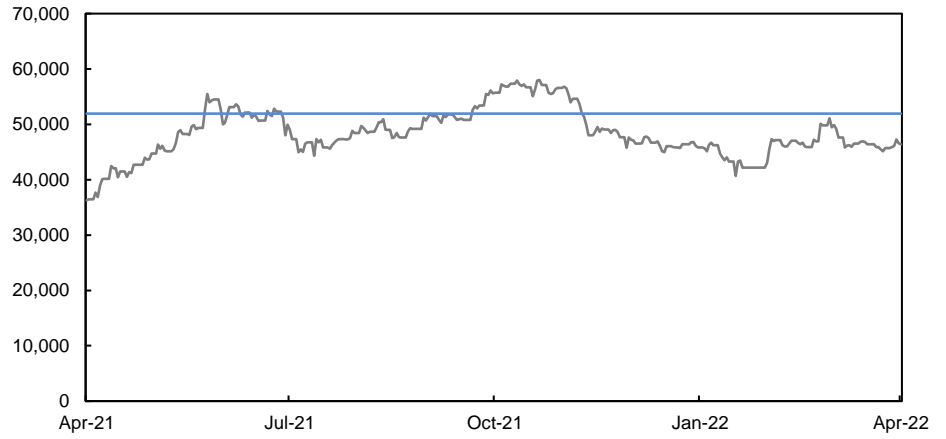
FY-ending Dec.	2020F	2021A	2022F	2023F	2024F
Sales	90,119	149,680	179,232	171,671	203,104
COGS	71,215	108,571	138,058	132,295	158,384
Gross profit	18,904	41,108	41,174	39,376	44,720
SG&A expenses	1,781	3,444	3,585	3,434	4,265
Operating profit	17,123	37,664	37,589	35,943	40,455
Financial income	1,005	3,071	1,255	1,202	1,422
Interest income	519	0	274	182	109
Financial expenses	2,837	3,732	3,047	3,090	3,453
Interest expenses	2,192	2,526	2,565	2,660	3,356
Other non-operating profit	65	48	54	52	61
Gains (Losses) in associates, subsidiaries and JV	2	5	5	5	5
Earnings before tax	15,357	37,057	35,855	34,110	38,489
Income taxes	1,851	2,536	2,438	3,343	4,272
Net profit	13,506	34,521	33,417	30,767	34,217
Net profit of controlling interest	13,450	34,478	33,317	30,675	34,114
EBITDA	21,899	43,751	43,956	43,709	48,902

**Key financial data**

FY-ending Dec.	2020F	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	3,958	7,575	7,404	6,817	7,581
BPS	17,873	20,296	26,729	32,574	39,185
DPS	428	381	1,000	1,000	1,000
Growth (%)					
Sales growth	41.6	66.1	19.7	(4.2)	18.3
OP growth	75.7	120.0	(0.2)	(4.4)	12.6
NP growth	78.7	156.3	(3.4)	(7.9)	11.2
EPS growth	46.2	91.4	(2.3)	(7.9)	11.2
EBITDA growth	77.5	99.8	0.5	(0.6)	11.9
Profitability (%)					
OP margin	19.0	25.2	21.0	20.9	19.9
NP margin	15.0	23.1	18.6	17.9	16.8
EBITDA margin	24.3	29.2	24.5	25.5	24.1
ROA	11.6	22.3	16.8	13.5	13.3
ROE	25.2	46.0	31.8	23.2	21.3
Dividend yield	0.9	0.8	2.2	2.2	2.2
Dividend payout ratio	10.8	5.0	13.5	14.7	13.2
Stability					
Net debt (VND bn)	32,319	16,505	34,825	27,497	15,214
Net debt/equity (%)	50.0	20.0	30.0	20.0	10.0
Valuation (x)					
PE	11.7	6.1	6.3	6.8	6.1
PB	2.6	2.3	1.7	1.4	1.2
EV/EBITDA	8.5	5.1	5.5	5.4	4.6

### Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Hoa Phat (HPG)	08-04-22	HOLD	VND51,930	+7.3	-10.4





■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

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- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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Prepared by: Hai Nguyen

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