

29 Jul 2022

Hoa Phat Group (HPG)

2Q22 Net margin was squeezed

- 2Q22 results below KIS forecast
- Agriculture segment struggling amid input volatility
- Maintain HOLD and earnings are under review

Facts: Bottom line collapsed

HPG' revenue increased 6.6% yoy to VND37,422bn in 2Q22 driven mainly by steel segment while agriculture and real estate segment revenue dropped 28% and 65% yoy, respectively. The 2Q22 NPAT-MI posted VND4,032bn, -58.5% yoy. The 6M22 results fulfil 45%/37% our Revenue/NPAT-MI forecasts.

In 2Q22, the revenue growth was negatively affected by lower selling price and weak final-product sales volume (-24% qoq, -4.3% yoy). The 7 price cuts in 2Q22 brought down steel bar price by 9.1% and wire-rod price by 9.8% from the peak in March. Net margin squeezed sharply to 10.7% in 2Q22, according to unaudited FS, mainly due to

- Higher input material costs: Aus. Coking coal reached 630USD/tonne, China scrap jumped to 640USD/tonne.
- Inventory provisioning - according to HPG, HPG made inventory provision of VND575bn in 2Q22.
- Forex losses – HPG booked a material forex loss on the back of USD appreciation.

Pros & cons: Weak demand concerns in 3Q22

Weak demand is our main concern in 3Q22 due to Vietnam's low season. Besides, the uncertainty of China property crisis and weak global demand from end-use industries will continue to create a downward pressure on global steel prices. In addition, the high coking coal price is believed to affect HPG's margin in 3Q22, therefore, we still see the low profit margin in 3Q22.

Action: Earnings are under review

Although the result is below our forecast, we believe the mismatch is caused by the value of inventory provisions and forex losses. We maintain HOLD rating on HPG stock. As the selling price and demand dropped stronger than our expectation, our model is under review.

Below	In line	Above
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vs. KIS forecast

12M rating **HOLD (Maintain)**

12M TP *from N/A*

Up/Downside

Stock data

VNIndex (Jul 29, pt)	1,206
Stock price (Jul 29, VND)	21,500
Market cap (USD mn)	5,353
Shares outstanding (mn)	5,815
52-Week high/low (VND)	43,896/20,800
6M avg. daily turnover (USD mn)	34.68
Free float / Foreign ownership (%)	54.3/20.4
Major shareholders (%)	
Tran Dinh Long	26.1

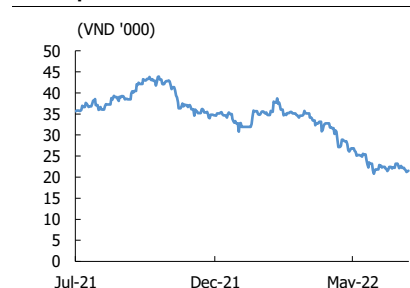
Valuation

	2021A	2022F	2023F
PE (x)	2.8	2.9	3.2
PB (x)	1.1	0.8	0.7
ROE (%)	46.0	31.8	23.2
DY (%)	1.8	4.7	4.7
EV/EBITDA (x)	2.6	3.0	2.8
EPS (VND)	7,575	7,404	6,817
BPS (VND)	20,296	26,729	32,574

Performance

	1M	6M	12M
Absolute (%)	(5.5)	(32.7)	(39.9)
Relative to VNIndex (%p)	(4.9)	(14.9)	(33.4)

Stock price



Source: Bloomberg

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Table 1. 2Q22 earnings

(VND bn, %, %p)

	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY	Consensus
Sales	35,118.4	38,673.8	44,710.7	44,058.1	37,442.0	(15.0)	6.6	N/A
OP	10,692.2	11,042.1	8,367.1	9,267.7	5,683.4	(38.7)	(46.8)	N/A
OP margin	30.4	28.6	18.7	21.0	15.2	(5.8)	(15.2)	N/A
EBT	10,349.5	10,978.8	8,038.4	8,922.1	4,379.3	(50.9)	(57.7)	N/A
NP	9,745.2	10,350.8	7,419.4	8,206.3	4,022.5	(51.0)	(58.7)	N/A

Source: Company data, KIS

■ Company overview

Hua 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.	2020A	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
Total assets	131,511	178,236	218,693	236,301	276,905
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
Total liabilities	72,292	87,456	99,135	90,602	101,632
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

Income statement

(VND bn)

FY-ending Dec.	2020A	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

Cash flow

(VND bn)

FY-ending Dec.	2020A	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

Key financial data

FY-ending Dec.	2020A	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	2.0	1.8	4.7	4.7	4.7
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	5.4	2.8	2.9	3.2	2.8
PB	1.2	1.1	0.8	0.7	0.5
EV/EBITDA	4.7	2.6	3.0	2.8	2.3

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