

9 Aug 2022

# Steel

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**Non-rated**

## The worst is to come

### Earnings growth paused in 2Q22

Based on our estimate, 2Q22 aggregated revenue of 24 listed steelmakers declined 2.4% yoy, while 2Q22 aggregated NPATMI dropped significantly by 67.4% yoy. The high base in 2Q21 and high input costs supposed to be the main reasons for the significant decline in aggregated NPAT-MI growth beside lower selling prices and weak sales volume. The selling price has declined from the peak in 1Q22, however, the price was still at around 2Q21 level so that we only witnessed the slight decline in 2Q22 of the aggregated revenue growth.

### Gross margin shrank amid unfavorable ASP trend

In 2Q22, we witnessed a 2.2%p qoq decline in aggregated gross margin (11.4%). Hoa Phat would be the main attribution to the aggregated gross margin decline when its gross margin dropped 5.46%p qoq from 22.9% in 1Q22 to 17.4% in 2Q22. Gross margin changes ranged widely from -10.6%p qoq to 16.6%p qoq amid the unfavorable input and selling price trends. We expect to continue to see the low margin in 3Q22 caused by the remaining high-cost inventories in 2Q22 and possibly lower selling prices amid weak demand.

### Exporters felt the heat from weak global demand

Based on GSO, export revenue growth in 2Q22 has been slowing down to one digit (+8.1% yoy, USD2,736mn) while export volume continued to decline by 14.5% yoy (2.574mn tonnes). The export revenue was still supported by rosy prices caused by regional supply/demand imbalance. The export volume was not as good as expected when the global demand was paused amid high inflation and growth slowdown concerns. We expect to see the trend to continue in 3Q22F that will lead to a significant decline in y-o-y growth with 3Q21 high-base.

### Domestic revival could be slower in 3Q22F

The domestic sales volume in 2Q22 was much worse-than-expected with the decline of 13% yoy to 4.7mn tonnes. Although there were total 7 price cuts in 2Q22, the total domestic consumption was still weak amid high inflation concerns. We believe that the weak domestic demand will continue in 3Q22 amid low season. However, we still expect to see the positive growth of 15% yoy thanks to low base in 3Q21. Overall, the total consumption in 3Q22F is expected to be pegged at 2.6% yoy.

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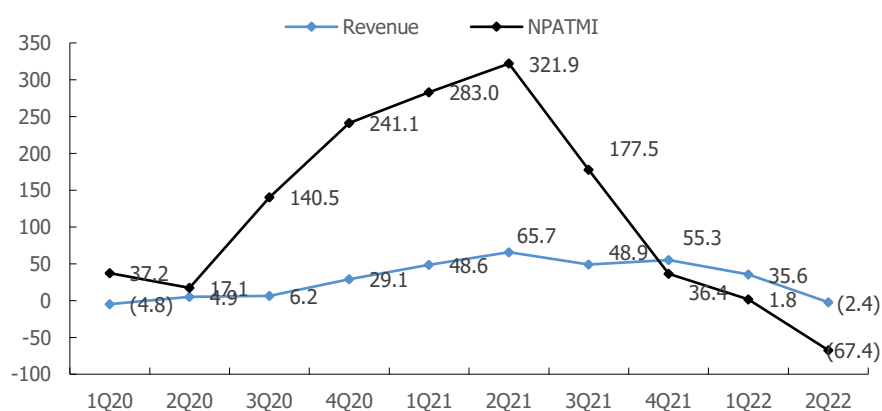
**Table 1. Aggregated 24-company earnings**

(VNDbn, %)

	2Q21	2Q22	QoQ	YoY
Revenue	90,839	88,654	(14.3)	(2.4)
NPAT-MI	14,098	4,595	(51.9)	(67.4)

Source: Fiinpro, KIS

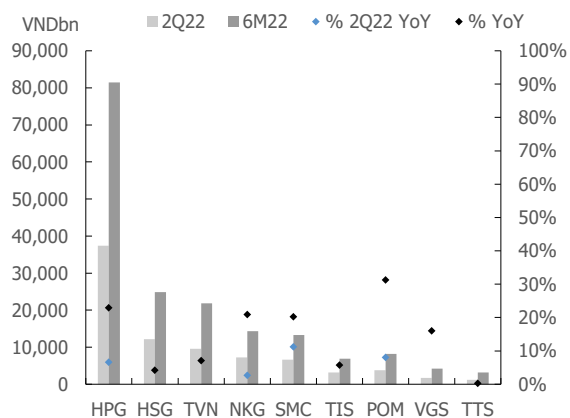
Based on our collection, 2Q22 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. NPAT-MI growth dropped significantly by 67.4% yoy in 2Q22 due to a higher base in 2Q21 and high input prices. In contrast, the revenue growth pace in 2Q22 just slightly declined by 2.4% yoy thanks to the good selling price. Net profit growth pace in last 2 quarters was significantly hit by heavier material costs. We also see the high material costs still partly affect the margin in 3Q22 due to inventories cycle.

**Figure 1. Lower net profit growth in 2Q22 due to costlier raw materials**

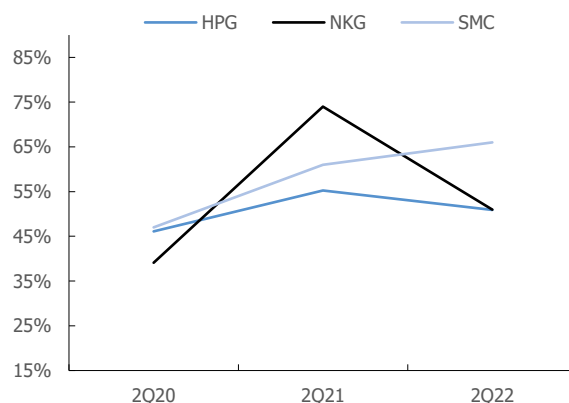
Source: VSA, Fiinpro

### Selling price kept positive topline growth in 2Q22

Breaking down aggregated revenue growth by a specific company, HPG top the influence in the light of its dominant position with revenue growth of 6.6% yoy in 2Q22. NKG's revenue growth was at 2.6% yoy while HSG's one witnessed the slight decline of 6.2% yoy in 2Q22. Among the industry players, SMC outperformed the best with its highest 2Q22 revenue growth of 11.2% yoy. The companies fulfilled around 27-66% of their 2022F revenue targets, which is lower than 2Q22 revenue's target completion.

**Figure 2. SMC revenue growth beat the industry**

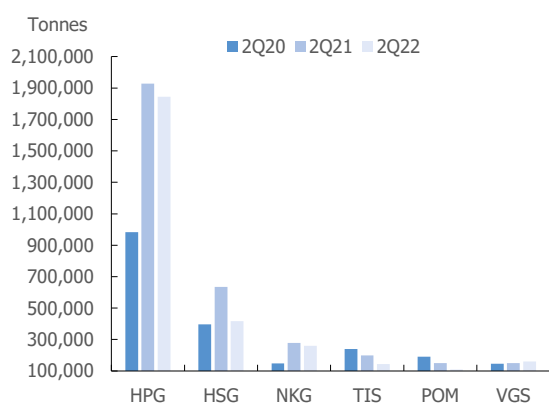
Source: Company data, Fiinpro

**Figure 3. Most companies reap positive 2Q22 revenue completion thanks to good selling price**

Source: Company data, Fiinpro

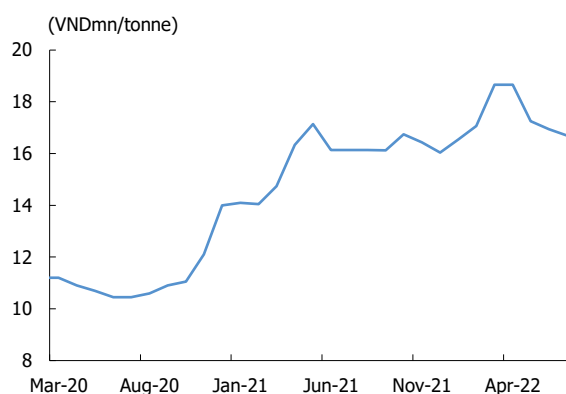
As [detailed in our July brief sector](#), Vietnam total consumption volume in 2Q22 declined 11% yoy to 6.49mn tonnes. Top producer HPG witnessed a decline of 4.3% yoy in sale volume growth to 1.84mn tonnes and accounted for the largest share of 28.3% of total Vietnam finished-steel sale volume in 2Q22. NKG generated a slight decline of 6.4% yoy in 2M22 sales volume growth. HSG, however, produced a significant decline in sale volume growth of 34.3% yoy in 2Q22. The average selling price (ASP) was greatest influence despite the recent decline. Based on the HPG's quoted steel bar prices, we witnessed a 6.5% yoy and a 1.1% qoq in 2Q22.

**Figure 4. Sales volume declined in 2Q22**



Source: Company data, Fiipro

**Figure 5. But good selling price kept positive growth**

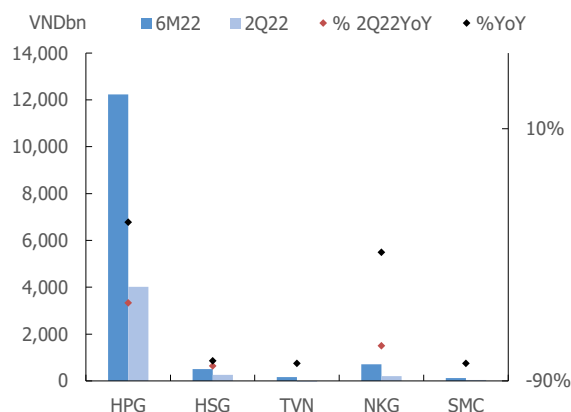


Source: HPG's steel bar price, Fiipro

### Net margin collapsed in 2Q22

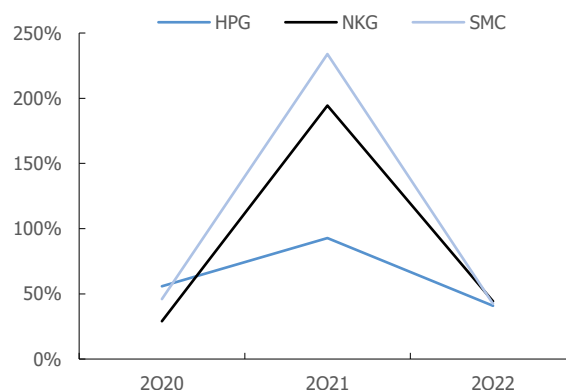
2Q22 witnessed most leading players earn negative net-profit growth. Among the top ten biggest revenue-generating steelmakers, VGS was the most outstanding player with an 20.9% yoy net profit growth in 2Q22 thanks to a low base in 2Q21. HPG, dominating the absolute net profit of VND4.0tn, also witnessed a decline of 58.7% yoy in net profit growth in 2Q22. NKG and HSG also witnessed a decline of 76.2% and 84.4%, respectively. Companies fulfilled around 9-65% of their 2022F net profit guidance.

**Figure 6. The 2Q22 yoy net profit growth declined in most companies**



Source: Company data, Fiipro

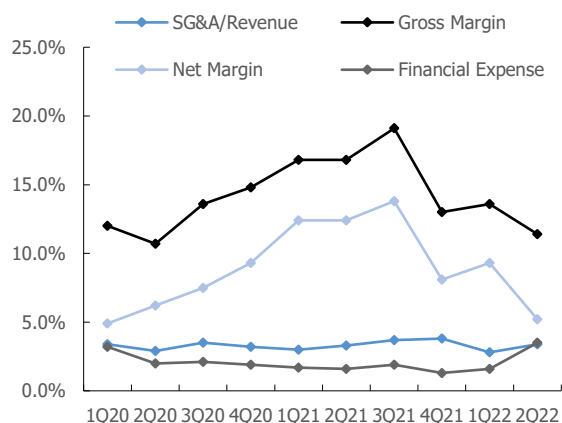
**Figure 7. Their 1Q22 net profit completion was lower than 1Q21.**



Source: Company data, Fiipro

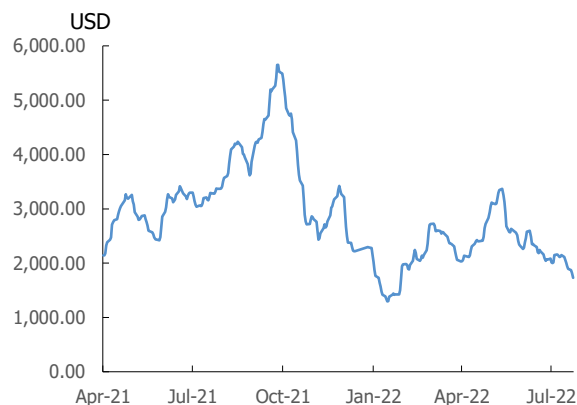
In 1Q22, we saw a net-margin shrank in most steelmakers. The average net margin dropped from 9.3% in 1Q22 to 5.2% in 2Q22 and was much lower than 2Q21 with 12.4%. Breaking down into details, net margin narrowed by a combination of a 2.2%p qoq gross margin decrease and a 0.6%p qoq SG&A/sales decrease. In which, companies made inventory provision and booked forex loss amid USD appreciation and downward trend of input and selling prices.

**Figure 8. Net margin collapsed**



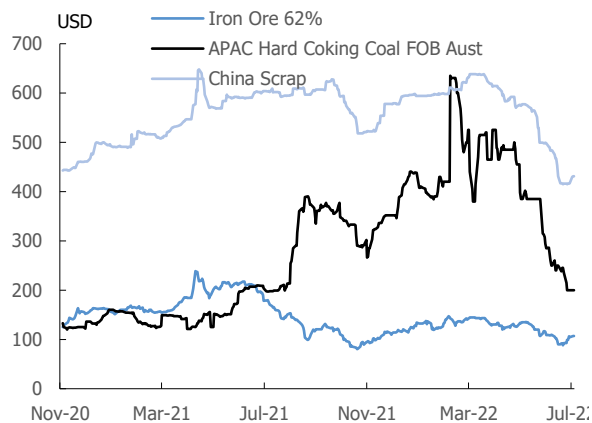
Source: Company data, Fiipro

**Figure 9. BDI is on the way to the Feb bottom**



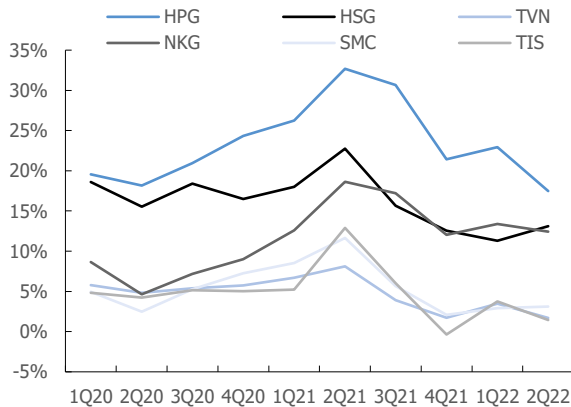
Source: Bloomberg

**Figure 10. Material input prices were in downtrend**



Source: Bloomberg

**Figure 11. Gross margin shrank in 2Q22**



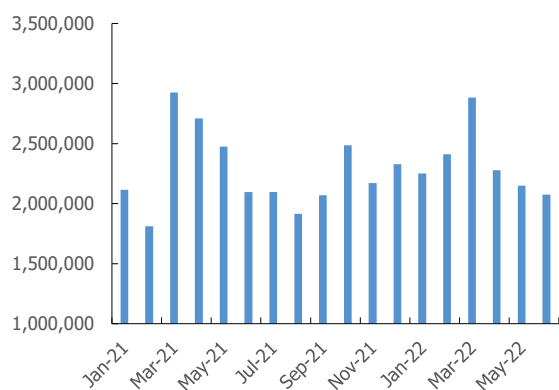
Source: Company data, Fiipro

### Slower domestic demand revival in 3Q22F

There have been 7 price cuts in total in 2Q22, however, we still saw a weak sales volume in domestic and export markets amid inflation concerns and a slow global growth outlook. Despite five more price cuts already in July and early August, the weak sales volume is expected to continue in 3Q22 due to rainy season in Vietnam and low demand from end-use industries around the world. However, we still expect the total consumption volume (finished steel products and HRC) will positively grow at 2.6% yoy thanks to the low base in 3Q21 caused by the COVID-19 lockdown.

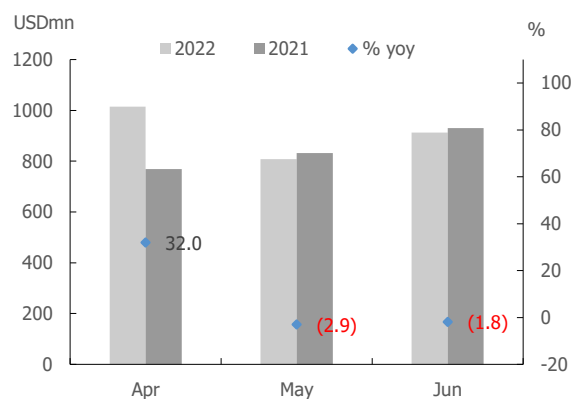
As expected in previous reports about coking coal price trend in 3Q22F, companies can partly reduce margin pressure from high coking-coal price in 3Q22F amid decreasing selling prices. However, the downward coking-coal-price trend also opens more room for a steel price correction in 2H22F, especially, construction steel.

**Figure 12. Vietnam sales volumes slumped in 2Q22**



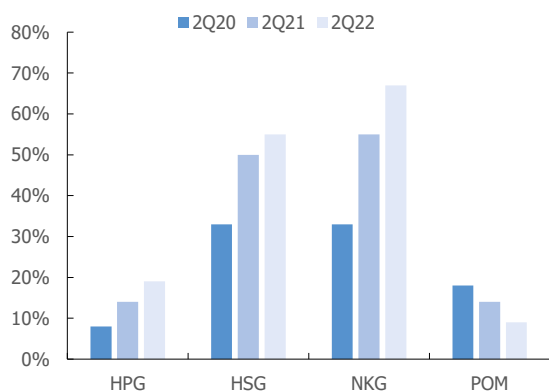
Source: VSA

**Figure 13. The 2Q22 export turnover reached USD2.7bn**



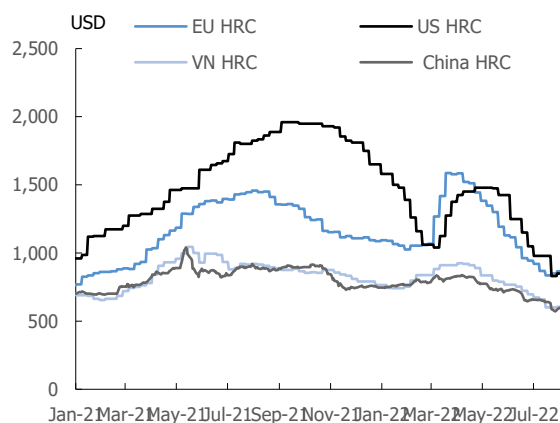
Source: GSO

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



Source: MOIT, GSO

**Figure 15. HRC gaps have remained**



Source: Bloomberg,

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