

11 Oct 2022

# Hoa Sen Group (HSG)

## Sep 2022 – Wrapping up the Year

Vietnam Steel Association (VSA) released some worthy headlines on the Sept sales of the company. Here are some key issues worthy of note.

### Domestic revival to continue in Sep

- Total Sep steel sales volume posted 117,589 tonnes, dropping by 41.4% yoy but increasing by 15.7% mom.
- Steel coat volume made up 72.2% of the Sep total sales volume at 84,986 tonnes, +13.5% mom and -52.3% yoy.
- The coated steel export volume (35,185 tonnes) was down significantly by 74.3% yoy but up 48.3% mom, which showed a slight improvement in export sales.
- Domestic volume of steel coat recorded 49,801 tonnes (-2.6% mom, +20.6% yoy) and steel pipes volume posted 31,851 tonnes (+23.3% mom and +55.5% yoy).

### FY2022 performance plunged yoy

- The FY2022 (Oct 2021 - Sep 2022) total sale decreased 21.8% yoy to 1,787,694 tonnes as steel pipes volume declined 28.2% yoy to 338,788 tonnes and steel coat fell 20.2% yoy to 1,448,906 tonnes.
- The total FY2022 export volume (accounted for 48.9% of total sales; 874,594 tonnes) fell 31.6% yoy while the local sales volume (913,100 tonnes) also declined by 9.4% yoy due to the fall in domestic volume of steel pipes (-26.6% yoy).

### Rating and recommendation

- We reaffirm HOLD rating in view of multiple sector bottlenecks on unfavorable selling prices, harsh competitiveness, and squeezed margins as we examined [in the in-depth flat steel report](#).

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Sales (VND bn)	27,540	48,727	49,070	41,849	49,016
chg. (% YoY)	(1.8)	76.9	0.7	(14.7)	17.1
Operating profit (VND bn)	1,959	5,047	1,880	2,138	2,636
Net profit (VND bn)	1,153	4,249	1,395	1,643	2,039
EPS (VND)	2,642	8,434	2,319	2,731	3,388
chg. (% YoY)	201.6	219.3	(72.5)	17.8	24.1
EBITDA (VND bn)	3,181	5,708	3,086	3,368	3,894
PE (x)	4.8	1.5	5.5	4.7	3.8
EV/EBITDA (x)	4.2	2.0	4.0	2.5	2.0
PB (x)	0.9	0.6	0.5	0.5	0.4
ROE (%)	19.1	48.8	11.1	10.9	12.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest.

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12M rating **HOLD (Maintain)**

12M TP

Up/Downside

### Stock Data

VNIndex (15 Sep, pt)	1,006
Stock price (15 Sep, VND)	12,750
Market cap (USD mn)	319
Shares outstanding (mn)	598
52-Week high/low (VND)	41,542/11,792
6M avg. daily turnover (USD mn)	7.97
Free float / Foreign ownership (%)	74.5/5.5
Major shareholders (%)	
Le Phuoc Vu	16.7

### Performance

	1M	6M	12M
Absolute (%)	(28.8)	(53.4)	(68.0)
Relative to VNIndex (%p)	(9.5)	(22.0)	(41.2)

### Stock price trend



Source: Bloomberg

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**Table 1. Sales volume growth**

(Tonnes)

	Monthly				Accumulated		
	Sep-21	Sep-22	MoM (%)	YoY (%)	FY2021	FY2022	YoY (%)
<b>Steel Pipes</b>	<b>22,395</b>	<b>32,603</b>	<b>22.0</b>	<b>45.6</b>	<b>471,886</b>	<b>338,788</b>	<b>(28.2)</b>
Export	1,917	752	(16.7)	(60.8)	39,066	20,964	(46.3)
Domestic	20,478	31,851	23.3	55.5	432,820	317,824	(26.6)
<b>Steel Coat</b>	<b>178,150</b>	<b>84,986</b>	<b>13.5</b>	<b>(52.3)</b>	<b>1,814,975</b>	<b>1,448,906</b>	<b>(20.2)</b>
Export	136,845	35,185	48.3	(74.3)	1,240,168	853,630	(31.2)
Domestic	41,305	49,801	(2.6)	20.6	574,807	595,276	3.6
<b>Total Steel Volume</b>	<b>200,545</b>	<b>117,589</b>	<b>15.7</b>	<b>(41.4)</b>	<b>2,286,861</b>	<b>1,787,694</b>	<b>(21.8)</b>
Export	138,762	35,937	45.9	(74.1)	1,279,234	874,594	(31.6)
Domestic	61,783	81,652	6.1	32.2	1,007,627	913,100	(9.4)

Source: VSA, KIS

**Table 2. Production volume growth**

(Tonnes)

	Monthly				Accumulated		
	Sep-21	Sep-22	MoM (%)	YoY (%)	FY2021	FY2022	YoY (%)
<b>Steel Pipes</b>							
Production	17,410	34,825	69.2	100.0	382,846	289,875	(24.3)
Inventories	51,238	34,679	(2.0)	(32.3)			
<b>Steel Coat</b>							
Production	157,111	98,525	49.4	(37.3)	1,856,665	1,440,139	(22.4)
Inventories	93,530	64,561	25.1	(31.0)			
<b>Steel Coil</b>							
Production*	163,219	124,901	69.2	(23.5)	2,007,390	1,308,071	(34.8)
Inventories	23,933	15,411	(28.9)	(35.6)			
<b>Total</b>							
Production	337,740	258,251	61.1	(23.5)	4,246,901	3,038,085	(28.5)
Inventories	168,701	114,651	5.5	(32.0)			

Source: VSA, KIS,

Note: Steel Coil Production excluded March Data.

**Company overview & Glossary**

Founded in 2001, HSG is a leading manufacturer of galvanized steel sheets (capacity of 2.7mn tonnes per year capacity) in Vietnam. Other products include steel pipes (capacity 990,000 tonnes per year) and plastic pipes. HSG also has its own retail distribution network with 536 branches.

**Balance sheet**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Current assets	9,022	18,658	19,161	19,138	20,953
Cash & cash equivalents	575	516	681	3,745	3,346
Accounts & other receivables	2,024	4,535	4,486	3,711	4,078
Inventory	5,524	12,356	12,375	10,301	11,912
Non-current assets	8,734	7,963	7,434	6,992	6,694
Fixed assets	7,595	6,662	5,956	5,326	4,768
Investment assets	603	682	682	682	682
Others	1,251	1,689	2,146	1,960	2,254
<b>Total assets</b>	<b>17,756</b>	<b>26,620</b>	<b>26,595</b>	<b>26,130</b>	<b>27,647</b>
Advances from customers	209	268	294	251	294
Unearned revenue	0	0	0	0	0
Trade payables	1,455	4,294	4,243	2,972	3,400
Others	1,316	4,390	4,402	4,416	4,433
ST debt & due bonds	6,023	5,437	4,437	3,937	3,637
LT debt & bonds	2,163	1,399	999	699	0
<b>Total liabilities</b>	<b>11,166</b>	<b>15,788</b>	<b>14,375</b>	<b>12,275</b>	<b>11,764</b>
Controlling interest	6,584	10,815	12,203	13,838	15,867
Capital stock	4,446	4,935	4,935	4,935	4,935
Capital surplus	152	157	157	157	157
Other reserves	36	91	92	94	96
Retained earnings	1,954	5,633	7,020	8,653	10,679
Minority interest	7	17	17	17	17
Shareholders' equity	6,591	10,832	12,220	13,855	15,884

**Cash flow**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
C/F from operations	2,110	1,338	2,063	4,461	1,289
Net profit	1,152	4,249	1,395	1,643	2,039
Dep'n & Amort'n	1,230	1,186	1,206	1,230	1,258
Net incr. in W/C	(272)	(4,097)	(538)	1,588	(2,008)
C/F from investing	(311)	(130)	(522)	(643)	(783)
Capex	(398)	(319)	(500)	(600)	(700)
Incr. in investment	87	189	(22)	(43)	(83)
C/F from financing	(1,513.0)	(1,313.0)	(1,400.0)	(800.0)	(999.4)
Incr. in equity	(1)	39	0	0	0
Incr. in debt	(1,447)	(1,291)	(1,400)	(800)	(999)
Dividends	0	0	0	0	0
C/F from others	0	23	0	0	0
<b>Increase in cash</b>	<b>286</b>	<b>(105)</b>	<b>141</b>	<b>3,017</b>	<b>(493)</b>

**Income statement**

(VND bn)

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
Sales	27,540	48,727	49,070	41,849	49,016
COGS	22,913	39,910	43,019	36,154	42,214
Gross profit	4,626	8,817	6,051	5,695	6,802
SG&A expense	2,668	3,770	4,171	3,557	4,166
Operating profit	1,959	5,047	1,880	2,138	2,636
Financial income	77	367	294	251	294
Interest income	0	0	1	4	11
Financial expense	659	554	540	460	539
Interest expense	560	355	381	278	218
Other non-operating profit	(3)	(2)	5	4	5
Gains (Losses) in associates, subsidiaries, and JV	0	0	0	0	0
Earnings before tax	1,374	4,858	1,640	1,933	2,395
Income taxes	221	609	244	290	357
Net profit	1,152	4,249	1,395	1,643	2,039
Net profit of controlling interest	1,153	4,249	1,395	1,643	2,039
EBITDA	3,181	5,708	3,086	3,368	3,894

**Key financial data**

FY-ending Sep.	FY20A	FY21A	FY22F	FY23F	FY24F
per share data (VND)					
EPS	2,642	8,434	2,319	2,731	3,388
BPS	14,825	21,950	23,929	26,662	30,054
DPS	0	0	0	0	0
Growth (%)					
Sales growth	(1.8)	76.9	0.7	(14.7)	17.1
OP growth	98.5	157.6	(62.7)	13.7	23.3
NP growth	212.0	268.7	(67.2)	17.8	24.1
EPS growth	201.6	219.3	(72.5)	17.8	24.1
EBITDA growth	46.4	95.5	(50.5)	9.1	15.6
Profitability (%)					
OP margin	7.1	10.4	3.8	5.1	5.4
NP margin	4.2	8.7	2.8	3.9	4.2
EBITDA margin	11.6	12.8	6.3	8.0	7.9
ROA	6.6	19.2	5.2	6.2	7.6
ROE	19.1	48.8	11.1	10.9	12.0
Dividend yield	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
Stability					
Net debt (VND bn)	7,611	6,320	4,756	891	291
Int.-bearing debt/equity (%)	120.0	60.0	30.0	10.0	0.0
Valuation (X)					
PE	4.8	1.5	5.5	4.7	3.8
PB	0.9	0.6	0.5	0.5	0.4
EV/EBITDA	4.2	2.0	4.0	2.5	2.0

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