

28 Oct 2022

Nam Kim Steel (NKG)

3Q22 Much worse than expected

- 3Q22 results below KIS forecast
- High-cost inventories and weak global demand severely hit the company's performance
- Maintain HOLD rating

Facts: 3Q22 Performance was severely hit

NKG' revenue decreased significantly 41.3% yoy to VND4,424bn in 3Q22 driven mainly by the weak global demand. In which, the total export volume in 3Q22 dropped to 82,532 tonnes, -63.3% yoy, -52.4% qoq. The 3Q22 NPAT-MI posted a loss of VND418.6bn whilst the gross profit was negative. The main reasons could be

- Inventory provisioning - NKG made inventory provision of about VND190bn in 3Q22.
- High-cost inventory and lower global selling price amid the downward trend of HRC price and weak export demand.

9M22 Revenue was VND18,771bn, -3.2% yoy and the NPAT-MI was VND289.6bn, -83.6% yoy. The 9M22 results fulfil 77%/23% our Revenue/NPAT-MI forecasts.

Pros & cons: Weak demand concerns in 4Q22

Weak demand continues to be our main concern in 4Q22 due to the impact of global central banks' policies. Besides, the China property crisis will continue to create a downward pressure on global steel prices amid oversupply fear.

Action: Maintain HOLD rating

As the outlook for global steel demand is still dark, we maintain HOLD rating on NKG stock. As the global demand and the 3Q22 results dropped stronger than our expectation, the earnings 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 (Oct 28, pt)	1,027
Stock price (Oct 28, VND)	14,550
Market cap (USD mn)	154
Shares outstanding (mn)	263
52-Week high/low (VND)	43,760/14,550
6M avg. daily turnover (USD mn)	8.43
Free float / Foreign ownership (%)	64.9/8.6
Major shareholders (%)	
Ho Minh Quang	15.4
Vo Hoang Vu	12.5

Valuation

	2021A	2022F	2023F
PE (x)	1.4	3.1	2.9
PB (x)	0.6	0.6	0.5
ROE (%)	50.0	20.1	18.3
DY (%)	0.0	5.7	5.7
EV/EBITDA (x)	1.9	3.0	2.5
EPS (VND)	10,059	4,756	5,081
BPS (VND)	26,205	25,756	30,009

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. 3Q22 earnings

(VND bn, %, %p)

	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY	Consensus
Sales	7,531.0	8,780.0	7,151.4	7,196.0	4,424.0	(38.5)	(41.3)	N/A
OP	792.5	521.1	640.7	288.2	(428.4)	-	-	N/A
OP margin	10.5	5.9	9.0	4.0	(9.7)	(13.7)	(20.2)	N/A
EBT	706.0	513.5	590.7	239.6	(475.9)	-	-	N/A
NP	606.7	452.4	506.9	201.5	(418.6)	-	-	N/A

Source: Company data, KIS

■ Company overview

Founded in 2002, Nam Kim Steel is one of Vietnam's largest manufacturers of galvanized steel sheets and steel pipes for use in residential, industrial and civil construction.

Balance sheet

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets	4,492	12,216	12,422	12,074	12,662
Cash & cash equivalents	589	1,199	2,060	2,662	2,172
Accounts & other receivables	1,438	1,902	2,350	2,183	2,432
Inventory	2,371	8,281	7,575	6,801	7,488
Non-current assets	3,271	3,182	2,993	4,075	5,101
Fixed assets	3,127	2,771	2,536	3,591	4,586
Investment assets	82	184	184	184	184
Others	154	1,061	710	729	899
Total assets	7,763	15,398	15,415	16,149	17,763
Advances from customers	346	583	243	226	259
Unearned revenue	0	0	0	0	0
Trade payables	1,070	4,879	3,847	3,373	3,744
Others	164	393	403	413	423
ST debt & due bonds	2,520	3,773	4,073	4,073	4,073
LT debt & bonds	482	47	97	197	207
Total liabilities	4,582	9,675	8,663	8,282	8,706
Controlling interest	3,181	5,723	6,753	7,868	9,057
Capital stock	1,820	2,184	2,622	2,622	2,622
Capital surplus	766	786	786	786	786
Other reserves	97	117	119	120	121
Retained earnings	576	2,636	3,227	4,341	5,528
Minority interest	0	0	0	0	0
Shareholders' equity	3,181	5,723	6,753	7,868	9,057

Income statement

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	11,560	28,173	24,300	22,568	25,883
COGS	10,691	23,904	21,600	19,859	22,777
Gross profit	869	4,270	2,700	2,709	3,106
SG&A expenses	360	1,521	1,094	1,016	1,165
Operating profit	509	2,749	1,607	1,694	1,941
Financial income	89	199	170	158	181
Interest income	27	15	19	20	31
Financial expenses	281	398	340	316	362
Interest expenses	222	244	334	342	385
Other non-operating profit	4	11	7	7	8
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	321	2,562	1,444	1,542	1,768
Income taxes	26	337	189	202	354
Net profit	295	2,225	1,255	1,340	1,414
Net profit of controlling interest	295	2,225	1,255	1,340	1,414
EBITDA	886	3,128	1,991	2,138	2,446

Cash flow

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	16	(308)	860	2,201	1,188
Net profit	295	2,225	1,255	1,340	1,414
Dep'n & Amort'n	376	379	385	445	505
Net incr. in W/C	(655)	(2,912)	(780)	416	(731)
C/F from investing	346	(309)	(154)	(1,504)	(1,494)
Capex	(54)	(145)	(150)	(1,500)	(1,500)
Incr. in investment	400	(164)	(4)	(4)	6
C/F from financing	(218.2)	1,150.0	131.6	(118.4)	(208.4)
Incr. in equity	(78)	334	0	0	0
Incr. in debt	(67)	862	350	100	10
Dividends	0	0	(218)	(218)	(218)
C/F from others	0	(1)	0	0	0
Increase in cash	143	533	838	578	(514)

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	1,547	10,059	4,756	5,081	5,362
BPS	17,478	26,205	25,756	30,009	34,543
DPS	0	0	833	833	833
Growth (%)					
Sales growth	(5.1)	143.7	(13.7)	(7.1)	14.7
OP growth	709.7	439.8	(41.6)	5.4	14.6
NP growth	524.3	653.6	(43.6)	6.8	5.5
EPS growth	539.7	550.4	(52.7)	6.8	5.5
EBITDA growth	75.4	253.0	(36.3)	7.4	14.4
Profitability (%)					
OP margin	4.4	9.8	6.6	7.5	7.5
NP margin	2.6	7.9	5.2	5.9	5.5
EBITDA margin	7.7	11.1	8.2	9.5	9.5
ROA	3.7	19.2	8.1	8.5	8.3
ROE	9.5	50.0	20.1	18.3	16.7
Dividend yield	0.0	0.0	5.7	5.7	5.7
Dividend payout ratio	0.0	0.0	17.5	16.4	15.5
Stability					
Net debt (VND bn)	2,414	2,621	2,110	1,608	2,107
Net debt/equity (%)	80.0	50.0	30.0	20.0	20.0
Valuation (x)					
PE	9.4	1.4	3.1	2.9	2.7
PB	0.8	0.6	0.6	0.5	0.4
EV/EBITDA	5.7	1.9	3.0	2.5	2.4

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