

17 Nov 2022

# Hoa Phat (HPG)

## Oct 2022 – Weak sales volume

Vietnam Steel Association (VSA) released some worthy headlines on the Oct sales of the company. Here are some interesting highlights.

### Weak sales volume in Oct

- Total Oct steel sales volume posted 562,475 tonnes, decreasing by 28.8% yoy and 12.6% mom, which caused by weak domestic and global demand.
- Construction steel volume dropped significantly to 209,891 tonnes, -55.1% yoy -33.9% mom. In which, domestic and export sales volume decreased by 46.6% and 73.4% yoy, respectively.
- The coated steel sales volume (27,415 tonnes) went downward by 39.1% yoy, but increased by 23.1% mom while steel pipes sales volume (57,591 tonnes) decreased by 20.2% yoy, 24% mom.
- The steel coil sales volume (HRC) was 267,578 tonnes (+17.3% mom, +30.0% yoy).
- The total Oct domestic sales volume decreased by 21.5% yoy to 479,756 tonnes.

### The export led the 10M22 growth

- The 10M22 total finished-product sale volume climbed to 6,791,771 tonnes, +7.8% yoy thanks to the growth in construction steel of 9.9% yoy and steel pipes of 11.3% yoy.
- The total 10M22 export volume (1,224,099 tonnes) went up by 17.4% yoy while the local sales volume (5,567,672 tonnes) increased lower by 5.9% yoy.

### Rating and recommendation: Maintain HOLD

- The industry obstacles are not clearly fading and hence, we maintain the HOLD rating.

	2020A	2021A	2022F	2023F	2024F
Sales (VND bn)	90,119	149,680	179,232	171,671	203,104
chg. (% YoY)	41.6	66.1	19.7	(4.2)	18.3
Operating profit (VND bn)	17,123	37,664	37,589	35,943	40,455
Net profit (VND bn)	13,450	34,478	33,317	30,675	34,114
EPS (VND)	3,958	7,575	5,695	5,244	5,832
chg. (% YoY)	46.2	91.4	(24.8)	(7.9)	11.2
EBITDA (VND bn)	21,899	43,751	43,956	43,709	48,902
PE (x)	3.4	1.8	2.3	2.5	2.3
EV/EBITDA (x)	3.5	1.7	2.6	2.4	1.9
PB (x)	0.7	0.7	0.6	0.5	0.4
ROE (%)	25.2	46.0	31.8	23.2	21.3
Dividend yield (%)	3.2	2.9	5.8	5.8	5.8

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

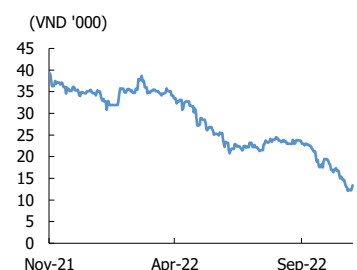
### Stock Data

VNIndex (16 Nov, pt)	943
Stock price (16 Nov, VND)	13,350
Market cap (USD mn)	3,131
Shares outstanding (mn)	5,815
52-Week high/low (VND)	38,901/12,100
6M avg. daily turnover (USD mn)	24.71
Free float / Foreign ownership (%)	54.3/18.8
Major shareholders (%)	
Tran Dinh Long	26.1

### Performance

	1M	6M	12M
Absolute (%)	(31.4)	(53.8)	(65.7)
Relative to VNIndex (%p)	(20.2)	(31.4)	(30.5)

### Stock price trend



Source: Bloomberg

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**Table 1. Sales volume growth**

(Tonnes)

	Monthly				Accumulated		
	Oct-21	Oct-22	MoM (%)	YoY (%)	10M21	10M22	YoY (%)
<b>Steel Pipes</b>	<b>72,194</b>	<b>57,591</b>	<b>(24.0)</b>	<b>(20.2)</b>	<b>570,110</b>	<b>634,654</b>	<b>11.3</b>
Export	2,491	889	(19.9)	(64.3)	27,077	17,920	(33.8)
Domestic	69,703	56,702	(24.1)	(18.7)	543,033	616,734	13.6
<b>Steel Coat</b>	<b>44,990</b>	<b>27,415</b>	<b>23.1</b>	<b>(39.1)</b>	<b>318,065</b>	<b>265,340</b>	<b>(16.6)</b>
Export	29,131	15,474	201.0	(46.9)	205,495	137,566	(33.1)
Domestic	15,859	11,941	(30.3)	(24.7)	112,570	127,774	13.5
<b>Constr' Steel</b>	<b>467,126</b>	<b>209,891</b>	<b>(33.9)</b>	<b>(55.1)</b>	<b>3,264,705</b>	<b>3,587,559</b>	<b>9.9</b>
Export	147,114	39,099	(23.3)	(73.4)	810,203	1,005,883	24.2
Domestic	320,012	170,792	(35.9)	(46.6)	2,454,502	2,581,676	5.2
<b>Steel Coil</b>	<b>205,805</b>	<b>267,578</b>	<b>17.3</b>	<b>30.0</b>	<b>2,146,943</b>	<b>2,304,218</b>	<b>7.3</b>
Export	0	27,257	N.A	N.A	0	62,730	N.A
Domestic	205,805	240,321	5.3	16.8	2,146,943	2,241,488	4.4
<b>Total Steel Volume</b>	<b>790,115</b>	<b>562,475</b>	<b>(12.6)</b>	<b>(28.8)</b>	<b>6,299,823</b>	<b>6,791,771</b>	<b>7.8</b>
Export	178,736	82,719	44.5	(53.7)	1,042,775	1,224,099	17.4
Domestic	611,379	479,756	(18.2)	(21.5)	5,257,048	5,567,672	5.9

Source: Company, VSA, KIS

**Table 2. Production volume growth**

(Tonnes)

	Monthly				Accumulated		
	Oct-21	Oct-22	MoM (%)	YoY (%)	10M21	10M22	YoY (%)
<b>Steel Pipes</b>							
Production	65,290	59,322	(18.7)	(9.1)	568,679	616,240	8.4
Inventories	0	0	N.a	n.a			
<b>Steel Coat</b>							
Production	53,015	28,415	(2.7)	(46.4)	356,825	282,742	(20.8)
Inventories	0	0	N.A	N.A			
<b>Constr' Steel</b>							
Production	390,609	228,900	(42.2)	(41.4)	3,358,800	3,788,395	12.8
Inventories	205,183	455,463	4.4	122.0			
<b>Steel Coil</b>							
Production	236,060	243,328	14.6	3.1	2,129,311	2,051,591	(3.7)
Inventories	91,638	166,252	(12.7)	81.4			
<b>Total</b>							
Production	744,974	559,965	(21.2)	(24.8)	6,413,615	6,738,968	5.1
Inventories (Const, Coil)	296,821	621,715	(0.8)	109.5			

Source: Company, VSA, KIS

**Company overview & Glossary**

Hoá 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
<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.	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

**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
<b>Gross profit</b>	<b>18,904</b>	<b>41,108</b>	<b>41,174</b>	<b>39,376</b>	<b>44,720</b>
SG&A expenses	1,781	3,444	3,585	3,434	4,265
<b>Operating profit</b>	<b>17,123</b>	<b>37,664</b>	<b>37,589</b>	<b>35,943</b>	<b>40,455</b>
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
<b>Earnings before tax</b>	<b>15,357</b>	<b>37,057</b>	<b>35,855</b>	<b>34,110</b>	<b>38,489</b>
Income taxes	1,851	2,536	2,438	3,343	4,272
<b>Net profit</b>	<b>13,506</b>	<b>34,521</b>	<b>33,417</b>	<b>30,767</b>	<b>34,217</b>
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.	2020A	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	3,958	7,575	5,695	5,244	5,832
BPS	17,873	20,296	20,561	25,057	30,142
DPS	428	381	769	769	769
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	(24.8)	(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	3.2	2.9	5.8	5.8	5.8
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	3.4	1.8	2.3	2.5	2.3
PB	0.7	0.7	0.6	0.5	0.4
EV/EBITDA	3.5	1.7	2.6	2.4	1.9

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