

Steel

Neutral (Maintain)

Worse than expected

Earnings collapsed in 3Q22

Based on our estimate, 3Q22 aggregated revenue of 24 listed steelmakers declined by 15.8% yoy, while 3Q22 aggregated NPATMI dropped sharply to negative territory. High input costs (coking coal, etc.) supposed to be the main reason for the significant decline in aggregated NPAT-MI growth along with lower selling prices and weak global sales volume. We also witnessed a collapse in aggregated gross margin (0.01% vs 11.4% in 2Q22). The GM changes ranged widely from -23.3%p qoq to 16.9%p qoq amid the unfavorable input and selling price trends. However, we expect to see the better margin in 4Q22 when the input prices cooled down significantly in last few months.

Export demand challenge was real

Based on GSO, export revenue growth in 3Q22 has dropped sharply (-61.3% yoy, USD1,531mn) while export volume continued to decline by 58.9% yoy (1.66mn tonnes). As expected, the significant drop in both revenue and volume growth caused by the combination of lower selling price, low global demand, and high base in 3Q21 amid high inflation and central banks' aggressive actions. We expect to see the trend to continue in 4Q22F when the global market starts to fully absorb the central bank's policies. The export volume is expected to drop significantly in 4Q22.

Domestic revival to be slow in 4Q22F

The total sales volume in 3Q22 was much worse-than-expected with the decline of 7.7% yoy to 5.5mn tonnes. The domestic sales volume increased by 12.1% yoy to 4.3 mn tonnes thanks to low base in 3Q21, however, decreased by 7.9% qoq. The slow revival was attributed to rainy season in Vietnam. As for 4Q22F, we believe that the weak domestic demand will continue given the recent issues in Vietnam bond and property markets along with Vietnam central bank policy. The domestic sales volume is expected to be lower compared to 4Q21.

Neutral on 2022F outlook

We maintain our Neutral rating on Vietnam's steel sector due to a lack of significant growth in sales volume, which might continue to bottleneck the market's business sales over the remaining months of 2022. Besides, the slower global economic growth and domestic issues related to bonds and property sector could further threaten the overall performance of the industry.

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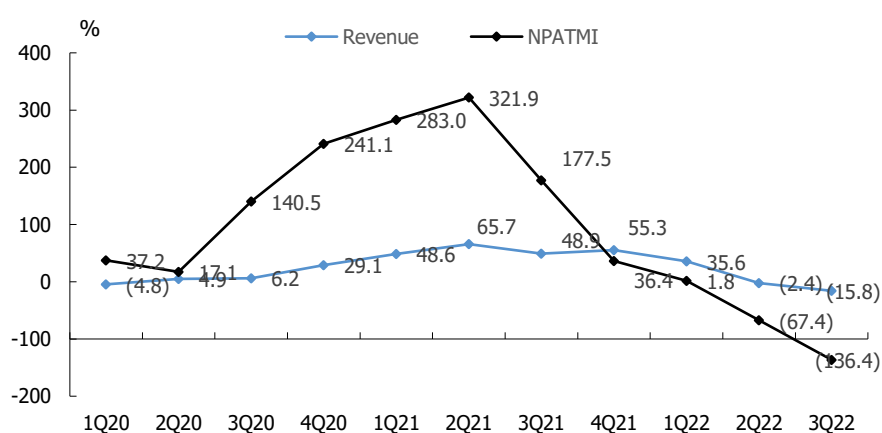
Table 1. Aggregated 24-company earnings

(VNDbn, %)

	3Q21	3Q22	QoQ	YoY
Revenue	89,848	75,619	(14.7)	(15.8)
NPAT-MI	12,430	(4,591)	-	-

Source: Fiinpro, KIS

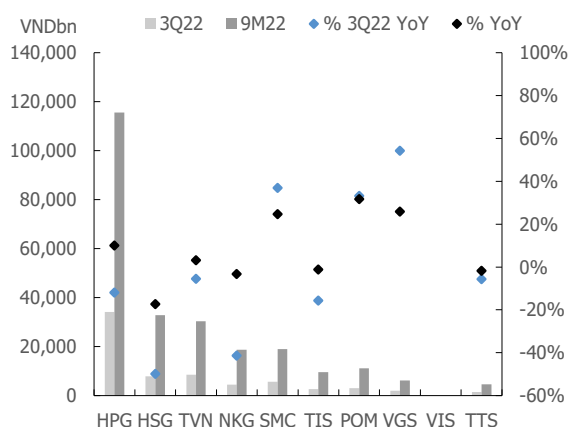
Based on our collection, 3Q22 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. NPAT-MI dropped significantly to negative territory in 3Q22 due to high input prices and lower selling prices. Besides, the revenue growth pace in 3Q22 also declined by 14.7% yoy caused by lower demand from domestic and international markets. However, we see the gross margin will improve in 4Q22 when the pressure from material costs have been relieved.

Figure 1. Net profit dropped into negative territory

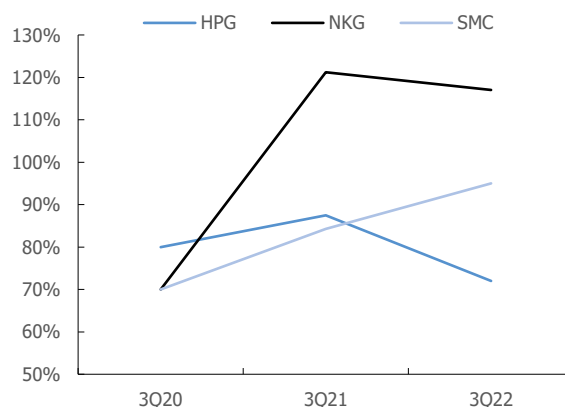
Source: VSA, Fiinpro

Topline growth stepped in negative territory in 3Q22

Breaking down aggregated revenue growth by a specific company, 6 out of top 9 industry players got negative growth. HPG, top the influence in the light of its dominant position, was with negative revenue growth of 11.8% yoy in 3Q22. NKG's revenue growth was at -41.2% yoy while HSG's one witnessed the decline of 49.7% yoy in 3Q22. Among the industry players, VGS outperformed the best with its highest 3Q22 revenue growth of 54.2% yoy. The companies fulfilled around 47-94% of their 2022F revenue targets.

Figure 2. VGS revenue growth beat the industry

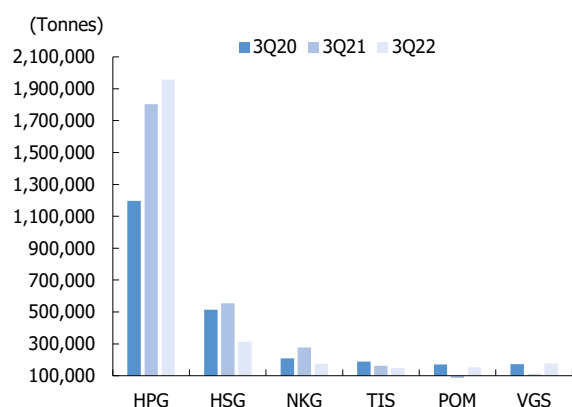
Source: Company data, Fiinpro

Figure 3. Most companies have lower revenue completion in 3Q22 vs 3Q21

Source: Company data, Fiinpro

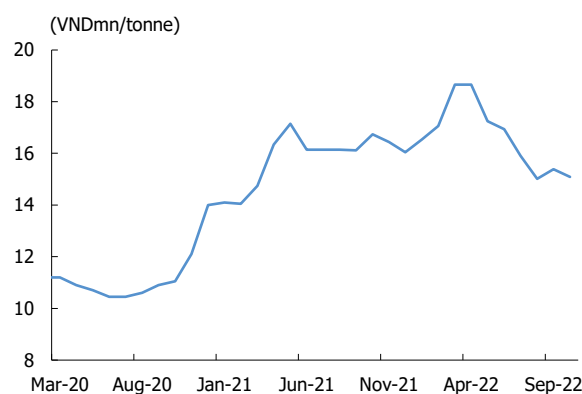
As [detailed in our Sept brief sector](#), Vietnam total consumption volume in 3Q22 declined 7.7% yoy to 5.6mn tonnes. Top producer HPG witnessed an increase of 8.5% yoy in sale volume growth to 1.9mn tonnes and accounted for the largest share of 34% of total Vietnam finished-steel sale volume in 3Q22. NKG generated a significant decline of 36.7% yoy in 3M22 sales volume growth. HSG produced a significant decline in sale volume growth of 43.5% yoy in 3Q22. The decline in average selling price (ASP) and sales volume were the main influence for sector performance. Based on the HPG's quoted steel bar prices, we witnessed a 12.3% yoy and a 4.3% qoq decline in 3Q22.

Figure 4. Sales volume declined in 3Q22



Source: Company data, Fiipro

Figure 5. Selling price continued to decline

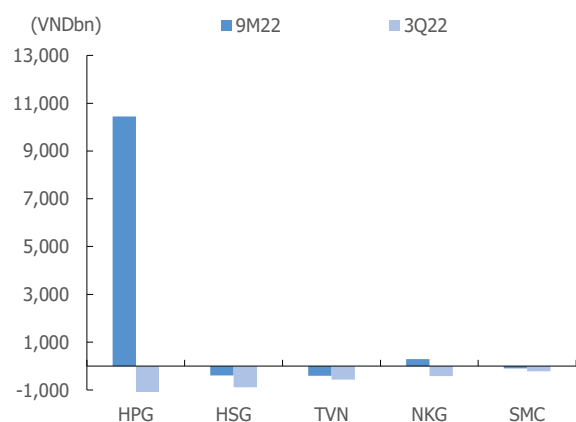


Source: HPG's steel bar price, Fiipro

Net margin collapsed in 3Q22

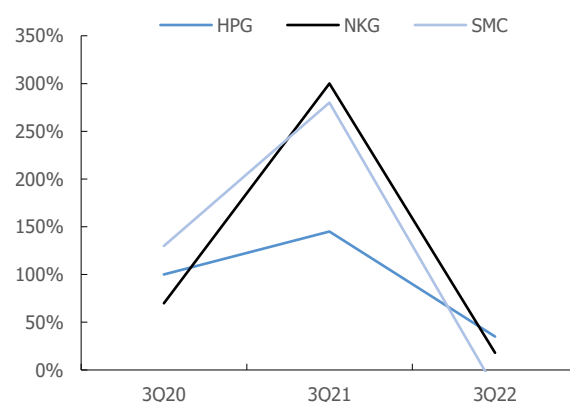
3Q22 witnessed most leading players earn negative net profit. Among the top 9 biggest revenue-generating steelmakers, TTS was the most outstanding player with an 263% yoy net profit growth in 3Q22 thanks to a low base in 3Q21. HPG, NKG and HSG all made a loss of VND1,785bn, VND418bn and VND886bn, respectively. Companies fulfilled around 9-135% of their 2022F net profit guidance.

Figure 6. The 3Q22 yoy net profit growth declined in most companies



Source: Company data, Fiipro

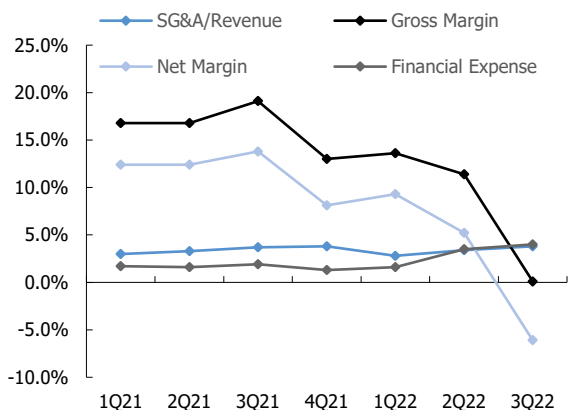
Figure 7. Their 3Q22 net profit completion was lower than 3Q21.



Source: Company data, Fiipro

We have seen a net-margin shrink in most steelmakers since 1Q22. The average net margin dropped from 5.2% in 2Q22 to negative territory in 3Q22. Breaking down into details, net margin collapse was caused mainly by the high input costs and high-cost inventories when half of companies had negative gross profit. Besides, companies made inventory provision and booked forex loss and increasing interest expense amid the combination of USD appreciation, increasing interest rate and downward trend of input/selling prices.

Figure 8. Net margin collapsed



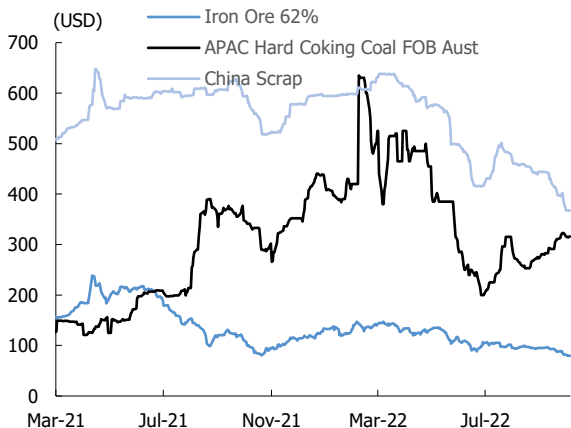
Source: Company data, Fiiipro

Figure 9. BDI is decreasing



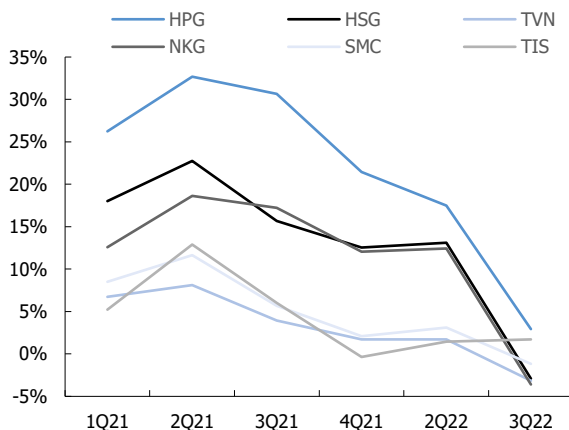
Source: Bloomberg

Figure 10. Material input prices were mixed



Source: Bloomberg

Figure 11. Gross margin also collapsed in 3Q22



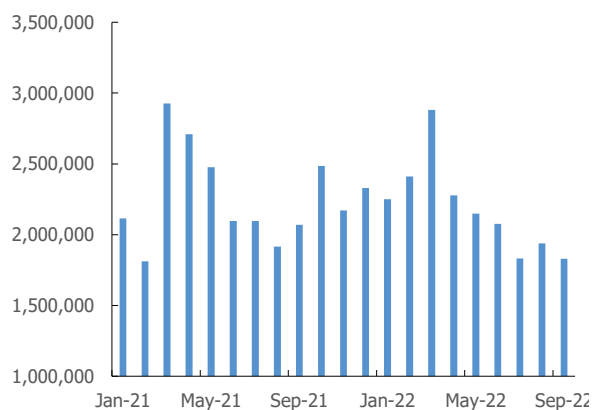
Source: Company data, Fiiipro

Slow domestic demand revival in 4Q22F

As the domestic and global demand has been severely hitting by high inflation and global central banks' interest-rate policies, we expect to continue to see the weak demand in 4Q22F. As results, we revise down our forecast for 2022 total consumption to 25mn tonnes (-7% yoy). As for domestic demand, we see the low demand in 4Q22F as bond and property industry issues and interest rate upward pressure for forex control purpose will hinder the consumption demand from end-use buyers.

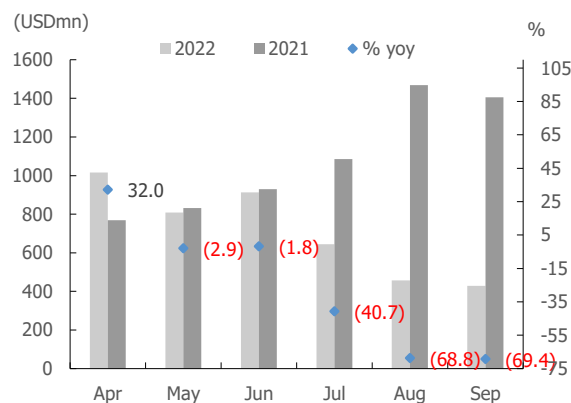
As mentioned above, we see the coking coal price will bounce back as temporary supply tightening caused by the weather and potential labor strike in Australia, however, the bounce back, in our opinion, will mainly affect in 1Q23F. The gross margin of 4Q22F is still expected to be improved thanks to lower coking coal price.

Figure 12. Vietnam sales volumes slumped in 3Q22



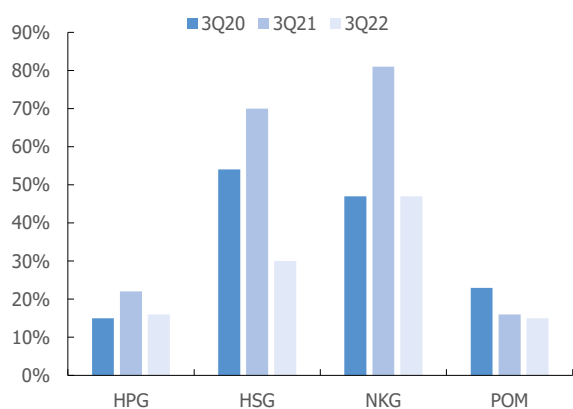
Source: VSA

Figure 13. The 3Q22 export turnover reached USD1.5bn



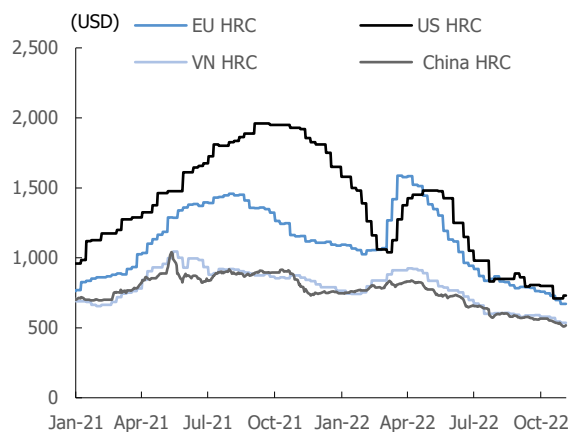
Source: GSO

Figure 14. % export out of total sale volume



Source: MOIT, GSO

Figure 15. HRC gaps have remained



Source: Bloomberg

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