

30 Jan 2023

## Hoa Phat Group (HPG)

### 4Q22 Worse than expected

- 4Q22 results below KIS forecast
- Maintain HOLD and earnings are under review

#### Facts: High input prices eroded profit

HPG' revenue decreased 42.2% yoy to VND25,825bn in 4Q22 driven mainly by steel segment. The 4Q22 NPAT-MI posted a loss of VND1,991bn. The 12M22 results fulfil 102%/80% our Revenue/NPAT-MI forecasts.

In 4Q22, the revenue growth was negatively affected by low average selling price and weak final-product sales volume (-14.9% qoq, -18.9% yoy). Gross margin was into negative territory, according to FS, mainly due to

- High-cost inventory - HPG had to shutdown BFs to clear those inventories.
- HPG made inventory provision of about VND343bn in 4Q22.

HPG booked a material forex net gain of around VND361bn on the back of USD depreciation over last few months of 2022. HPG also reduced USD dominated loans from USD1.3bn (end of 2Q22) to USD700mn at the end of 4Q22.

#### Pros & cons: Weak demand concerns in 2023F

Weak demand continues to be our main concern in 2023 due to global economic slow-down. Although we see some positive signals from China property crisis and Vietnam related bond issues, we still see a dark outlook for the industry in 2023-24F.

#### Action: Maintain HOLD

We maintain HOLD rating on HPG stock as we see the outlook for the industry is still dark.

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 (Jan 30, pt)	1,103
Stock price (Jan 30, VND)	21,750
Market cap (USD mn)	5,392
Shares outstanding (mn)	5,815
52-Week high/low (VND)	38,674/12,100
6M avg. daily turnover (USD mn)	25.17
Free float / Foreign ownership (%)	54.3/22.6
Major shareholders (%)	
Tran Dinh Long	26.1

#### Valuation

	2021A	2022F	2023F
PE (x)	2.9	12.0	9.6
PB (x)	1.1	1.2	1.1
ROE (%)	46.0	11.0	12.3
DY (%)	1.8	0.0	0.0
EV/EBITDA (x)	2.6	6.8	6.4
EPS (VND)	7,471	2,177	2,409
BPS (VND)	20,296	17,420	19,698

#### Performance

	1M	6M	12M
Absolute (%)	20.8	1.2	(31.9)
Relative to VNIndex (%p)	11.3	9.2	(7.5)

#### Stock price



Source: Bloomberg

#### Research Dept

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**Table 1. 3Q22 earnings**

(VND bn, %, %p)

	4Q21	1Q22	2Q22	3Q22	4Q22	QoQ	YoY	Consensus
Sales	44,710.7	44,058.1	37,422.1	34,103.3	25,825.7	(24.3)	(42.2)	N/A
OP	8,367.1	9,267.7	5,683.2	71.5	(1,944.1)	-	-	N/A
OP margin	18.7	21	15.2	0.2	(7.5)	(7.7)	-	N/A
EBT	8,038.4	8,922.1	4,379.3	(1,299.9)	(2,078.5)	-	-	N/A
NP	7,419.4	8,206.3	4,022.6	(1,785.7)	(1,998.7)	-	-	N/A

Source: Company data, KIS

### ■ Company overview

Hoa 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	89,506	65,614	69,105
Cash & cash equivalents	21,823	40,708	33,796	20,892	11,848
Accounts & other receivables	6,125	7,662	8,774	8,121	10,811
Inventory	26,287	42,135	43,500	33,760	42,917
Non-current assets	74,764	84,082	105,490	123,713	140,985
Fixed assets	65,562	69,281	69,914	85,628	102,341
Investment assets	6,983	10,573	30,583	32,593	32,603
Others	4,427	7,069	7,538	7,354	8,494
<b>Total assets</b>	<b>131,511</b>	<b>178,236</b>	<b>194,995</b>	<b>189,326</b>	<b>210,090</b>
Advances from customers	1,257	788	1,374	1,093	1,412
Unearned revenue	51	26	26	26	26
Trade payables	10,916	23,729	20,430	14,469	18,659
Others	5,926	5,700	5,857	5,986	6,143
ST debt & due bonds	36,799	43,748	52,748	39,748	40,748
LT debt & bonds	17,343	13,465	13,265	13,465	15,465
<b>Total liabilities</b>	<b>72,292</b>	<b>87,456</b>	<b>93,700</b>	<b>74,787</b>	<b>82,453</b>
Controlling interest	59,071	90,625	101,167	114,371	127,416
Capital stock	33,133	44,729	58,148	58,148	58,148
Capital surplus	3,212	3,212	3,212	3,212	3,212
Other reserves	934	922	932	946	963
Retained earnings	21,792	41,763	38,875	52,066	65,093
Minority interest	149	155	128	168	221
Shareholders' equity	59,220	90,780	101,295	114,539	127,637

**Income statement**

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Sales	90,119	149,680	137,438	109,274	141,177
COGS	71,215	108,571	117,201	88,017	113,511
Gross profit	18,904	41,108	20,237	21,257	27,666
SG&A expenses	1,781	3,444	3,408	3,606	3,671
Operating profit	17,123	37,664	16,828	17,651	23,995
Operating profit (Adj.)	17,123	37,664	16,828	17,651	23,995
Financial income	1,005	3,071	2,818	2,186	988
Interest income	519	1,194	657	613	306
Financial expenses	2,837	3,732	7,628	4,917	4,941
Interest expenses	2,192	2,526	3,961	3,459	3,092
Other non-operating profit	65	48	83	66	42
Gains (Losses) in associates, subsidiaries and JV	2	5	5	5	5
Earnings before tax	15,357	37,057	12,105	14,989	20,089
Income taxes	1,851	2,536	1,537	1,679	2,431
Net profit	13,506	34,521	10,568	13,310	17,659
Net profit (Adj.)	13,114	33,418	12,656	14,009	17,216
Net profit of controlling interest	13,450	34,478	10,594	13,271	17,606
Exceptional items					
FX Gain/(Loss)	-	-	1,725	817	(284)
Other adjustment	-	(466)	400	-	-
<b>EBITDA</b>	<b>21,899</b>	<b>43,751</b>	<b>23,195</b>	<b>24,938</b>	<b>32,282</b>

**Cash flow**

(VND bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operations	11,587	27,466	10,642	24,293	17,133
Net profit	13,506	34,521	10,568	13,310	17,659
Dep'n & Amort'n	4,776	6,087	6,367	7,287	8,287
Net incr. in W/C	(6,695)	(13,142)	(6,293)	3,696	(8,813)
C/F from investing	(18,495)	(20,404)	(30,001)	(17,832)	(17,044)
Capex	(11,916)	(12,116)	(27,010)	(25,010)	(25,010)
Incr. in investment	(6,579)	(8,288)	(2,991)	7,178	7,966
C/F from financing	16,053.7	1,729.4	8,800.0	(12,800.0)	(1,472.9)
Incr. in equity	3	11	0	0	0
Incr. in debt	17,471	3,423	8,800	(12,800)	3,000
Dividends	(1,420)	(1,704)	0	0	(4,473)
C/F from others	6	(16)	0	0	0
<b>Increase in cash</b>	<b>9,146</b>	<b>8,792</b>	<b>(10,559)</b>	<b>(6,339)</b>	<b>(1,385)</b>

**Key financial data**

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Per-share data (VND, adj.)					
EPS	3,958	7,471	2,177	2,409	2,961
BPS	17,873	20,296	17,420	19,698	21,950
DPS	428	381	0	0	769
Growth (%)					
Sales growth	41.6	66.1	(8.2)	(20.5)	29.2
OP growth	75.7	120.0	(55.3)	4.9	35.9
NP growth (Adj.)	75.4	154.8	(62.1)	10.7	22.9
EPS growth (Adj.)	46.2	88.8	(70.9)	10.7	22.9
EBITDA growth	77.5	99.8	(47.0)	7.5	29.4
Profitability (%)					
OP margin	19.0	25.2	12.2	16.2	17.0
NP margin (Adj.)	14.6	22.3	9.2	12.8	12.2
EBITDA margin	24.3	29.2	16.9	22.8	22.9
ROA	11.6	22.3	5.7	6.9	8.8
ROE	25.2	46.0	11.0	12.3	14.6
Dividend yield	2.0	1.8	0.0	0.0	3.5
Dividend payout ratio	10.8	5.0	0.0	0.0	25.6
Stability					
Net debt (VND bn)	32,319	16,505	32,216	32,321	44,364
Net debt/equity (%)	50.0	20.0	30.0	30.0	30.0
Valuation (x)					
PE	5.5	2.9	12.0	9.6	7.2
PB	1.2	1.1	1.2	1.1	1.0
EV/EBITDA	4.8	2.6	6.8	6.4	5.3

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