

30 Jan 2023

Hoa Sen Group (HSG)

1QFY23 Performance continued to be hit

- 1QFY23 results below KIS forecast
- High-cost inventories and weak global demand severely hit the company's performance
- Maintain HOLD and earnings are under review

Facts: 1QFY23 Performance continued to be hit

HSG' revenue decreased significantly 53.2% yoy to VND7,917bn in 1QFY23 driven mainly by the weak global demand. In which, the total export volume in 1QFY23 dropped to 138,923 tonnes, -60.6% yoy, +47.0% qoq. The 1QFY23 NPAT-MI posted a loss of VND680.2bn. The main reasons could be

- Inventory provisioning - HSG made inventory provision of about VND63.6bn in 1QFY23.
- High-cost inventory and lower global selling price amid the downward trend of HRC price and weak export demand.

Pros & cons: Weak demand concerns in 2023

Like peers, weak demand continues to be our main concern in 2023 due to the impact of global economic slow-down. Although there were some positive signals from the China property and China re-open, global weak demand is still our main concern.

Action: Maintain HOLD rating

We maintain HOLD rating on HSG stock as we see the outlook for the industry is still darks. The earnings are under review.

| | | |
|-------|---------|-------|
| Below | In line | Above |
|-------|---------|-------|

vs. KIS forecast

12M rating **HOLD (Maintain)**

12M TP *from N/A*

Up/Downside

Stock data

| | |
|------------------------------------|--------------|
| VNIndex (Jan 27, pt) | 1,117 |
| Stock price (Jan 27, VND) | 14,950 |
| Market cap (USD mn) | 381 |
| Shares outstanding (mn) | 598 |
| 52-Week high/low (VND) | 35,375/7,350 |
| 6M avg. daily turnover (USD mn) | 7.75 |
| Free float / Foreign ownership (%) | 74.6/8.4 |
| Major shareholders (%) | |
| Le Phuoc Vu | 16.7 |

Valuation

| | FY23F | FY24F | FY25F |
|---------------|--------|--------|--------|
| PE (x) | 21.9 | 10.6 | 8.1 |
| PB (x) | 0.8 | 0.7 | 0.7 |
| ROE (%) | 3.7 | 7.2 | 8.8 |
| DY (%) | 0.0 | 0.0 | 0.0 |
| EV/EBITDA (x) | 5.5 | 4.0 | 3.3 |
| EPS (VND) | 683 | 1,410 | 1,846 |
| BPS (VND) | 18,880 | 20,291 | 22,138 |

Performance

| | 1M | 6M | 12M |
|--------------------------|------|------|--------|
| Absolute (%) | 27.2 | 5.8 | (40.9) |
| Relative to VNIndex (%p) | 16.0 | 12.7 | (17.5) |

Stock price



Source: Bloomberg

Research Dept

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Table 1. 4QFYQ22 earnings

(VND bn, %, %p)

| | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY22 | QoQ | YoY | Consensus |
|-----------|----------|----------|----------|---------|---------|-------|--------|-----------|
| Sales | 16,933.6 | 12,661.1 | 12,177.2 | 7,939.1 | 7,917.4 | (0.3) | (53.2) | NA |
| OP | 762.4 | 334.1 | 464.7 | (996.4) | (607.9) | - | - | NA |
| OP margin | 4.5 | 2.6 | 3.8 | (12.6) | (7.7) | - | (12.2) | NA |
| EBT | 749.9 | 291.0 | 313.0 | (997.3) | (667.3) | - | - | NA |
| NP | 638.3 | 234.1 | 265.0 | (886.9) | (680.2) | - | - | NA |

Source: Company data, KIS

■ Company overview

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. | FY21A | FY22A | FY23F | FY24F | FY25F |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| Current assets | 18,658 | 9,828 | 9,259 | 12,929 | 14,711 |
| Cash & cash equivalents | 516 | 339 | 2,001 | 4,399 | 4,882 |
| Accounts & other receivables | 4,535 | 1,460 | 1,484 | 1,989 | 2,296 |
| Inventory | 12,356 | 7,374 | 4,711 | 5,333 | 6,138 |
| Non-current assets | 7,963 | 7,196 | 6,451 | 5,787 | 5,319 |
| Fixed assets | 6,662 | 5,959 | 5,087 | 4,251 | 3,545 |
| Investment assets | 682 | 621 | 621 | 621 | 621 |
| Others | 1,689 | 1,110 | 1,563 | 1,759 | 2,000 |
| Total assets | 26,620 | 17,024 | 15,710 | 18,716 | 20,030 |
| Advances from customers | 268 | 208 | 193 | 220 | 254 |
| Unearned revenue | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 4,294 | 1,040 | 942 | 1,067 | 1,228 |
| Others | 4,390 | 705 | 711 | 722 | 736 |
| ST debt & due bonds | 5,437 | 4,071 | 2,571 | 4,571 | 4,571 |
| LT debt & bonds | 1,399 | 117 | 0 | 0 | 0 |
| Total liabilities | 15,788 | 6,141 | 4,417 | 6,580 | 6,789 |
| Controlling interest | 10,815 | 10,867 | 11,276 | 12,120 | 13,225 |
| Capital stock | 4,935 | 5,981 | 5,981 | 5,981 | 5,981 |
| Capital surplus | 157 | 157 | 157 | 157 | 157 |
| Other reserves | 91 | 188 | 188 | 189 | 190 |
| Retained earnings | 5,633 | 4,542 | 4,950 | 5,793 | 6,897 |
| Minority interest | 17 | 16 | 16 | 16 | 16 |
| Shareholders' equity | 10,832 | 10,883 | 11,292 | 12,136 | 13,241 |

Income statement

(VND bn)

| FY-ending Sep. | FY21A | FY22A | FY23F | FY24F | FY25F |
|---|--------------|--------------|--------------|--------------|--------------|
| Sales | 48,727 | 49,711 | 32,198 | 36,621 | 42,277 |
| COGS | 39,910 | 44,794 | 28,659 | 32,441 | 37,337 |
| Gross profit | 8,817 | 4,918 | 3,539 | 4,180 | 4,940 |
| SG&A expenses | 3,770 | 4,353 | 2,994 | 3,113 | 3,551 |
| Operating profit | 5,047 | 565 | 545 | 1,067 | 1,389 |
| Financial income | 367 | 373 | 386 | 440 | 507 |
| Interest income | 0 | 1 | 1 | 2 | 4 |
| Financial expenses | 554 | 627 | 451 | 513 | 592 |
| Interest expenses | 355 | 260 | 154 | 274 | 274 |
| Other non-operating profit | (2) | 46 | 3 | 4 | 4 |
| Gains (Losses) in associates, subsidiaries and JV | 0 | 0 | 0 | 0 | 0 |
| Earnings before tax | 4,858 | 357 | 483 | 998 | 1,308 |
| Income taxes | 609 | 106 | 73 | 150 | 198 |
| Net profit | 4,249 | 250 | 411 | 848 | 1,111 |
| Net profit of controlling interest | 4,249 | 250 | 411 | 848 | 1,111 |
| EBITDA | 6,044 | 1,519 | 1,717 | 2,253 | 2,595 |

Cash flow

(VND bn)

| FY-ending Sep. | FY21A | FY22A | FY23F | FY24F | FY25F |
|-------------------------|--------------|--------------|--------------|--------------|------------|
| C/F from operations | 1,338 | 2,844 | 3,578 | 746 | 979 |
| Net profit | 4,249 | 250 | 411 | 848 | 1,111 |
| Dep'n & Amort'n | 1,186 | 1,160 | 1,172 | 1,186 | 1,206 |
| Net incr. in W/C | (4,097) | 1,434 | 1,995 | (1,288) | (1,338) |
| C/F from investing | (130) | (408) | (308) | (365) | (531) |
| Capex | (319) | (454) | (300) | (350) | (500) |
| Incr. in investment | 189 | 46 | (8) | (15) | (31) |
| C/F from financing | (1,313.0) | (2,650.7) | (1,616.5) | 2,000.0 | 0.0 |
| Incr. in equity | 39 | 49 | 0 | 0 | 0 |
| Incr. in debt | (1,291) | (2,699) | (1,617) | 2,000 | 0 |
| Dividends | 0 | 0 | 0 | 0 | 0 |
| C/F from others | 23 | 52 | 0 | 0 | 0 |
| Increase in cash | (105) | (215) | 1,654 | 2,380 | 449 |

Key financial data

| FY-ending Sep. | FY21A | FY22A | FY23F | FY24F | FY25F |
|----------------------------|--------|--------|---------|--------|--------|
| Per-share data (VND, adj.) | | | | | |
| EPS | 8,434 | 37 | 683 | 1,410 | 1,846 |
| BPS | 21,950 | 18,197 | 18,880 | 20,291 | 22,138 |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Growth (%) | | | | | |
| Sales growth | 76.9 | 2.0 | (35.2) | 13.7 | 15.4 |
| OP growth | 157.6 | (88.8) | (3.5) | 96.0 | 30.1 |
| NP growth | 268.7 | (94.1) | 64.1 | 106.4 | 31.0 |
| EPS growth | 219.3 | (99.6) | 1,765.6 | 106.4 | 31.0 |
| EBITDA growth | 95.5 | (72.3) | (0.4) | 31.2 | 15.2 |
| Profitability (%) | | | | | |
| OP margin | 10.4 | 1.1 | 1.7 | 2.9 | 3.3 |
| NP margin | 8.7 | 0.5 | 1.3 | 2.3 | 2.6 |
| EBITDA margin | 12.8 | 3.5 | 5.3 | 6.2 | 6.1 |
| ROA | 19.2 | 1.1 | 2.5 | 4.9 | 5.7 |
| ROE | 48.8 | 2.3 | 3.7 | 7.2 | 8.8 |
| 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) | 6,320 | 3,848 | 570 | 172 | (312) |
| Net debt/equity (%) | 60.0 | 40.0 | 10.0 | 0.0 | 0.0 |
| Valuation (x) | | | | | |
| PE | 1.8 | 408.5 | 21.9 | 10.6 | 8.1 |
| PB | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 |
| EV/EBITDA | 2.2 | 7.4 | 5.5 | 4.0 | 3.3 |

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