

6 Feb 2023

Steel

Worse came to worst?

Earnings significantly collapsed in 4Q22

Based on our estimate, 4Q22 aggregated revenue of 24 listed steelmakers declined by 40% yoy, while 4Q22 aggregated NPATMI dropped sharply to negative territory. High-cost inventories supposed to be the main reason for the significant decline in aggregated NPAT-MI growth along with low selling prices and weak global sales volume. In contrast to our expectation in previous report, we witnessed a collapse in aggregated gross margin (into negative territory in 4Q22), which mainly caused by the GM collapse of HPG. In 1Q23F, we expect to see positive gross margin from many industry players.

Export demand challenge expected to continue in 2023F

Based on GSO, export revenue growth in 4Q22 has dropped sharply (-52.7% yoy, USD1,586mn) while export volume continued to decline by 43.0% yoy (1.845mn tonnes). As expected, the significant drop in both revenue and volume growth caused by the combination of low selling price, low global demand, and high base in 4Q21 despite a petit improvement over quarter basis. We expect to see export channel continues to suffer a challenging time in 1Q23F and 2023F when the global economy is expected to slow down. The export volume is expected to drop in 1Q23F.

Domestic revival to be slow in 1Q23F

The total sales volume in 4Q22 was much in line with our expectation - the decline of 26.7% yoy to 5.5mn tonnes, bringing 2022 total consumption to 25.1mn tonnes (-7.3% yoy). The domestic sales volume decreased by 16.5% yoy to 4.13mn tonnes as recent issues related to real estate market. As for 1Q23F, we believe that the weak domestic demand will continue given the low season in Vietnam (Tet holiday). The domestic sales volume is expected to be down by 11% yoy while the total sales volume is forecasted to decrease by 22% yoy.

Neutral on 2023F 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 2023F. Besides, the slower global economic growth and domestic issues related to bonds and property sector could further threaten the overall performance of the industry. From our perspective, weak demand is still our main concern in 2023F.

Neutral (Maintain)

Company	Rating	TP (VND)
Hoa Phat Group	HOLD	NA
Nam Kim Steel	HOLD	NA
Hoa Sen Group	HOLD	NA

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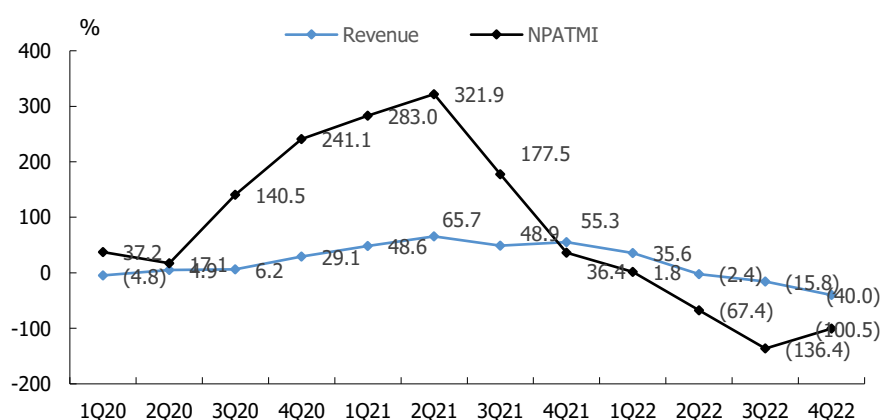
Table 1. Aggregated 24-company earnings

(VNDbn, %)

	4Q21	4Q22	QoQ	YoY
Revenue	106,576	63,962	(15.4)	(40.0)
NPAT-MI	12,430	(4,591)	-	-

Source: Fiinpro, KIS

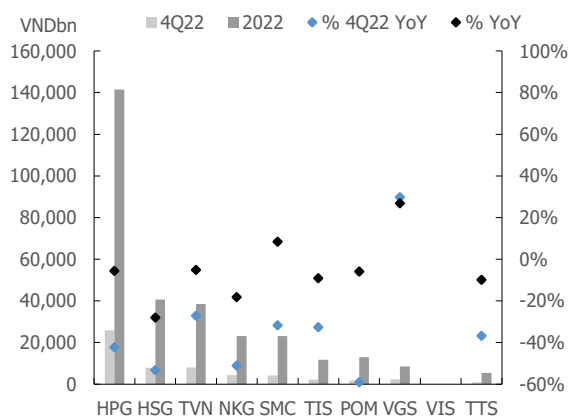
Based on our collection, 4Q22 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. NPAT-MI was continuously in negative territory in 4Q22 due to high-cost inventories and low selling prices. Besides, the revenue growth pace in 4Q22 also declined by 40.0% yoy caused by lower demand from domestic and international markets. We see the gross margin will improve in 1Q23F when the pressure from high-cost inventories have been away. Gross margins are expected to turn into positive thanks to recent price hikes and lower-cost materials input.

Figure 1. Net profit dropped into negative territory

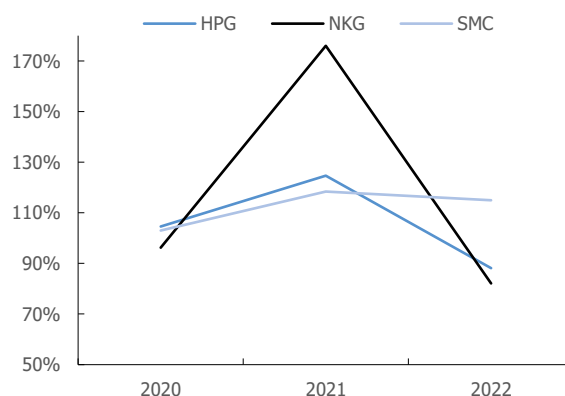
Source: VSA, Fiinpro

Topline growth was deep down in negative territory in 4Q22

Breaking down aggregated revenue growth by a specific company, 8 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 42.2% yoy in 4Q22. NKG's revenue growth was at -51.0% yoy while HSG's one witnessed the decline of 53.2% yoy in 4Q22. Among the industry players, VGS outperformed the best with its highest 4Q22 revenue growth of 29.7% yoy. The companies fulfilled around 47-94% of their 2022F revenue targets.

Figure 2. VGS revenue growth beats the industry

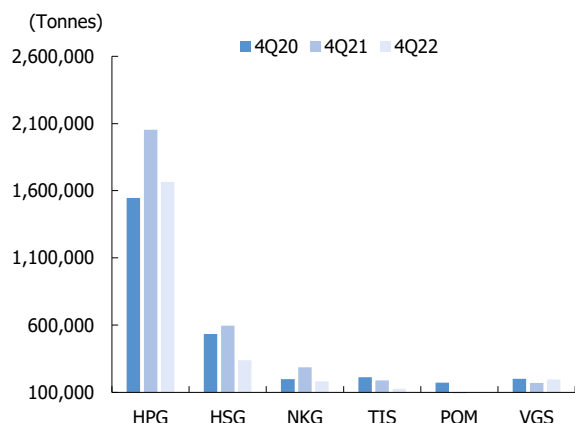
Source: Company data, Fiinpro

Figure 3. Most companies have lower revenue completion in 2022 vs 2021

Source: Company data, Fiinpro

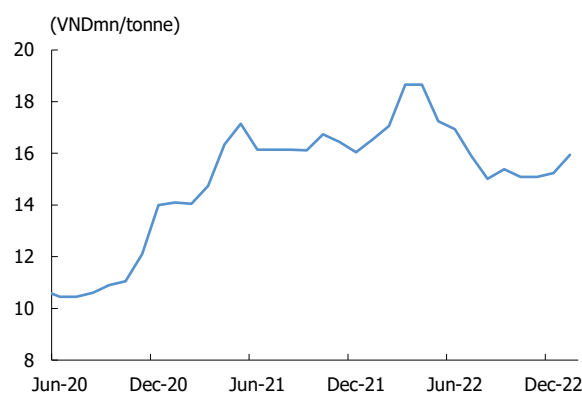
As [detailed in our Dec brief sector](#), Vietnam total consumption volume in 4Q22 declined 26.7% yoy to 5.5mn tonnes. Top producer HPG witnessed an decrease of 18.9% yoy in sale volume growth to 1.66mn tonnes and accounted for the largest share of 30% of total Vietnam finished-steel sale volume in 4Q22. NKG generated a significant decline of 36.1% yoy in 4Q22 sales volume growth. HSG produced a significant decline in sale volume growth of 43.0% yoy in 4Q22. The flat in average selling price (ASP) and the decline in sales volume were the main influence for sector performance. Based on the HPG's quoted steel bar prices, we witnessed a 7.7% yoy and a 1.9% qoq decline in 4Q22.

Figure 4. Sales volume declined in 4Q22



Source: Company data, Fiinpro

Figure 5. Selling price was flat in 4Q22

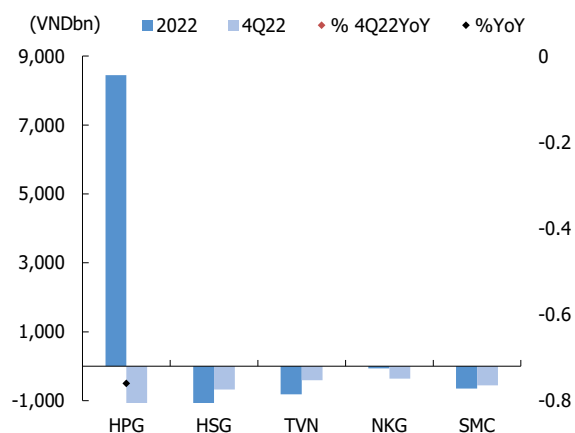


Source: HPG's steel bar price, Fiinpro

Net margin collapsed in 4Q22

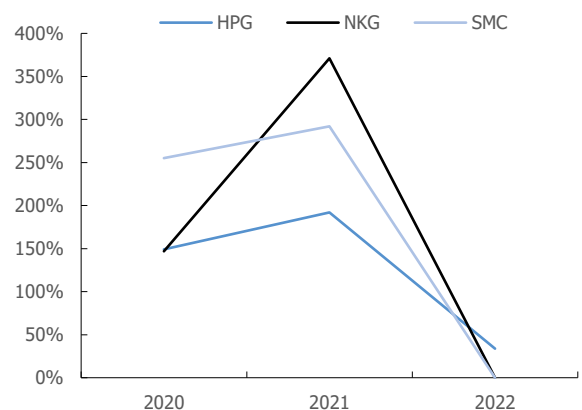
4Q22 witnessed most leading players posted a loss in net profit. Among the top 9 biggest revenue-generating steelmakers, VGS was the most outstanding player with an 31.6% yoy net profit growth in 4Q22 thanks to a low base in 4Q21. HPG, NKG and HSG all made a loss of VND1,998bn, VND356bn and VND680bn, respectively. Companies fulfilled around 0-93% of their 2022F net profit guidance.

Figure 6. Most companies made a loss in 4Q22



Source: Company data, Fiinpro

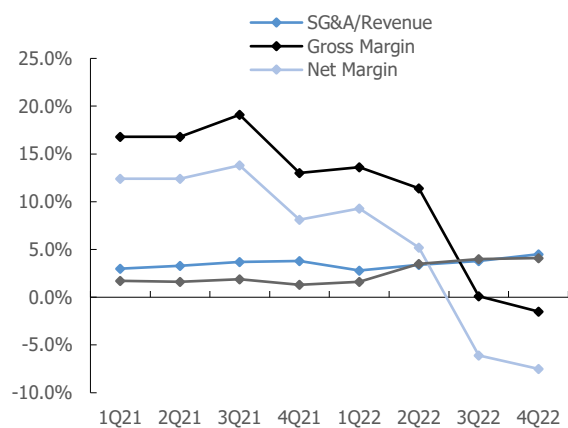
Figure 7. And they posted a loss in 2022



Source: Company data, Fiinpro

We had seen a net-margin shrink in most steelmakers since 1Q22 and aggregated net margin has dropped into negative territory since 3Q22. Breaking down into details, net margin collapse was caused mainly by slow-moving high-cost inventories when half of companies had negative gross profit.

Figure 8. Net margin collapsed



Source: Company data, Fiinpro

Figure 9. BDI is decreasing



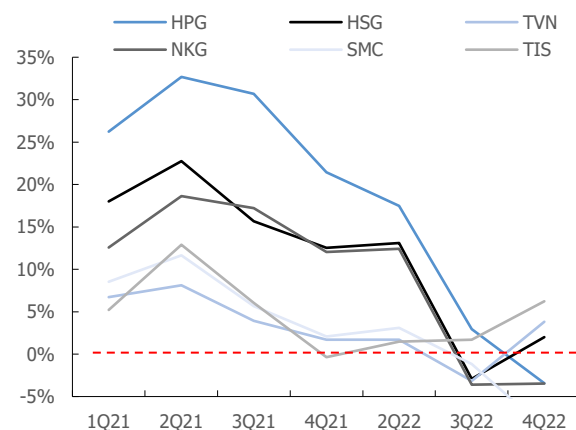
Source: Bloomberg

Figure 10. Material input prices were up



Source: Bloomberg

Figure 11. Gross margin also collapsed in 4Q22



Source: Company data, Fiinpro

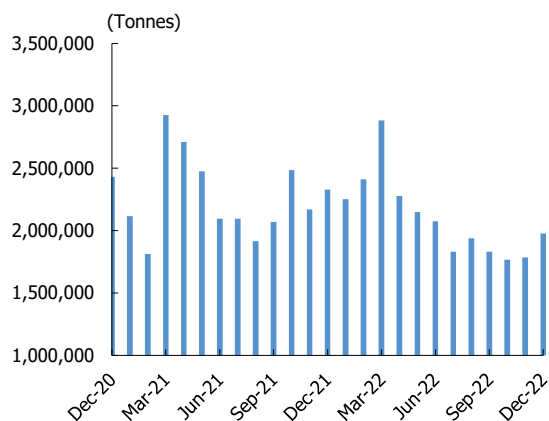
Slow domestic demand revival in 1Q23F

As global economy has been slow down and domestic issues related to bond and real estate markets, we expect to continue to see the weak demand in 1Q23F as low season but q-o-q improvement. We expect the total finished-product sales volume dropped 22.0% yoy to 6.0mn tonnes in 1Q23F as high base in 1Q22 but increased by 6% qoq thanks to the recent price hikes that would motivate agents re-stock their inventories. The recent issues related to domestic bond market and real estate market along with economy slow-down outlook may hinder the revival of domestic consumption.

As for input materials, we see the input price has bounced back on the hope of the return of the consumers in China and the weather impact (Iron ore production in Brazil and Coking coal in Australia). Of which, the iron-ore supply from top producers in 2023F is forecasted to be flat. As for the coking coal, China just lifted partially the unofficial ban on Australian coal import, thereby, this along with weather impact may drive up prices in near term. However, we

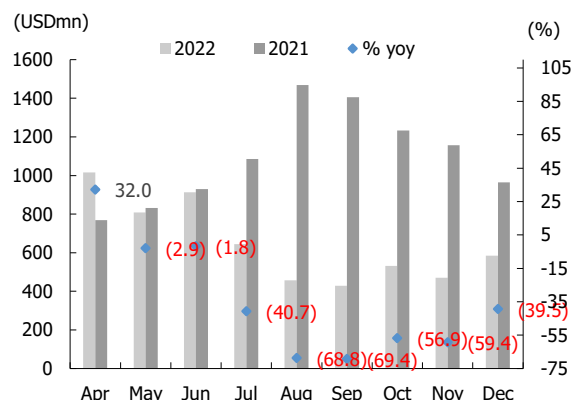
do not see the price will be back to 2022 level when the situation is entirely different with many restrain factors (logistic, supply shortage etc.) were relieved. The weak global demand can be the factor that drive down the input prices in 2023F but China property market should be carefully eyed on when the positive sentiment may also lead prices higher. However, to reach sustainably high prices, we would need to see widespread property support and recovery. Therefore, weak demand is still our main concern in 2023F.

Figure 12. Vietnam sales volumes slumped in 4Q22



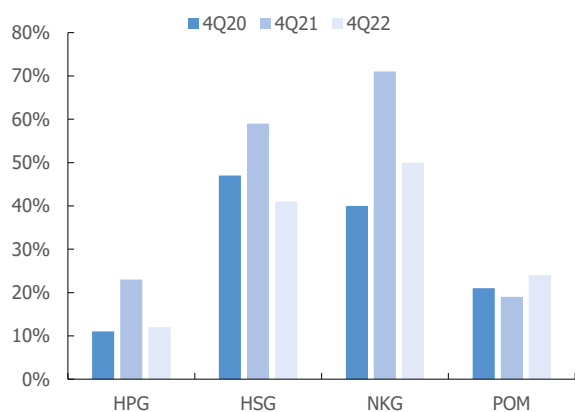
Source: VSA

Figure 13. The 4Q22 export turnover reached USD1.58bn



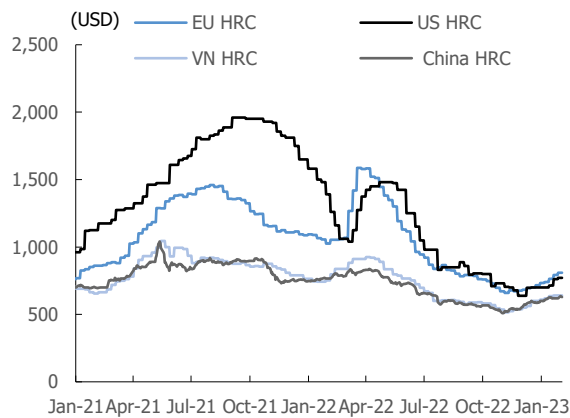
Source: GSO

Figure 14. % export out of total sale volume



Source: MOIT, GSO

Figure 15. HRC gaps have remained



Source: Bloomberg,

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- Hold: Expected total return will be between -5%p and 15%p
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