

2 Aug 2023

Cement

Still challenging

Earnings were back to positive in 2Q23

Based on our estimate, 2Q23 aggregated revenue of 14 listed cement producers declined by 16.7% yoy, while 2Q23 aggregated NPAT was back to positive of VND58.9bn (-78.5% yoy). The lower cost of input material was the main driver for the NPAT improvement in 2Q23. Earnings results varied among companies depending on their main markets, its input prices whilst companies have been under the impact of intense competition and weak market demand. Companies completed annual guidance at low level, especially profit's one, despite that companies already set the cautious profit guidance for 2023F.

Weak demand in 3Q23F

We expect to continue to see the weak demand in 3Q23F as the rainy season. We forecast the total sales volume will be 23.8mn tonnes (+8% yoy, -0.0% qoq) in 3Q23. As for export, we continue to see the weak demand in China – the biggest export market for Vietnam producers, therefore, we forecast the export turnover will flat in 3Q23 despite the fact that exporters are trying to exploring new markets. We also see no significant up-side surprise in 3Q23 for global thermal coal prices, therefore, we expect to see the improving margins in 3Q23 for the cement industry.

Neutral on 2023F outlook

We maintain our Neutral rating on Vietnam's cement sector due to a lack of significant growth in sales volume. Besides, the slower global economic growth and domestic issues related to bonds and property sector could further threaten the overall performance of the industry.

Neutral (Maintain)

Company	Rating	TP (VND)
HT1	HOLD	NA
BCC	HOLD	NA

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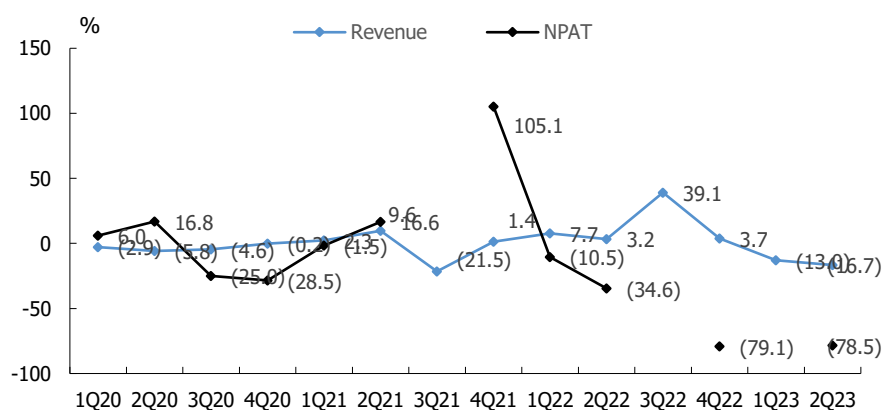
Table 1. Aggregated 14-company earnings

(VNDbn, %)

	2Q22	2Q23	QoQ	YoY
Revenue	6,611	5,509	10.1	(16.7)
NPAT	273.7	58.9	-	(78.5)

Source: Fiinpro, KIS

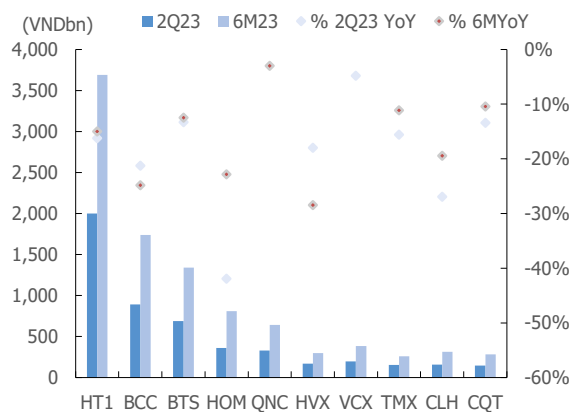
Based on our collection, 2Q23 aggregate earnings momentum of 14 listed steel companies on three bourses decelerated. The revenue growth pace in 2Q23 also declined by 16.7% yoy caused by weak demand from domestic and export markets. We see the aggregated net profit was back to positive, however, almost half of reported companies still made a loss in 2Q23. The lower cost of input materials (thermal coal) was the main driver for the improvement of NPAT in 2Q23.

Figure 1. Net profit fell into negative territory

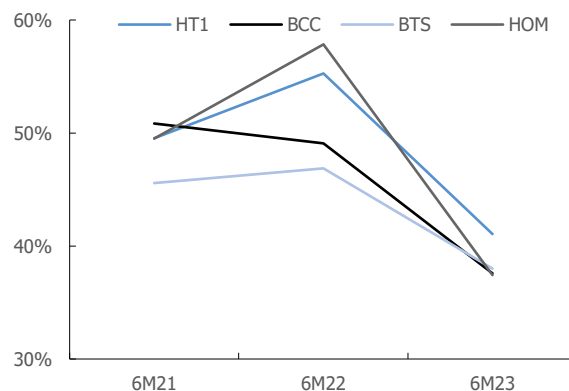
Source: VSA, Fiinpro

Topline growth was in negative territory in 2Q23

Breaking down aggregated revenue growth by a specific company, 11 out of 14 industry players got negative growth, which caused by weak demand. HT1, top one revenue, was with negative revenue growth of 16.2% yoy in 2Q23. BCC's revenue growth was at -21.2% yoy while BTS's one witnessed the decline of 13.3% yoy in 1Q23. Among the industry players, SCJ outperformed the best with its highest 2Q23 revenue growth of 49.8% yoy. The companies fulfilled around 37-54% of their 2023F revenue targets.

Figure 2. SCJ revenue growth beats the industry

Source: Company data, Fiinpro

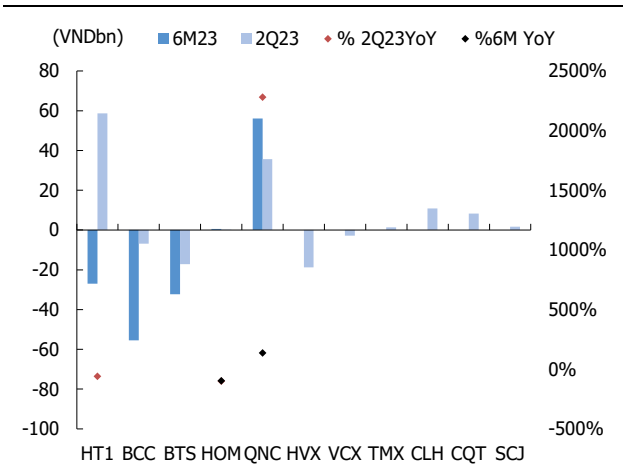
Figure 3. Low completion in 2Q23

Source: Company data, Fiinpro

Net margin back to positive

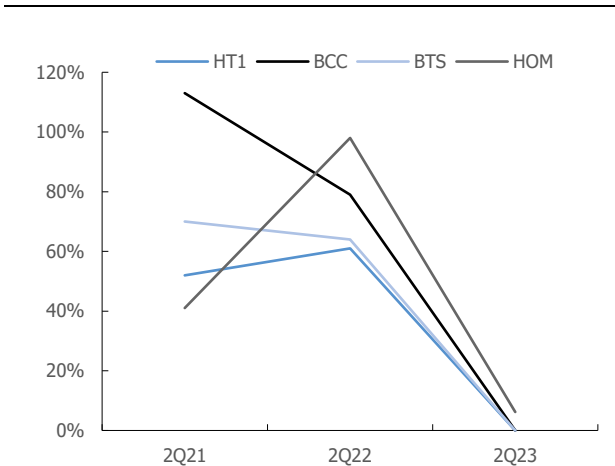
2Q23 witnessed the positive aggregated net profit, thanks to good bottom line of a top producer. Among 14 cement producers, HT1 made a big U-turn in NPAT from -VND85.6bn in 1Q23 to VND58bn in 2Q23, which was the significant contribution to overall industry performance. BCC and BTS still made a loss of VND6.7bn and of VND17.2bn, respectively. Companies fulfilled around 0-153% of their 2023F net profit guidance. However, most big producers completed 0% their net profit guidance.

Figure 4. Top producers still made a loss in 2Q23



Source: Company data, Fiinpro

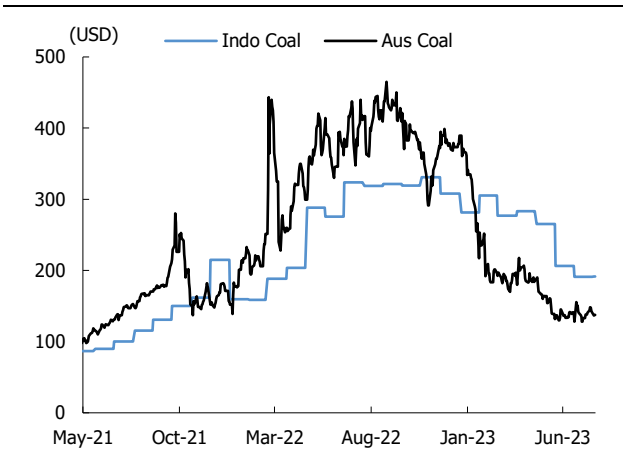
Figure 5. Low completion due to poor performance



Source: Company data, Fiinpro

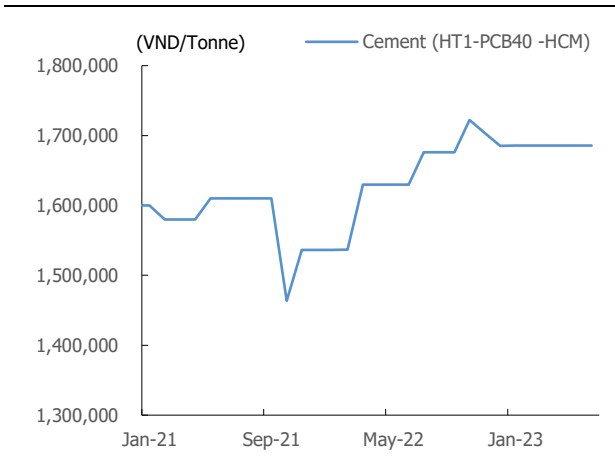
Gross margin changes varied among cement producers. For example, we see the gross margin improve in BCC, HT1 as input prices has decreased according to the companies. On the other hand, BTS's gross margin got worse over last 3 quarter when the company experienced more intense competition and had to sell clinker under the cost of production.

Figure 6. Input prices declined significantly



Source: Company data, Fiinpro

Figure 7. Cement price was flat in 2Q23

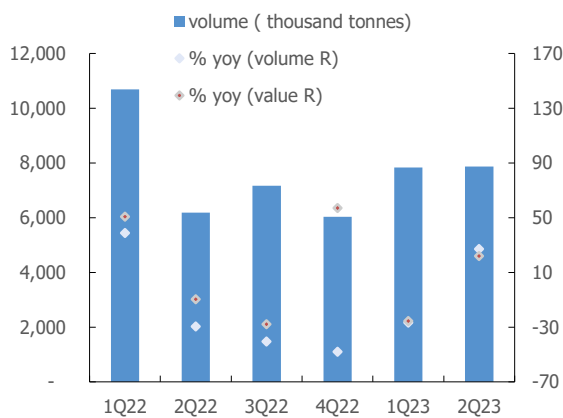


Source: Bloomberg

Challenges still ahead

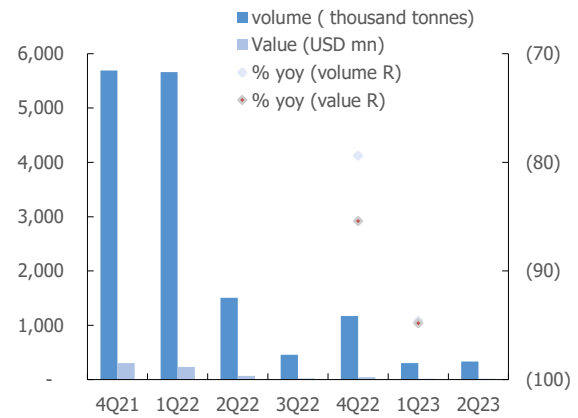
We expect to continue to see the weak demand in 3Q23F as the rainy season. However, the El Nino can potentially increase the number of dry days in 3Q23, which can slightly support the cement consumption. We forecast the total sales volume will be 23.8mn tonnes (+8% yoy, -0.0% qoq). As for input materials, the recent significant drop in input price will benefit most cement producers. We also see no significant up-side surprise in 3Q23 for global thermal coal prices, therefore, we expect to see the improving margins in 3Q23 for the cement industry. As for export channel, 2Q23 witnessed the flat in both volume and value compared to previous quarter with 7.8mn tonnes (+27.1% yoy) and USD347mn (+21.8% yoy). The export to China market showed a significant drop of 78.0% yoy in volume to 0.3mn tonnes and of 80.3% yoy in value. Currently, cement exporters have made efforts to explore new market amid weak demand from biggest export market.

Figure 8. Export volume and turnover were flat in 2Q23



Source: VSA

Figure 9. China market demand seems to be flat in 2Q23



Source: GSO

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