

1 Aug 2023

Steel

Before the dawn ?!

Aggregated earnings were flat in 2Q23

Based on our estimate, 2Q23 aggregated revenue of 24 listed steelmakers declined by 27.7% yoy 0% qoq, while 2Q23 aggregated NPATMI stayed flat compared to 1Q23. Although the gross margin improved thanks to low input costs, half of listed companies still made a loss in 2Q23. We expect to see a challenging quarter for steel makers when the ASP is lower and the demand is expected to be weak due to rainy season. The input prices are expected to increase and margins are expected to be slightly hit in 3Q23.

Low domestic demand and selling prices in 3Q23F

2Q23 total sales volume is in line with our forecast (6.0mn tonnes vs 6.1 tonnes – KIS forecast). We expect to continue to see the weak demand in 3Q23F due to rainy season. We forecast the total sales volume in 3Q23F will be 5.8mn tonnes +8% yoy, -9% qoq. Export channel is expected to continuingly support total sales volume in 3Q23. As for input prices, we expect the input prices (coking coal, iron ore etc) will increase in 3Q23F thanks to the support policies from China government. The increase of HRC prices is supposed to support companies' topline and margins from 4Q23F.

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

Research Dept

researchdept@kisvn.vn

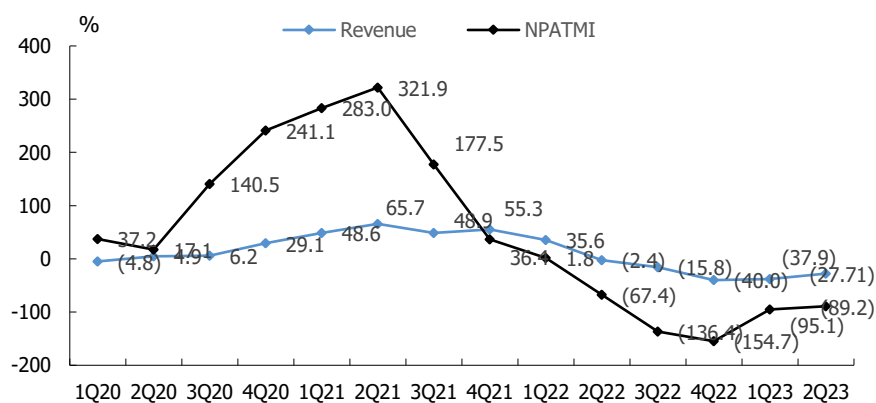
Table 1. Aggregated 24-company earnings

(VNDbn, %)

	2Q22	2Q23	QoQ	YoY
Revenue	88,654	64,088	(0.3)	(27.7)
NPAT-MI	4,595	498	7.0	(89.2)

Source: Fiinpro, KIS

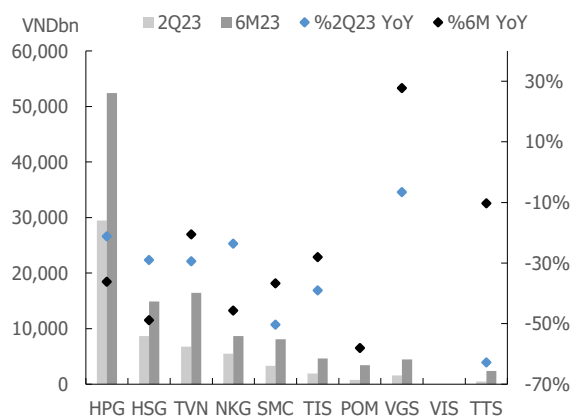
Based on our collection, 2Q23 aggregate earnings momentum of 24 listed steel companies on three bourses decelerated. NPAT-MI was VND498bn -89.2% yoy, but increasing by 7% compared to previous quarter. Besides, the revenue growth pace in 2Q23 also declined by 27.7% yoy but flat over quarter basis caused by weak demand from domestic and better sales volume from international markets. As expected, we see the gross margin improved in 2Q23F (from 5.5% to 7.4% in 2Q23) when the pressure from high-cost inventories have been away. Gross margins are expected to be flat in next quarter thanks to low and stable input costs despite lower selling prices.

Figure 1. Net profit improved on quarter basis

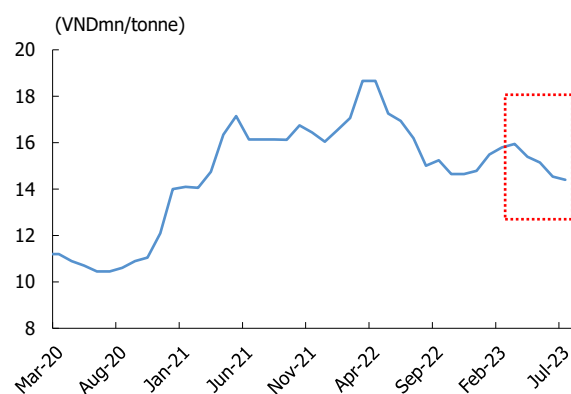
Source: VSA, Fiinpro

Negative topline growth due to high base in 2022

Breaking down aggregated revenue growth by a specific company, 9 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 21.1% yoy in 2Q23. NKG's revenue growth was at -23.5% yoy while HSG's one witnessed the decline of 29.0% yoy in 2Q23. The companies fulfilled around 25-62% of their 2023F revenue targets.

Figure 2. VGS revenue growth was negative but beats the industry

Source: Company data, Fiinpro

Figure 3. Selling price has declined since April

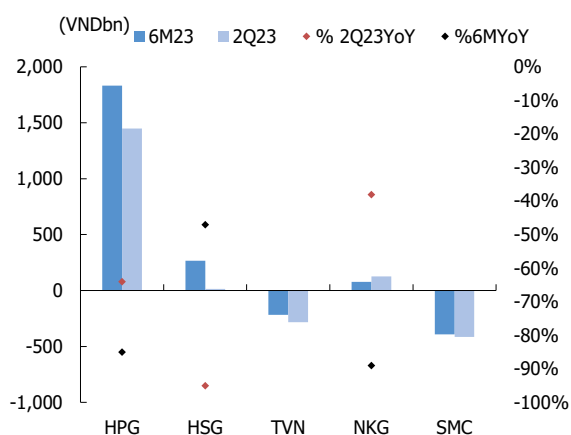
Source: Company data, Fiinpro

As detailed in our Jun brief sector, Vietnam total consumption volume in 2Q23 declined 7.0% yoy to 6.0mn tonnes. However, the export channel strongly supported total sales volume compared to 1Q23. The total export volume was 2.1mn tonnes +34.3% qoq, +25.1% yoy. The export of HRC was attributed to this strong growth with the volume of 1.1mn tonnes 128% yoy, 54.6% qoq.

Net margin was flat in 2Q23

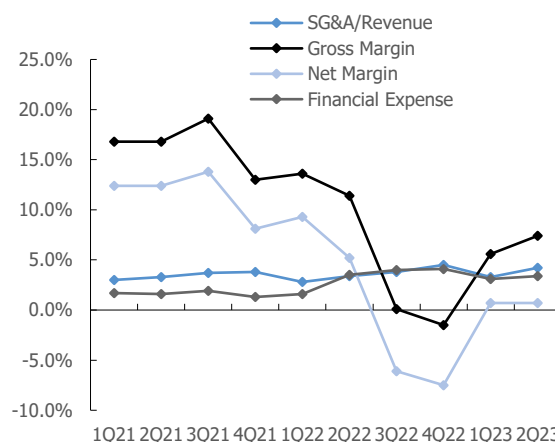
2Q23 witnessed the flat aggregated net profit for the industry. Almost half of 24 listed steel makers still made a loss in 2Q23. Among the top 9 biggest revenue-generating steelmakers, NKG made profit of VND125.4bn after the loss in 3 previous quarters while HSG only made profit of VND14.2bn. HPG's net profit decreased by 64% yoy to VND1447bn but recovered significantly from 1Q23 (3.7x qoq). Companies fulfilled around 0-79% of their 2023F net profit guidance.

Figure 4. Most companies' net profit were negative



Source: Company data, Fiinpro

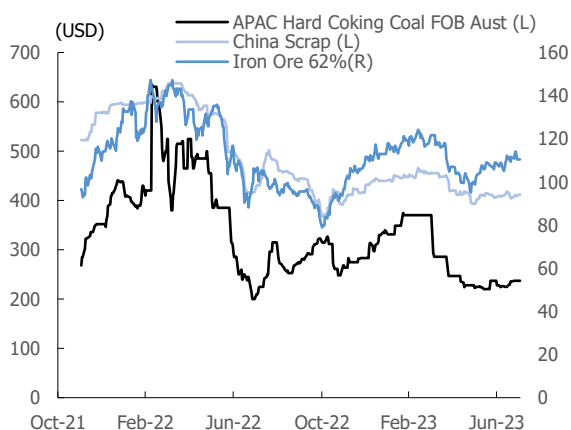
Figure 5. Flat net margin achieved despite improved gross margin in 2Q23



Source: Company data, Fiinpro

We forecast that 3Q23 would be another challenging quarter for steel makers when the market demand will be weak due to rainy weather and lower selling prices, which will affect margins despite stable input costs. Export channel might be a support for Vietnam steel makers in 3Q23 when the domestic demand is expected to be sluggish.

Figure 6. Input prices was stable in 2Q23



Source: Company data, Fiinpro

Figure 7. BDI was stable in 2Q23

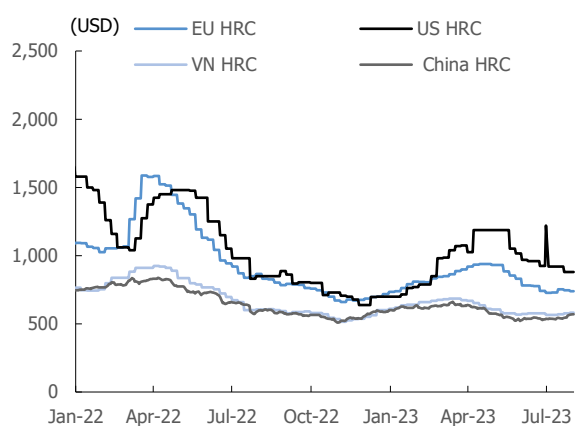


Source: Bloomberg

Lower sale volume in 3Q23F

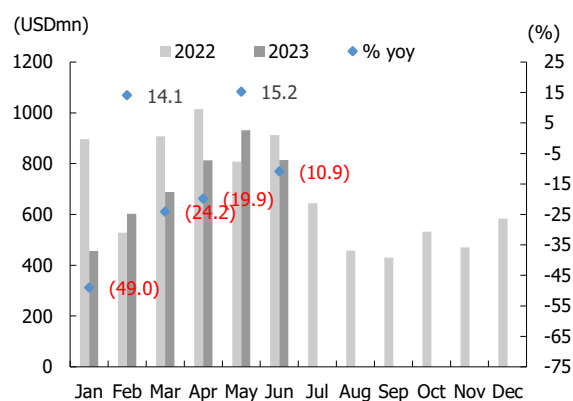
We expect to continue to see the weak demand in 3Q23F due to the impact of rainy season, however, the El Nino may increase the number of dry days in 3Q23, which will slightly support to sales volume. We forecast the total sales volume in 3Q23F will be 5.8mn tonnes +8% yoy, -9% qoq. As for input materials, we expect to see the increase in prices of most inputs due to the good sentiment from China market. Despite of that forecast, we suppose that the input prices of steel makers will not increase as the same pace as market's input materials, therefore, the margins of steel makers will slightly hit amid lower selling prices. The forecasted revival of HRC prices in 3Q23 will, in our opinion, positively affect the companies' topline and margin from late September and 4Q23.

Figure 8. HRC prices diverged among regionals



Source: VSA

Figure 9. The 2Q23 total export turnover reached USD2.5bn (-6.5% yoy +43.6 qoq)



Source: GSO

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15%p or more
- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 1 Aug 2023.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 1 Aug 2023.

Prepared by: Research Dept

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2023 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.