November 06th, 2023

Shinhan Securities



Hoa Phat Group JSC

[Vietnam / Steel]

Bloomberg Code (HPG VN) | Reuters Code (HPG.HM)

HOLD

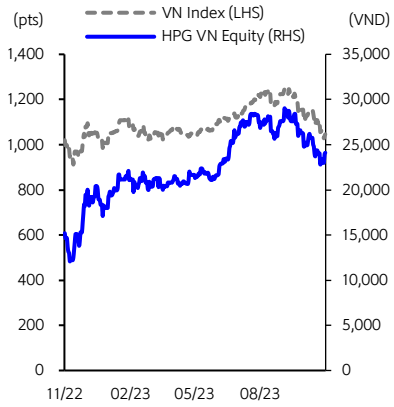
Update report

Target price (12 months)	**27,200 VND**
Current price (06/11/23)	25,750 VND
Upside/downside (%)	5.6%

VNINDEX	1,089
HNXINDEX	219
Market Cap (bn VND)	149,730
Outstanding shares (mn)	5,815
Free-Floating (mn)	3,156
52-Wk High/Low (VND)	29,400/11,800
90-day avg. trading volume (mn)	24.93
90-day avg. turnover (bn VND)	687
Major shareholders (%) – Tran Dinh Long	26.08%
Major shareholders (%) – Dragon Capital	7.65%

Performance	3T	6T	12T
Absolute (%)	-12.2	11.5	57.3
Relative to VN-Index (%)	2.1	11.8	55.1

Source: Bloomberg



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On the road to recovery

Update with HOLD call and target price of VND 27,200

Hoa Phat Group Joint Stock Company (HPG) is one of the leading steel industry enterprises in Vietnam. Hoa Phat holds the largest market share in the construction steel segment (with 33%) and steel pipes (with 27%). In the context of unfavorable developments for the steel industry, we assess that Hoa Phat will still maintain its leading position and begin to have clearly improved results in 2024. We make our update valuation of HPG shares at a price of 27,200 VND, corresponding to a profit of 5.6%. We use P/E and DCF valuation methods with weights of 20% and 80%, respectively.

Updated Q3/2023 business results

Hoa Phat Group recorded Q3/2023 revenue reaching 28,766 billion VND, down 16% YoY, Q3/2023 profit after tax reached 2,000 billion VND, up 212% over the same period in 2022 and 38% over the previous quarter. Accumulated for the first 9 months of 2023, Hoa Phat reached VND 85,430 billion in revenue, down 27% YoY. Profit after tax reached 3,830 billion VND, down 63% YoY, equivalent to completing 48% of the year's plan. Profit margin has improved from 10.8% to 12.6%. This comes from the fact that sales volume in Q3/2023 will grow by about 7% compared to Q2/2023, helping to reduce costs per product. Besides, coking coal prices have decreased by about 20%, helping profit margins in Q3/2023 improve.

Steel prices are expected to recover thanks to China's support package and production restrictions

China has just issued 1,000 billion Yuan of government bonds to promote production and infrastructure development. This contributes to positively supporting construction steel demand in the Chinese market, which accounts for more than 50% of global consumption demand. Chinese steel manufacturers also plan to cut production output in Q4/2023 in the context of steel prices remaining low in 2023. This will contribute to supporting steel prices in the future and improving gross profit margins for Hoa Phat.

The leading position in the steel industry with the prospect of the Dung Quat 2 project

With a total capital of about VND 85,000 billion and a capacity of about 5.6 million tons of steel/year, the Dung Quat 2 project will be completed in the first quarter of 2025, thereby increasing Hoa Phat's crude steel capacity to more than 14 million tons/year, an increase of 66% compared to the current capacity. After more than 1 year of implementation, the Hoa Phat Dung Quat 2 project has reached 30% of the construction.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**142,771**	**117,438**	**137,536**	**160,666**	**173,001**
OP (bn VND)	9,794	7,762	18,370	24,316	25,991
NP (bn VND)	**8,444**	**6,768**	**16,000**	**21,176**	**22,635**
EPS (VND)	1,636	1,159	2,739	3,625	3,875
BPS (VND)	18,539	17,312	19,690	22,962	26,486
OPM (%)	7%	6.6%	13%	15%	15%
NPM (%)	6%	5.8%	12%	13%	13%
ROE (%)	**9%**	**6.7%**	**14%**	**16%**	**15%**
PER (x)	11.00	19.85	8.40	6.34	5.94
PBR (x)	1.09	1.33	1.17	1.00	0.87
EV/EBITDA (x)	7.79	9.50	9.50	5.67	4.44

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Recommend with HOLD at a target price of VND 27,200

We offer an update valuation of Hoa Phat Group JSC (HPG) with a hold recommendation and a target price of VND 27,200 for an increase of 5.6%. For long-term investment vision, HPG can be considered with the following advantages:

1) Profit margin improved thanks to recovering steel price
2) Maintain the leading position in the steel industry
3) Prospects of Dung Quat 2 project to support long-term growth

Valuation method

We apply a combination of P/E and discounted cash flow (FCFF) valuation methods with the weights of 20% and 80% respectively to value Hoa Phat Group (HPG).

Method	Weight	Price
FCFF	80%	28,500
P/E	20%	21,900
Target price		**27,200**
Current price		25,750
Upside (%)		5.6%

Discounted Cash Flow (DCF) method – FCFF

Unit: Billion VND	2024F	2025F	2026F	2027F	2028F
EBIT*(1-Tax rate)	**18,791**	**24,324**	**26,190**	**28,428**	**31,114**
Depreciation	11,605	14,403	16,388	17,316	18,329
- Changes in WC	5,269	5,298	3,237	3,989	4,922
- CAPEX	32,050	39,170	11,382	12,356	13,524
Cashflow (FCFF)	**-6,923**	**-5,740**	**27,959**	**29,400**	**30,996**
Terminal value					473,128
DCF	**(5,512)**	**(4,077)**	**17,721**	**16,627**	**175,646**
Firm value	220,377				
- Debt	63,670				
+ Cash and cash equivalent	9,154				
Equity value	165,861				
Target price (VND)	28,500				

Variable	Value
D/E	43%
Beta	1.28
Risk-free rate	3%
Cost of equity	15%
Cost of debt	6%
WACC	12.07%

For WACC, we use the 10-year Vietnamese government bond yield at 3% as the risk-free rate. Beta is calculated based on the latest 5-year historical data of HPG and VNINDEX. Based on those assumptions, HPG's FCFF target price is valued at VND 28,500.

P/E method

Based on the P/E method, we collect data from domestic steel companies. Along with that, with the average 5-year historical P/E of HPG at 8.00, we estimate HPG's target P/E at 8.00. Combined with a 2022 forward EPS of VND 2,739, the target price of HPG is valued at VND 21,900.

	2018	2019	2020	2021	2022
P/E	6.65	7.77	9.20	5.38	11.00
Average P/E			8.00		
HPG EPS Forward (VND)			2,739		
Target price (VND)			**21,900**		

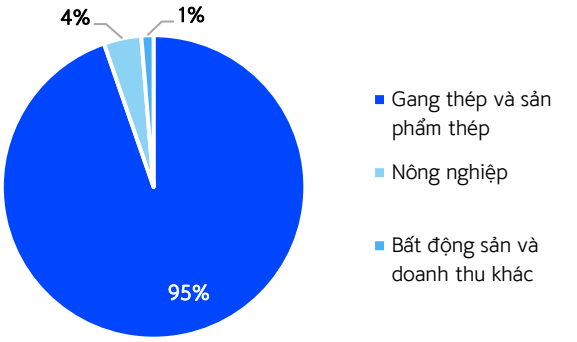
Company background

Company history

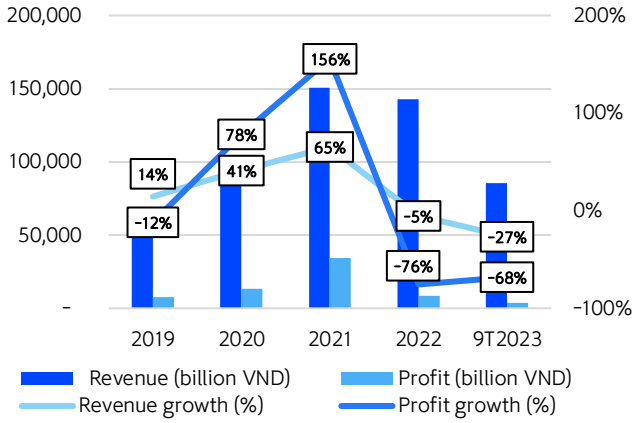
Hoa Phat was established in August 1992, beginning as a construction machine trading company, then expanded to other fields such as furniture, steel pipes, construction steel, refrigeration, real estate, and agriculture. On November 15, 2007, Hoa Phat officially listed shares on the Vietnam stock market with the stock ticker HPG.

Currently, the Hoa Phat operates in 05 fields: Iron and steel (construction steel, hot rolled coil), steel products (including steel pipes, galvanized steel, drawn steel, and prestressed steel), agriculture, real estate, and household appliances. Hoa Phat's core business is iron and steel products, contributing over 90% of the group's revenue and profit.

Revenue breakdown of Hoa Phat in 9M2023



Revenue and net profit of Hoa Phat 2018 – 9M/2023



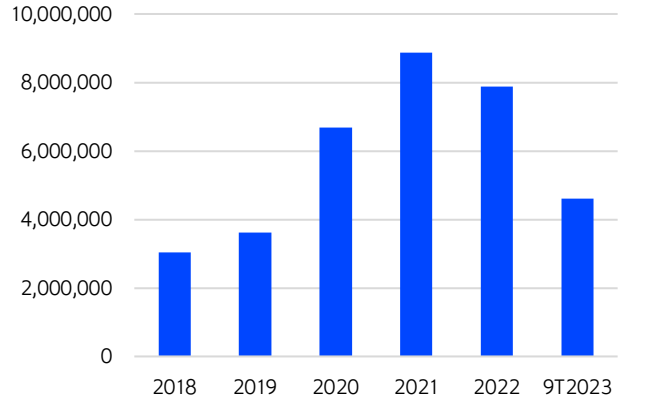
Source: Company report, Shinhan Vietnam Securities

Update business results in Q3/2023

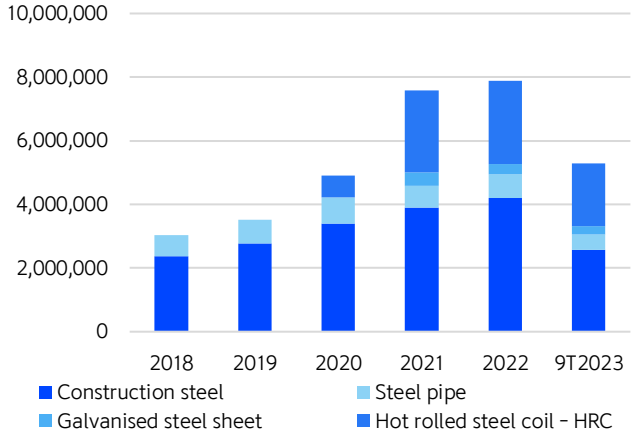
Q3/2023, Hoa Phat Group achieved revenue of VND 28,766 billion, down 16% YoY. Profit after tax recorded VND 2,000 billion, an increase of 212% YoY and 38% QoQ. Accumulated for the first 9 months of 2023, Hoa Phat reached VND 85,430 billion in revenue, down 27% YoY. Profit after tax reached VND 3,830 billion, down 63% YoY, equivalent to completing 48% of the year's plan.

Although revenue in Q3/2023 decreased compared to Q2/2023, about 3.5%, profit after tax increased by 38% compared to the previous quarter. This comes from the profit margin improving from 10.8% in Q2/2023 to 12.6% in Q3/2023. This comes from the fact that consumption volume in Q3/2023 grew by about 7% compared to Q2/2023. In addition, coking coal prices have decreased by about 20%, helping profit margins in Q3/2023 improve.

Hoa Phat sales volume 2018 – 9M/2023 (tons)



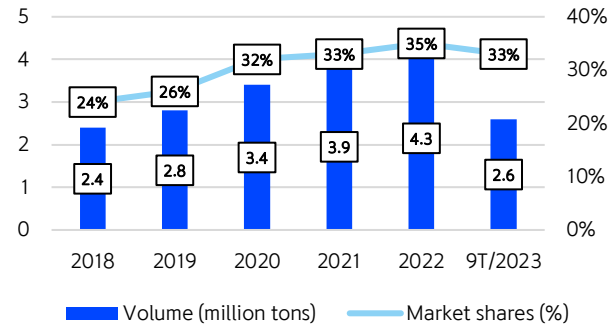
Consumption volume by product structure 2018 – 9M/2023 (tons)



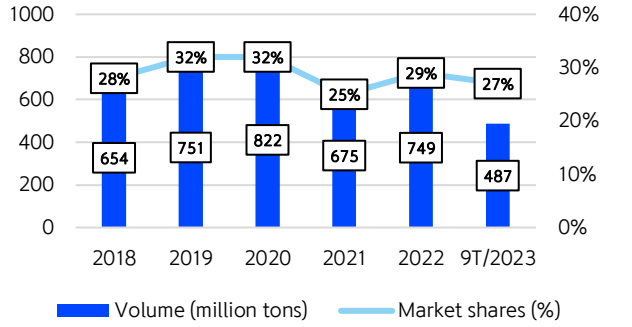
Source: Company report, Shinhan Vietnam Securities

Accumulated in the first 9 months of 2023, sales volume of steel of all kinds (excluding steel pipe and galvanized steel products) will reach 4.6 million tons, down 19% YoY. Of which, Hoa Phat's construction steel and high quality steel recorded 2.57 million tons, down 25% YoY. Of which the export market contributed nearly 490,000 tons. HRC products reached nearly 2 million tons, down 3% YoY. In addition, Hoa Phat also provided the market with 488,000 tons of steel pipes and 240,000 tons of galvanized steel sheets of all kinds, down 14% YoY and 3% YoY respectively.

Sales volume and market share of construction steel 2018 – 9M/2023



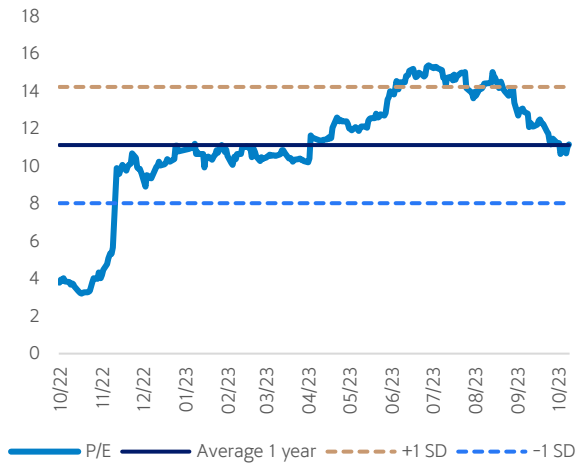
Sales volume and market share of steel pipe 2018 – 9M/2023



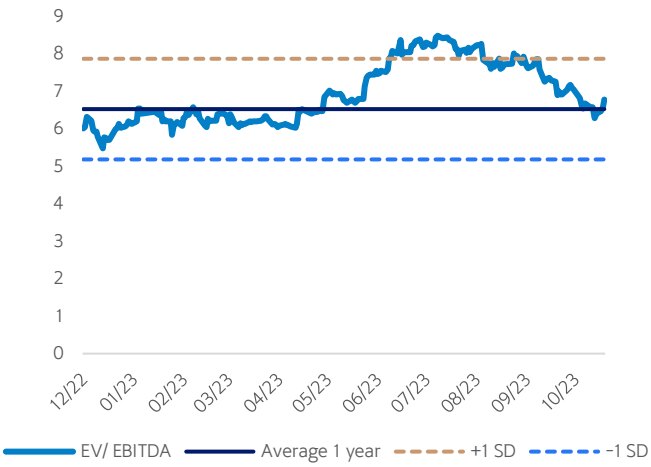
Source: Company report, Shinhan Vietnam Securities

Hoa Phat ranks first in the market share of construction steel and steel pipes. However, due to competitive developments when the market goes down, the construction steel market share will decrease from 35% at the end of 2022 to 33%. Steel pipe market share in the first 9 months of the year also decreased from 29% to 27%.

P/E 1 year

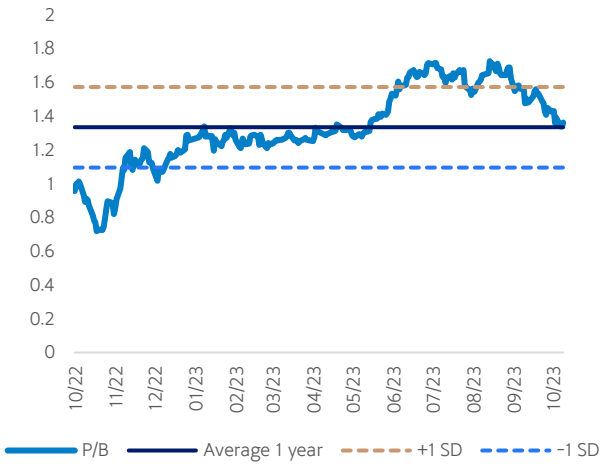


EV/EBITDA 1 year

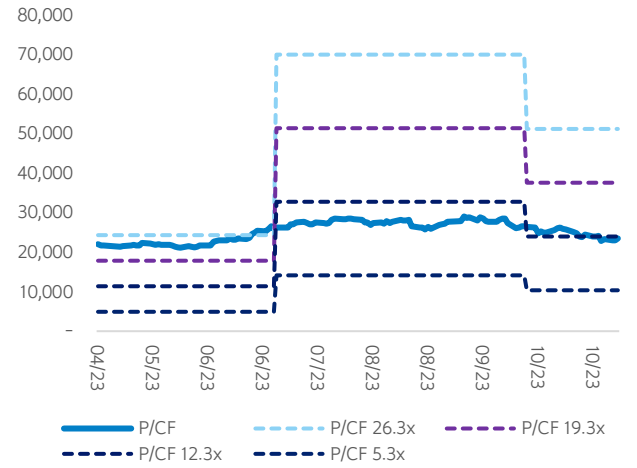


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

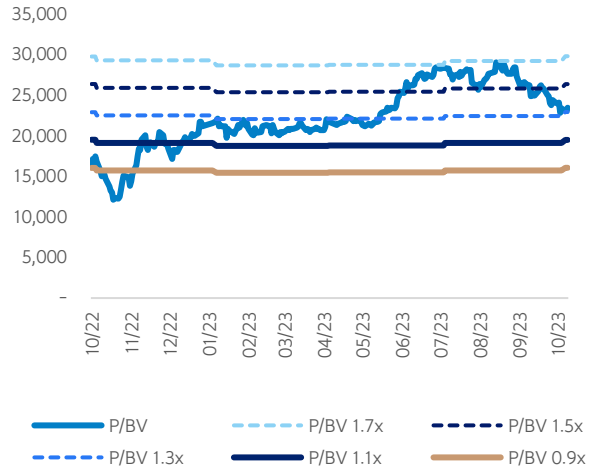


P/E band

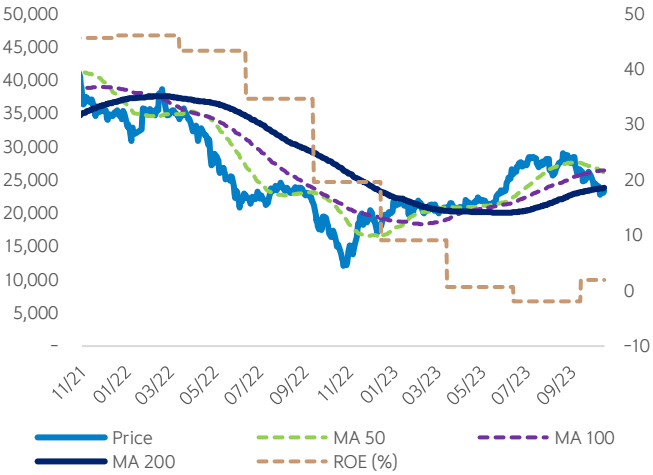


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band

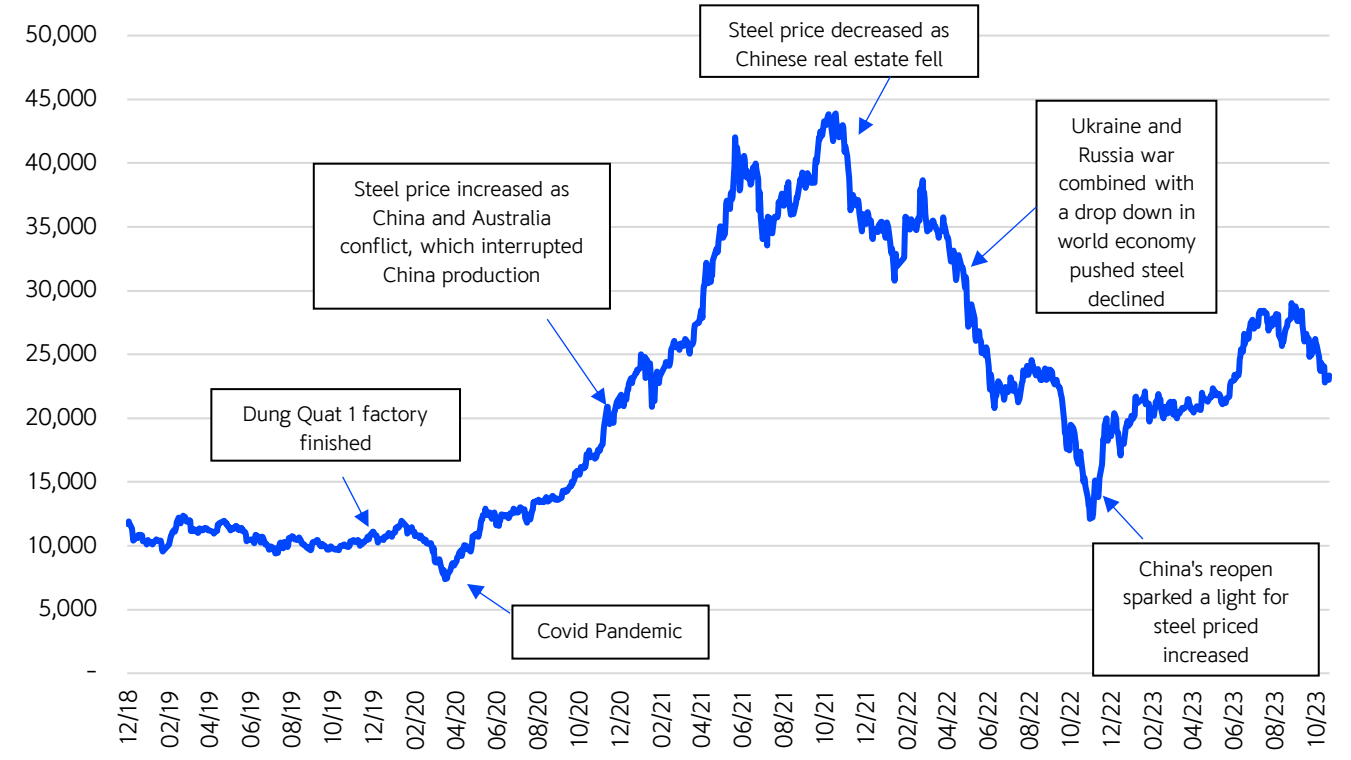


ROE and MA 1 year



Source: Bloomberg data, Shinhan Securities Vietnam

Key event chart of HPG



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Total assets	**170,336**	**183,574**	**204,360**	**237,184**	**267,136**
Current assets	80,515	70,877	71,042	79,031	113,850
Cash & equivalents	8,325	7,586	1,157	1,468	31,594
Short-term financial asset	26,268	26,268	26,268	26,268	26,268
Accounts receivable	11,431	8,156	9,809	11,802	13,462
Inventories	34,491	28,867	33,808	39,493	42,525
Non-current assets	89,821	112,696	133,317	158,153	153,286
Net fixed assets	70,833	93,775	114,220	138,986	133,980
Investment assets	88	88	88	88	88
Other long-term assets	18,900	18,834	19,010	19,079	19,218
Total liabilities	**74,223**	**82,908**	**89,868**	**103,666**	**113,124**
Current liabilities	62,385	69,217	73,980	81,180	87,826
Accounts payable	11,107	14,981	16,284	18,642	20,073
Short-term borrowings	46,749	49,685	53,123	57,943	63,133
Others	4,530	4,551	4,572	4,596	4,620
Non-current liabilities	11,837	13,692	15,888	22,485	25,298
Long-term borrowings	11,152	12,913	14,976	21,403	23,998
Other financial liabilities	686	779	912	1,082	1,300
Total shareholders' equity	**96,113**	**100,665**	**114,492**	**133,519**	**154,012**
Capital stock	58,148	58,148	58,148	58,148	58,148
Capital surplus	3,212	3,212	3,212	3,212	3,212
Other capital	33,834	38,386	52,213	71,240	91,732
Retained earnings	814	814	814	814	814
Non-controlling interest equity	106	106	106	106	106
*Total debt	57,900	62,598	68,099	79,346	87,131
*Net debt (cash)	49,576	55,012	66,942	77,878	55,536

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Revenue	**142,771**	**117,438**	**137,536**	**160,666**	**173,001**
Growth (%)	-5%	-18%	17%	17%	8%
COGS	**124,646**	**107,208**	**116,532**	**133,401**	**143,645**
Gross profit	**16,763**	**10,230**	**21,004**	**27,265**	**29,355**
GPM (%)	12%	9%	15%	17%	17%
SG&A	**3,685**	**2,590**	**3,033**	**3,543**	**3,815**
Operating profit	**13,078**	**7,640**	**17,971**	**23,722**	**25,540**
Growth (%)	-65%	-42%	135%	32%	8%
OPM (%)	9%	7%	13%	15%	15%
Non-operating profit	**(3,155)**	**140**	**420**	**619**	**477**
Financial income	3,744	3,079	3,606	4,213	4,536
Financial expense	(7,027)	(2,956)	(3,207)	(3,617)	(4,084)
In which: interest expenses	(3,084)	(2,956)	(3,207)	(3,617)	(4,084)
Net other non-operating profit	128	17	20	24	25
Pre-tax profit	**9,923**	**7,780**	**18,391**	**24,341**	**26,018**
Income tax	(1,479)	(1,011)	(2,391)	(3,164)	(3,382)
Net profit	**8,444**	**6,768**	**16,000**	**21,176**	**22,635**
Growth (%)	-76%	-20%	136%	32%	7%
NPM (%)	6%	6%	12%	13%	13%
Controlling interest	8,484	6,737	15,926	21,078	22,531
Non-controlling interest	(39)	(31)	(74)	(98)	(105)
EBIT	**13,007**	**10,736**	**21,597**	**27,958**	**30,102**
Growth (%)	-67%	-17%	101%	29%	8%
EBIT Margin (%)	9%	9%	16%	17%	17%
EBITDA	**19,821**	**19,823**	**33,202**	**42,361**	**46,490**
Growth (%)	-57%	0%	67%	28%	10%
EBITDA margin (%)	14%	17%	24%	26%	27%

Statement of cash flow

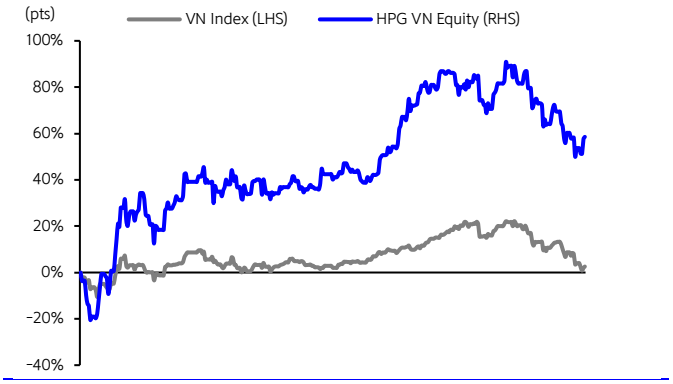
Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Cash flow from operations	**12,192**	**28,839**	**22,367**	**30,482**	**35,971**
Net profit	9,923	7,780	18,391	24,341	26,018
Depreciation expense	6,814	9,087	11,605	14,403	16,388
(Gain) from investing activities	(1,822)	-	-	-	-
Interest expense/ income	49	-	-	-	-
Change in working capital	(1,954)	13,258	(4,634)	(4,455)	(2,124)
Others	(819)	(1,317)	(3,068)	(3,905)	(4,415)
Cash flow from investments	**(24,712)**	**(32,029)**	**(32,050)**	**(39,170)**	**(11,382)**
Change in fixed assets	(17,966)	(32,029)	(32,050)	(39,170)	(11,382)
Change in investment assets	14	-	-	-	-
Others	(6,759)	-	-	-	-
Cash flow from financing	**(1,617)**	**2,450**	**3,254**	**8,999**	**5,538**
Change in equity	4	-	-	-	-
Net borrowing	626	4,698	5,501	11,247	7,785
Dividends	(2,247)	(2,247)	(2,247)	(2,247)	(2,247)
Change in total cash	**(14,137)**	**(739)**	**(6,429)**	**311**	**30,127**
Beginning cash	22,471	8,325	7,586	1,157	1,468
Change in FX rates	(10)	-	-	-	-
Ending cash	8,325	7,586	1,157	1,468	31,594

Key ratios

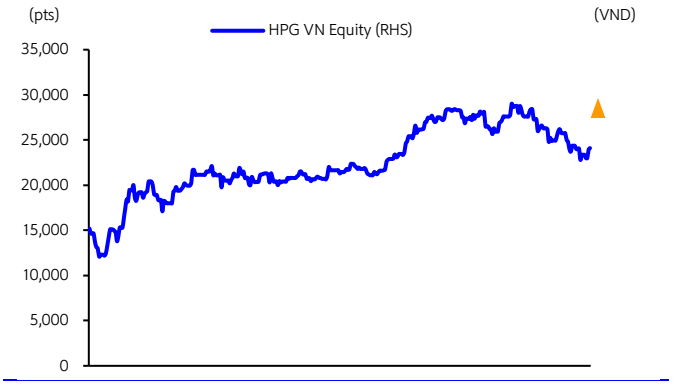
Year to Dec.	2022	2023F	2024F	2025F	2026F
EPS (VND)	1,636	1,159	2,739	3,625	3,875
BPS (VND)	18,539	17,312	19,690	22,962	26,486
DPS (VND)	433	386	386	386	386
PER (x)	11.00	19.85	8.40	6.34	5.94
PBR (x)	1.09	1.33	1.17	1.00	0.87
EV/EBITDA (x)	7.79	9.50	9.50	5.67	4.44
Dividend payout ratio (%)	2%	2%	2%	2%	1%
Dividend yield (%)	2%	2%	2%	2%	2%
Profitability					
EBITDA margin (%)	14%	17%	24%	26%	27%
OPM (%)	9%	7%	13%	15%	15%
NPM (%)	6%	6%	12%	13%	13%
ROA (%)	5%	4%	8%	10%	9%
ROE (%)	9%	7%	15%	17%	16%
Stability					
Debt to equity ratio (%)	60%	62%	59%	59%	57%
Net debt ratio (%)	250%	278%	202%	184%	119%
Cash ratio (%)	13%	11%	2%	2%	36%
Interest coverage ratio (x)	4.22	3.63	6.74	7.73	7.37
Activity (%)					
Inventory turnover (days)	97.95	98.46	83.17	83.26	86.52
Accounts receivable turnover (days)	22.44	24.94	17.74	17.76	18.45
Accounts payable turnover (days)	51.01	44.41	48.97	47.78	49.19

Hoa Phat Group JSC (HPG)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) Max/Min
23/02/2023 (Initiate)	BUY	26,100	0.03	-35/121
06/11/2023 (Update)	HOLD	27,200	32	-8/130

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

Compliance & Disclosure Notice

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