November 22nd, 2023

Shinhan Securities



Hoa Sen Group

[Vietnam / Steel]

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

BUY

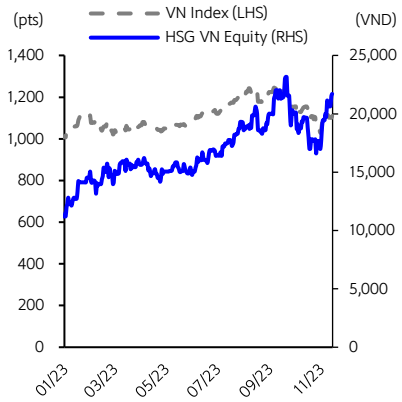
Update report

Target price (12 months)	**25,800 VND**
Current price (22/11/23)	22,000 VND
Upside/downside (%)	17%

VNINDEX	1,089
HNXINDEX	219
Market Cap (bn VND)	13,367
Outstanding shares (mn)	616
Free-Floating (mn)	408
52-Wk High/Low (VND)	23,900/6,650
90-day avg. trading volume (mn)	13.15
90-day avg. turnover (bn VND)	246
Major shareholders (%)	Hoa Sen Investment and Tourism Co., Ltd 19.87%
	Le Phuoc Vu 17.02%

Performance	3T	6T	12T
Absolute (%)	8.0	37.1	192.2
Relative to VN-Index (%)	18.2	33.1	174.2

Source: Bloomberg



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On the road to recovery

Update with BUY call and target price of VND 25,800

Hoa Sen Group Joint Stock Company (HSG) is a leading enterprise in the field of galvanized steel sheets in Vietnam. Hoa Sen Group mainly produces galvanized steel products, steel pipes, plastic pipes and retails construction materials. Adverse situation in the steel industry has led to Hoa Sen's declining business results in 2023. However, with a widespread retail system and leading market share in the galvanized steel segment, Hoa Sen is expected to recover strongly in 2024 when the steel industry recovers. We update the valuation of HSG shares at VND 25,800, corresponding to a profit of 17%. We use DCF and P/E valuation methods to value Hoa Sen.

Updated Q3/2023 business results

For the whole fiscal year 2022/2023, Hoa Sen Group recorded revenue of VND 31,651 billion, (-36% YoY), profit after tax reached VND 28 billion (-88% YoY). Sales output reached 1.4 million tons, (-22% YoY) in the context of the domestic and world steel industry facing many difficulties due to reduced demand. Although HSG's business situation in 2023 has declined, business results have improved strongly from quarter to quarter, in which profit after tax of Q4/2023 reached VND 438 billion, an increase of 31 times compared to Q3/2023. HSG's gross profit margin also increased from 10.32% in Q3/2023 to 13.22% in Q4/2023.

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 positively supports construction steel demand in the Chinese market, which accounts for more than 50% of global consumption demand. Chinese steel manufacturers also cut production output in Q4/2023 in the context of steel prices remaining at a low level in 2023. HRC steel prices have increased by 4% since the bottom in October 2023. thereby contributing to improving revenue and gross profit margin for Hoa Sen.

Strong growth prospects in 2024

With HRC steel prices returning to recovery and steel consumption gradually improving. We expect Hoa Sen's revenue in 2024 to reach VND 36,263 billion, and profit after tax to reach VND 2,095 billion. This comes from the fact that HSG's gross profit margin has stabilized again as the business has completely liquidated old steel at high prices, in addition to the recovery in consumption helping to improve costs per product. Products.

Risks: (1) Risk of fluctuations in steel and coke prices; (2) Risk of unstable domestic real estate market; (3) Risk of the world economic situation downturn.

Year to Dec.	2023	2024F	2025F	2026F	2027F
Revenue (bn VND)	**32,084**	**38,822**	**46,586**	**55,903**	**67,084**
OP (bn VND)	102	2,358	3,312	4,015	4,817
NP (bn VND)	**28**	**2,092**	**2,930**	**3,552**	**4,262**
EPS (VND)	1,636	3,402	4,766	5,776	6,931
BPS (VND)	17,496	19,898	23,663	28,439	34,370
OPM (%)	0%	6%	7%	7%	7%
NPM (%)	0%	5%	6%	6%	6%
ROE (%)	**9%**	**17%**	**20%**	**20%**	**20%**
PER (x)	13.44	6.47	4.62	3.81	3.17
PBR (x)	1.26	1.11	0.93	0.77	0.64
EV/EBITDA (x)	11.03	4.66	3.60	3.12	2.69

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Recommend with BUY at a target price of VND 25,800

We offer an update valuation of Hoa Sen Group (HSG) with a buy recommendation and a target price of VND 25,800 for an increase of 17%. For long-term investment vision, HSG can be considered with the following advantages:

1) Having the largest market share in galvanized steel sheets and a wide distribution system
2) Profit margin prospect improves thanks to HRC steel price increase
3) Long-term prospect with Hoa Sen Home furniture and construction material supermarkets

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 Sen Group (HSG).

Method	Weight	Price
FCFF	80%	25,100
P/E	20%	28,600
Target price (VND)		**25,800**
Current price (VND)		22,000
Upside (%)		17%

Discounted Cash Flow (DCF) method – FCFF

Unit: Billion VND	2024F	2025F	2026F	2027F	2028F
EBIT*(1-Tax rate)	2,177	2,960	3,552	4,262	4,653
Depreciation	972	1,085	1,099	1,116	756
- Changes in WC	-1,619	1,344	1,613	1,971	1,429
- CAPEX	141	169	203	244	266
Cashflow (FCFF)	**4,626**	**2,532**	**2,835**	**3,163**	**3,713**
Terminal value	-	-	-	-	26,517
DCF	**4,079**	**1,969**	**1,945**	**1,913**	**8,162**
Firm value	18,069				
- Debt	3,290				
+ Cash and cash equivalent	669				
Equity value	15,448				
Target price (VND)	25,100				

Variable	Value
D/E	22.7%
Beta	1.31
Risk-free rate	3.0%
Cost of equity	15.6%
Cost of debt	4.2%
WACC	13.3%

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 HSG and VNINDEX. Based on those assumptions, HSG's FCFF target price is valued at VND 26,500.

P/E method

Based on the P/E method, we collect historical P/E data for 5 years to calculate the median of 5-year historical P/E of HSG at 8.40, we estimate HSG's target P/E at 8.40. Combined with a 2024 forward EPS of VND 3,402, the target price of HSG is valued at VND 28,600.

	2018	2019	2020	2021	2022
P/E	5.89	8.91	8.40	4.08	23.67
Median			8.40		
HSG EPS Forward (VND)			3,402		
P/E Target			8.40		
Target price (VND)			**28,600**		

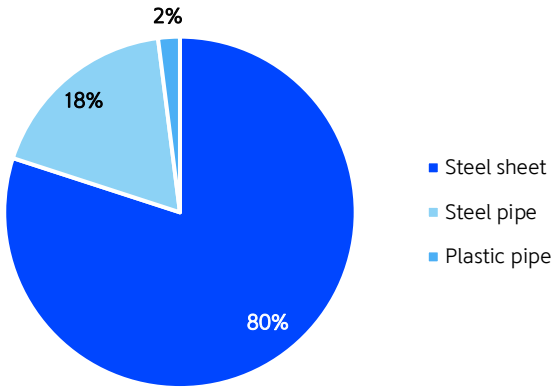
Company background

Company history

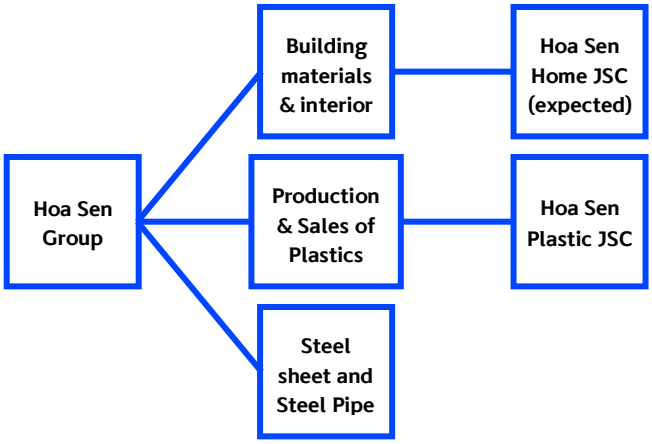
Hoa Sen Group (HSG) was established on August 8, 2001. In 2008, the Company was officially listed on HOSE with the stock ticker HSG. Over 20 years of establishment, Hoa Sen Group has become the number one enterprise in the field of galvanized steel sheets in Vietnam in both domestic and foreign markets, accounting for 29% of the domestic market share and 30% of the export market.

Hoa Sen Group owns a system of more than 600 branches and retail stores across the country. In addition to the domestic market, Hoa Sen Group constantly promotes export activities in many potential markets in the Middle East, South Asia, Africa, Australia, Europe, and America. Currently, Hoa Sen Group's products are present in more than 87 countries and territories.

Structure of Hoa Sen products in 2022



Hoa Sen's business structure



Source: Company Report, Shinhan Securities Vietnam

Hoa Sen Group has three main business segments including the Production and trading of steel sheets and steel pipes; the distribution of building materials and interior decoration and plastic production. Which, the plastic business segment is in charge of Hoa Sen Plastic JSC. Hoa Sen Group also plans to establish Hoa Sen Home Joint Stock Company, thereby separating the building materials segment for Hoa Sen Home to be in charge of.

Hoa Sen's main products include galvanized sheets, steel pipes, and plastic pipes. Which, galvanized sheets accounted for more than 80% of Hoa Sen's product structure.

Update business results in Q3/2023

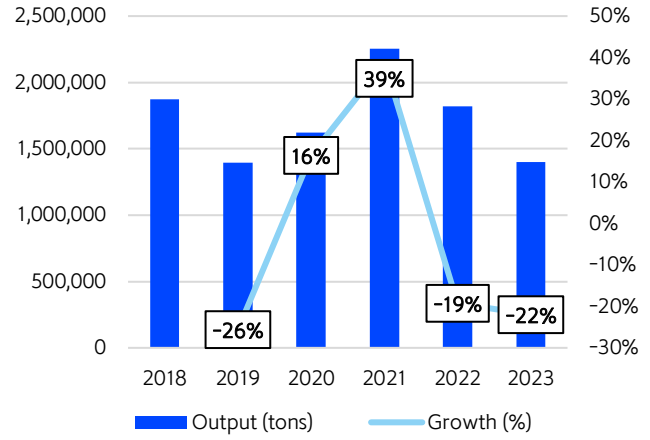
At the end of the fourth quarter of the 2022/2023 fiscal year (corresponding to the third quarter of 2023), Hoa Sen Group Joint Stock Company recorded net revenue in Q4/2023 reaching VND 8,107 billion, an increase of 2% compared to Q4/2022 and decreased by 6% compared to Q3/2023. Profit after tax reached VND 438 billion in Q4/2023, an increase of 31 times compared to Q3/2023.

For the entire 2022/2023 fiscal year, Hoa Sen Group recorded revenue of VND 31,651 billion, down 36% YoY, profit after tax reached VND 28 billion, down 88% YoY. Sales output reached 1.4 million tons, down 22% YoY in the context of the domestic and world steel industry facing many difficulties due to reduced demand.

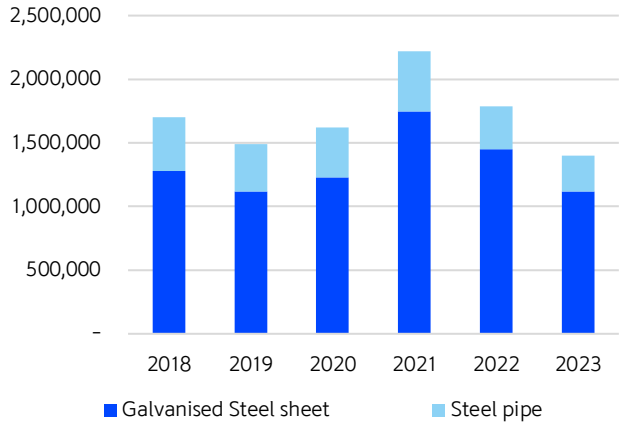
HSG's gross profit margin has improved, in which HSG's gross profit margin has increased from 10.32% in Q3/2023 to 13.22% in Q4/2023. This comes from HRC steel prices remaining at a low level in the period from August 2023 to September 2023.

Hoa Sen Group also recorded sales and administrative expenses reaching VND 627 billion, down 18% YoY and down 25% QoQ, showing efforts to cut costs by Hoa Sen. This helps Hoa Sen's net profit margin increase from 0.16% in Q3/2023 to 5.41% in Q4/2023.

Hoa Sen sales volume 2018 - 2023 (tons)

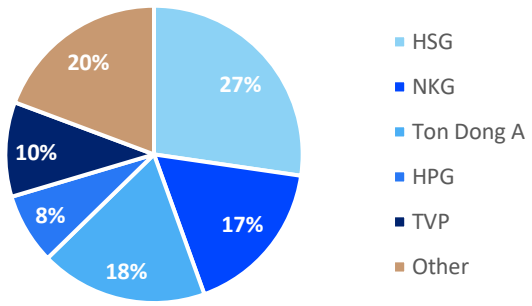


Consumption output by product structure (tons)

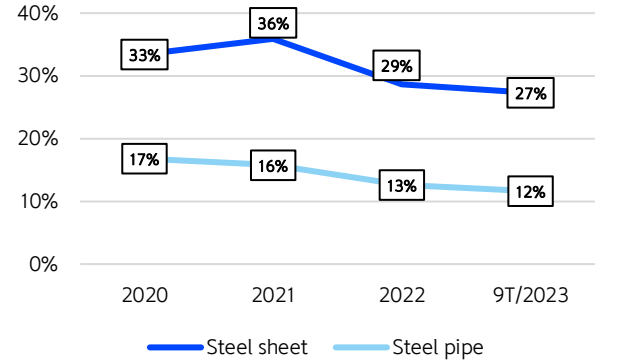


Accumulated in the first 9 months of 2023, Hoa Sen's galvanized steel consumption output reached 851,361 tons. Hoa Sen's market share of galvanized steel sheet segment decreased from 29% in 2022 to 27% in 2023. Steel pipe consumption output reached 207,296 tons, of which the market share of steel pipe segment decreased about 1% compared to 2022.

Galvanized steel market share in 9M/2023 (%)

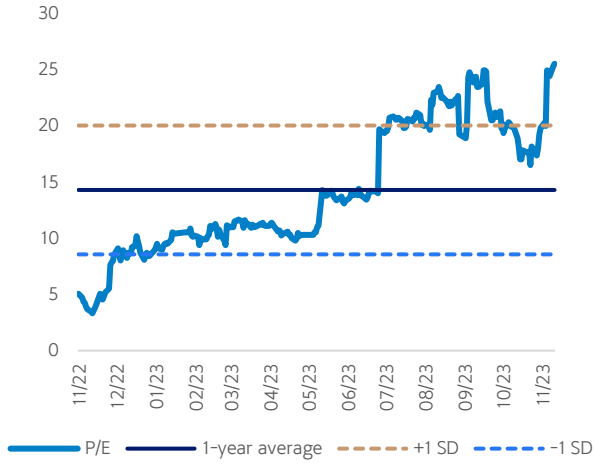


Market share of steel sheet and steel pipes 2020 – 9M/2023 (%)

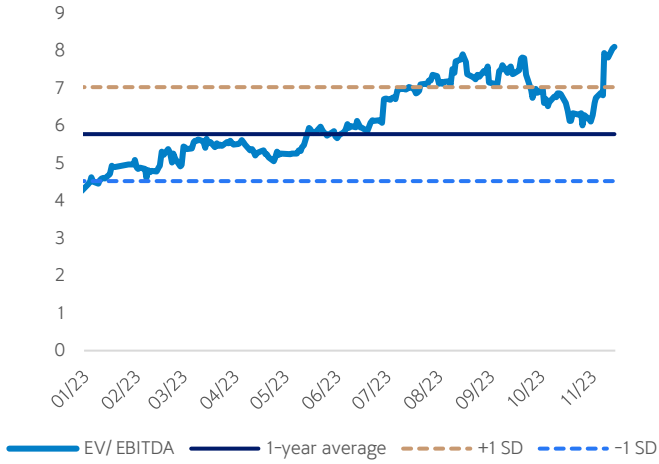


Nguồn: Báo cáo công ty, Chứng khoán Shinhan Việt Nam

P/E 1 year

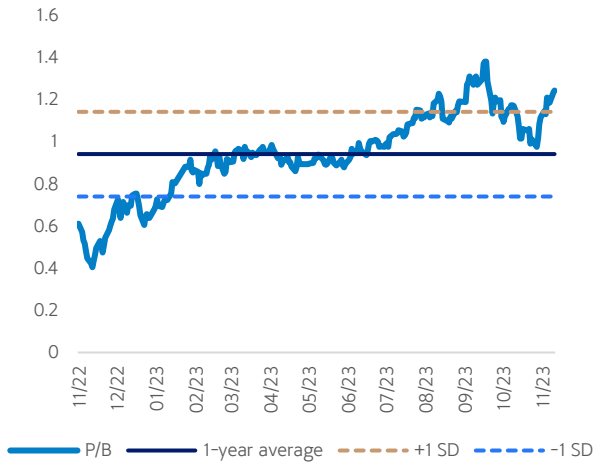


EV/EBITDA 1 year

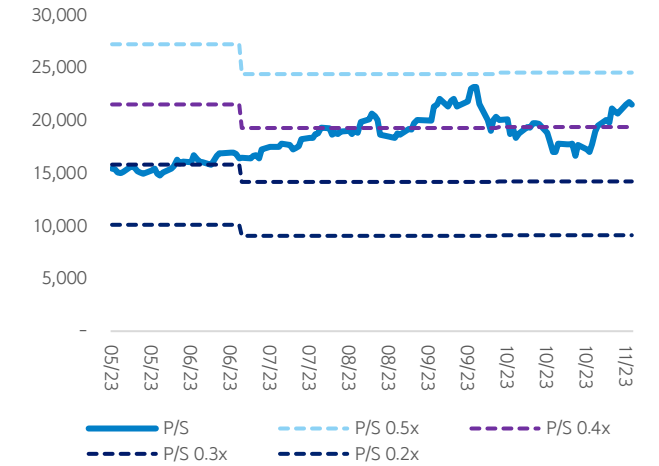


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

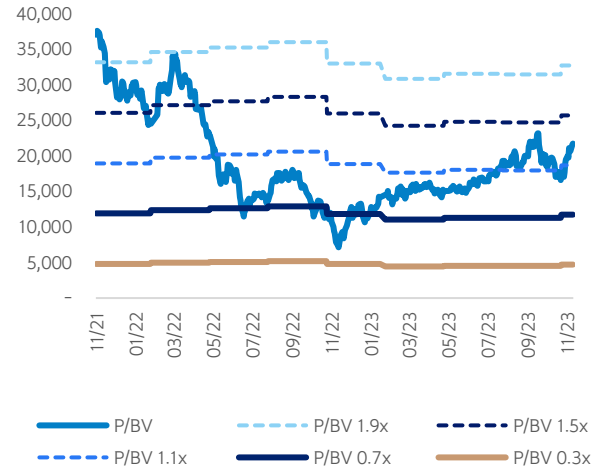


P/S band

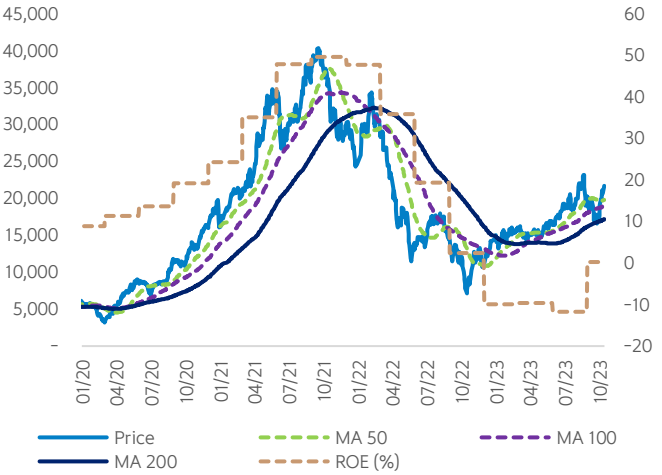


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band



ROE and MA 1 year



Source: Bloomberg data, Shinhan Securities Vietnam

Key event chart of HSG



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Total assets	**17,347**	**16,870**	**18,078**	**21,600**	**25,966**
Current assets	11,265	11,578	13,698	18,093	23,316
Cash & equivalents	597	3,125	3,470	5,705	8,302
Short-term financial asset	26	26	26	26	26
Accounts receivable	3,029	2,618	3,233	3,998	4,952
Inventories	7,613	5,808	6,970	8,364	10,036
Non-current assets	6,083	5,292	4,379	3,507	2,650
Net fixed assets	5,020	4,189	3,273	2,377	1,505
Investment assets	-	-	-	-	-
Other long-term assets	1,063	1,103	1,106	1,130	1,146
Total liabilities	**6,569**	**4,611**	**3,499**	**4,079**	**4,792**
Current liabilities	6,553	4,584	3,453	3,999	4,654
Accounts payable	2,887	2,288	2,718	3,261	3,914
Short-term borrowings	2,936	1,564	-	-	-
Others	729	732	735	738	740
Non-current liabilities	16	27	47	80	138
Long-term borrowings	-	-	-	-	-
Other financial liabilities	16	27	47	80	138
Total shareholders' equity	**10,778**	**12,258**	**14,578**	**17,521**	**21,174**
Capital stock	6,160	6,160	6,160	6,160	6,160
Capital surplus	157	157	157	157	157
Other capital	4,367	5,847	8,167	11,109	14,763
Retained earnings	78	78	78	78	78
Non-controlling interest equity	16	16	16	16	16
*Total debt	2,936	1,564	-	-	-
*Net debt (cash)	2,339	(1,561)	(3,470)	(5,705)	(8,302)

Statement of comprehensive income

Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Revenue	**32,084**	**38,822**	**46,586**	**55,903**	**67,084**
Growth (%)	-36%	21%	20%	20%	20%
COGS	**(28,593)**	**(33,318)**	**(39,582)**	**(47,498)**	**(56,998)**
Gross profit	**3,058**	**5,504**	**7,005**	**8,406**	**10,087**
GPM (%)	10%	14%	15%	15%	15%
SG&A	**(2,875)**	**(3,332)**	**(3,998)**	**(4,798)**	**(5,757)**
Operating profit	**183**	**2,172**	**3,006**	**3,608**	**4,329**
Growth (%)	-69%	1089%	38%	20%	20%
OPM (%)	1%	6%	6%	6%	6%
Non-operating profit	**(31)**	**232**	**362**	**475**	**569**
Financial income	233	283	339	407	488
Financial expense	(314)	(97)	(34)	-	-
In which: interest expenses	(195)	(97)	(34)	-	-
Net other non-operating profit	50	47	56	68	81
Pre-tax profit	**152**	**2,405**	**3,368**	**4,082**	**4,899**
Income tax	(123)	(313)	(438)	(531)	(637)
Net profit	**28**	**2,092**	**2,930**	**3,552**	**4,262**
Growth (%)	-89%	7274%	40%	21%	20%
NPM (%)	0%	5%	6%	6%	6%
Controlling interest	28	2,096	2,936	3,558	4,270
Non-controlling interest	(0)	(4)	(6)	(7)	(8)
EBIT	**347**	**2,502**	**3,402**	**4,082**	**4,899**
Growth (%)	-46%	620%	36%	20%	20%
EBIT Margin (%)	1%	6%	7%	7%	7%
EBITDA	**1,467**	**3,473**	**4,487**	**5,182**	**6,015**
Growth (%)	-19%	137%	29%	15%	16%
EBITDA margin (%)	5%	9%	10%	9%	9%

Statement of cash flow

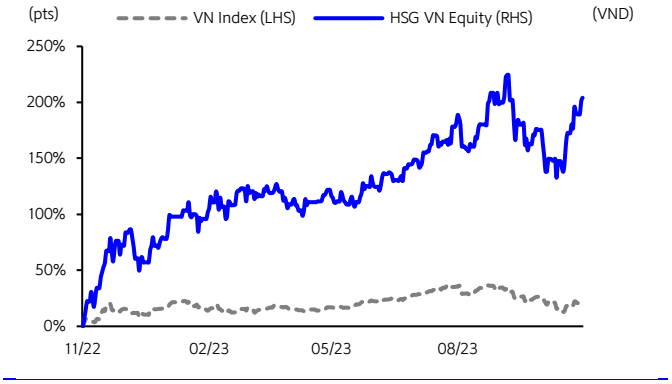
Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Cash flow from operations	**1,657**	**4,658**	**2,694**	**3,055**	**3,457**
Net profit	28	2,092	2,930	3,552	4,262
Depreciation expense	1,119	972	1,085	1,099	1,116
(Gain) from investing activities	-	-	-	-	-
Interest expense/ income	(197)	-	-	-	-
Change in working capital	1,255	1,826	(1,067)	(1,241)	(1,471)
Others	(549)	(232)	(255)	(355)	(451)
Cash flow from investments	**(141)**	**(141)**	**(169)**	**(203)**	**(244)**
Change in fixed assets	(182)	(141)	(169)	(203)	(244)
Change in investment assets	40	-	-	-	-
Others	2	-	-	-	-
Cash flow from financing	**(1,251)**	**(1,988)**	**(2,180)**	**(616)**	**(616)**
Change in equity	-	-	-	-	-
Net borrowing	(1,251)	(1,372)	(1,564)	-	-
Dividends	(0)	(616)	(616)	(616)	(616)
Change in total cash	**265**	**2,528**	**344**	**2,235**	**2,597**
Beginning cash	330	597	3,125	3,470	5,705
Change in FX rates	2	-	-	-	-
Ending cash	597	3,125	3,470	5,705	8,302

Key ratios

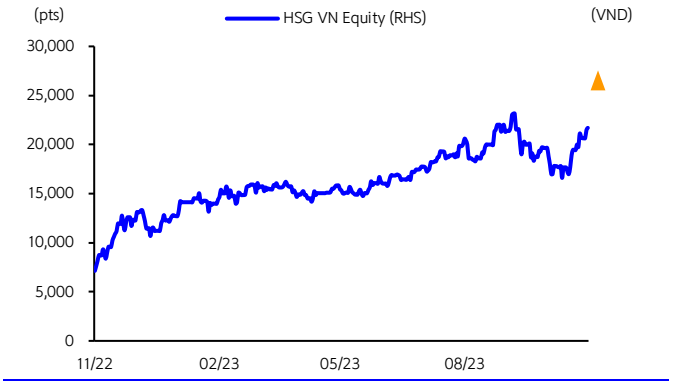
Year to Dec.	2023	2024F	2025F	2026F	2027F
EPS (VND)	1,636	3,402	4,766	5,776	6,931
BPS (VND)	17,496	19,898	23,663	28,439	34,370
DPS (VND)	0	1,000	1,000	1,000	1,000
PER (x)	13.44	6.47	4.62	3.81	3.17
PBR (x)	1.26	1.11	0.93	0.77	0.64
EV/EBITDA (x)	11.03	4.66	3.60	3.12	2.69
Dividend payout ratio (%)	0%	5%	4%	4%	3%
Dividend yield (%)	0%	5%	5%	5%	5%
Profitability					
EBITDA margin (%)	5%	9%	10%	9%	9%
OPM (%)	1%	6%	6%	6%	6%
NPM (%)	0%	5%	6%	6%	6%
ROA (%)	0%	12%	17%	18%	18%
ROE (%)	0%	18%	22%	22%	22%
Stability					
Debt to equity ratio (%)	27%	13%	0%	0%	0%
Net debt ratio (%)	160%	-45%	-77%	-110%	-138%
Cash ratio (%)	9%	68%	100%	143%	178%
Interest coverage ratio (x)	1.78	25.76	100.79		
Activity (%)					
Inventory turnover (days)	85.37	63.09	50.06	50.06	50.06
Accounts receivable turnover (days)	21.50	18.97	14.71	14.71	14.71
Accounts payable turnover (days)	25.06	28.34	23.08	22.97	22.97

Hoa Sen Group (HSG)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) Max/Min
14/04/2023 (Initiate)	HOLD	16,100	-36	-63/134
22/11/2023 (Update)	BUY	25,800	69	8/288

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

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