Shinhan Securities



Hoa Phat Group JSC

[Vietnam / Steel]

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

HOLD

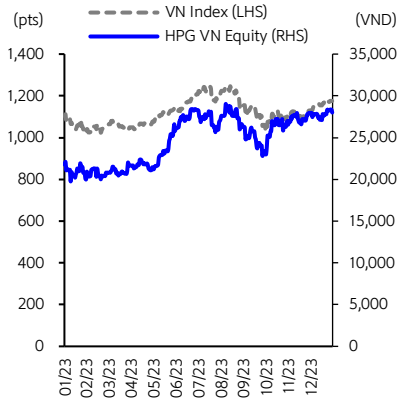
Update report

Target price (12 months)	**32,000 VND**
Current price (30/01/24)	28,000 VND
Upside/downside (%)	14.28%

VNINDEX	1,179
HNXINDEX	230
Market Cap (bn VND)	162,814
Outstanding shares (mn)	5,815
Free-Floating (mn)	2,680
52-Wk High/Low (VND)	29,400/19,700
90-day avg. trading volume (mn)	23.67
90-day avg. turnover (bn VND)	672
Major shareholders (%) Tran Dinh Long	25.8%
Major shareholders (%) Dragon Capital	7.65%

Performance	3T	6T	12T
Absolute (%)	19.9	-1.1	30.2
Relative to VN-Index (%)	9.1	1.6	25.0

Source: Bloomberg



The return of the steel king

Update with HOLD call and target price of VND 32,000

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%). Hoa Phat had a tough year in 2023 with many difficulties, however, its business results gradually improved from quarter to quarter. Entering 2024, we expect Hoa Phat's business situation to recover strongly thanks to the recovery of steel demand and steel prices. We make our updated valuation of HPG shares prices at VND 32,000, corresponding to an upside of 14.28%. We use P/E and DCF valuation methods with weights of 20% and 80%, respectively.

Updated the 2023 business results

In 2023, revenue reached VND 120,355 billion (-16% YoY), net profit reached VND 6,800 billion (-19% YoY) and the sales volume reached 6.72 million tons (-7% YoY). Although Hoa Phat's business results declined in 2023, the situation gradually improved over the quarters with revenue and gross profit margin increased. This is due to: (1) Consumption output continuously rose over the months, (2) Hoa Phat liquidated all old inventory at high prices, and (3) Average coking coal price in 2023 decreased by about 37%, thereby reducing production costs.

Demand outlook recovers with improving steel prices

The Central Bank of China will lower the reserve ratio from February 5, thereby supporting the economy and real estate companies. This is expected to increase the demand and the prices of steel. In addition, legal reforms of the domestic real estate market will contribute to promoting the real estate market and increasing domestic steel consumption. For the year 2024, we estimate revenue to reach VND 148,111 billion (+23% YoY), net profit to reach VND 15,977 billion (+135% YoY), sales volume of construction steel and HRC steel to reach 7.15 million tons (+6% YoY). The gross profit margin is expected to rise from 9% to 14%.

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 steel production capacity to more than 14 million tons/year, an increase of 66% compared to the current capacity. Up to now, the Dung Quat 2 project has reached 45% progress, according to the plan.

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.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**142,771**	**120,355**	**148,111**	**171,151**	**183,485**
OP (bn VND)	9,794	7,798	18,341	26,886	28,595
NP (bn VND)	**8,444**	**6,800**	**15,977**	**23,414**	**24,902**
EPS (VND)	1,636	1,164	2,735	4,008	4,263
BPS (VND)	18,539	17,317	19,691	23,350	27,266
OPM (%)	7%	6.5%	12%	16%	16%
NPM (%)	6%	5.6%	11%	14%	14%
ROE (%)	**9%**	**6.7%**	**14%**	**17%**	**16%**
PER (x)	11.00	24.27	10.33	7.05	6.63
PBR (x)	1.09	1.63	1.43	1.21	1.04
EV/EBITDA (x)	7.79	11.11	11.09	6.63	4.90

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Recommend with HOLD at a target price of VND 32,000

We offer an updated valuation of Hoa Phat Group JSC (HPG) with a hold recommendation and a target price of VND 32,000 for an increase of 14.28%. For long-term investment vision, HPG can be considered with the following advantages:

1) Demand recovers and steel prices improve
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%	34,200
P/E	20%	23,300
Target price		**32,000**
Current price		28,000
Upside (%)		**14.28%**

Discounted Cash Flow (DCF) method – FCFF

Unit: Billion VND	2024F	2025F	2026F	2027F	2028F
EBIT*(1-Tax rate)	18,781	26,601	28,521	30,825	33,589
Depreciation	11,605	14,404	16,416	17,399	18,465
- Changes in WC	6,482	5,660	3,250	4,005	4,942
- CAPEX	32,061	39,181	12,072	13,045	14,214
Cashflow (FCFF)	**(8,157)**	**(3,836)**	**29,615**	**31,173**	**32,899**
Terminal value					515,806
DCF	**(6,551)**	**(2,761)**	**19,103**	**18,021**	**198,632**
Firm value	254,450				
- Debt	65,061				
+ Cash and cash equivalent	9,354				
Equity value	198,742				
Target price (VND)	**34,200**				

Variable	Value
D/E	0.36
Beta	1.28
Risk-free rate	2.50%
Cost of equity	14.00%
Cost of debt	6.00%
WACC	11.58%

For WACC, we use the 10-year Vietnamese government bond yield at 2.50% 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 34,200.

P/E method

Based on the P/E method, we collect data on the average 5-year historical P/E of HPG at 8.51, we estimate HPG's target P/E at 8.51. Combined with a 2024 forward EPS of VND 2,735, the target price of HPG is valued at VND 23,300.

	2018	2019	2020	2021	2022
P/E	6.65	7.77	9.20	5.38	11.00
Average P/E	8.51				
HPG EPS Forward (VND)	2,735				
Target price (VND)	**23,300**				

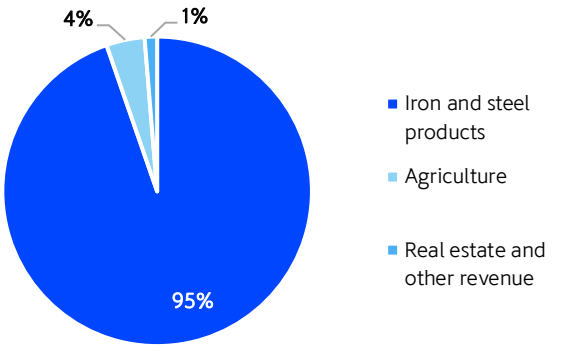
Company background

Company history

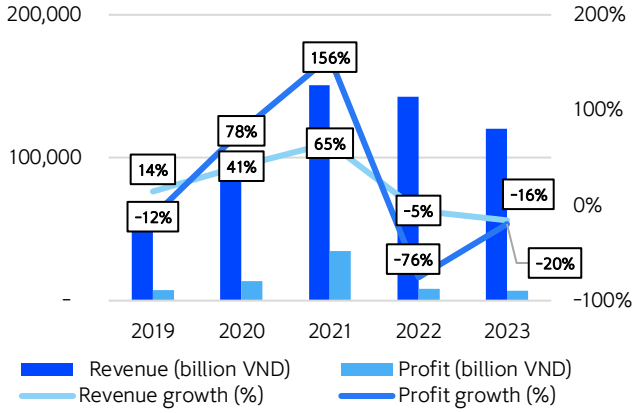
Hoa Phat was established in August 1992, beginning as a construction machine trading company, then expanded to other fields such as furniture, steel pipes, construction steel, refrigeration, real estate, and agriculture. On November 15, 2007, Hoa Phat officially listed shares on the Vietnam stock market 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 2023



Revenue and net profit of Hoa Phat 2018 – 2023

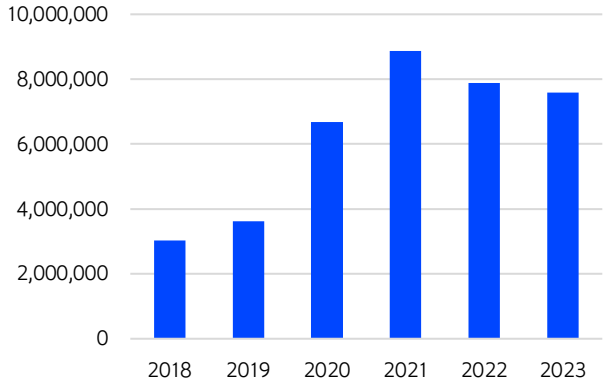


Source: Company report, Shinhan Vietnam Securities

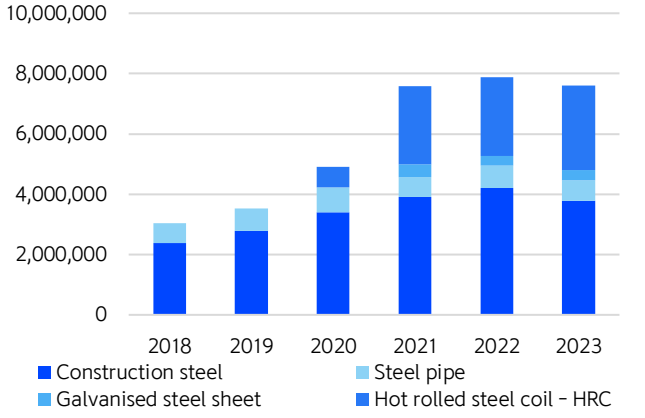
Update business results in 2023

For Q4/2023, Hoa Phat Group achieved revenue of VND 34,925 billion (+33% YoY). Profit after tax recorded VND 2,969 billion, an increase of 249% YoY and 48% QoQ. Accumulated for the whole year 2023, Hoa Phat will reach VND 120,355 billion in revenue (-16% YoY), and profit after tax will reach VND 6,800 billion (-19% YoY), equivalent to completing 85% of the 2023 profit plan.

Hoa Phat sales volume 2018 – 2023 (tons)



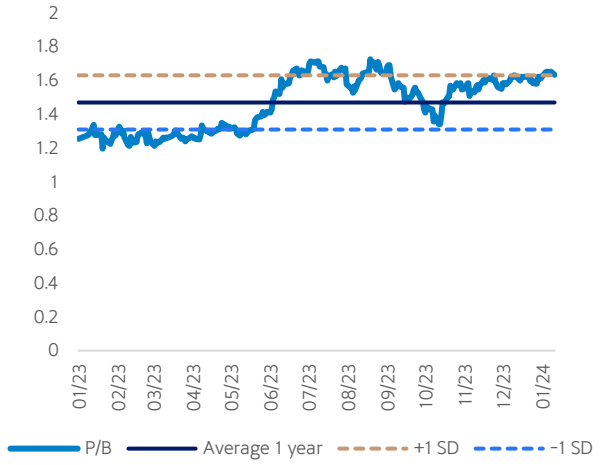
Consumption volume by product structure 2018 – 2023 (tons)



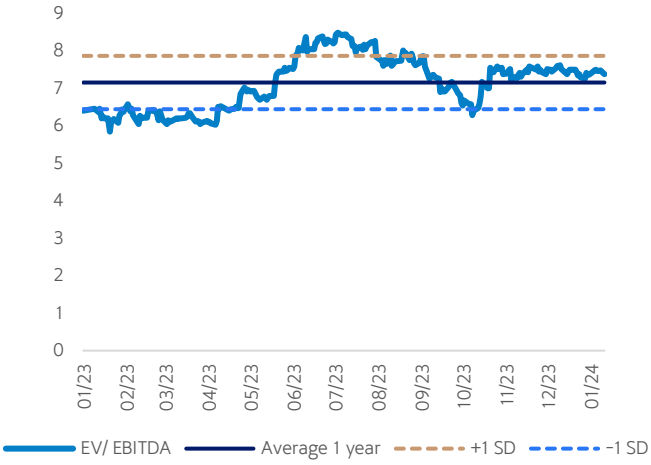
Source: Company report, Shinhan Vietnam Securities

Cumulatively for the whole year 2023, sales volume of steel of all kinds (excluding steel pipe and galvanized steel products) reached 6.72 million tons (-7% YoY). Of which, Hoa Phat's construction steel and high-quality steel recorded 3.78 million tons (-11% YoY). HRC steel consumption reached nearly 2.8 million tons (-6% YoY). In addition, Hoa Phat also provided the market with 685,000 tons of steel pipes (-9% YoY), and 329,000 tons of galvanized steel sheets of all kinds (+0.3% YoY).

P/E 1 year

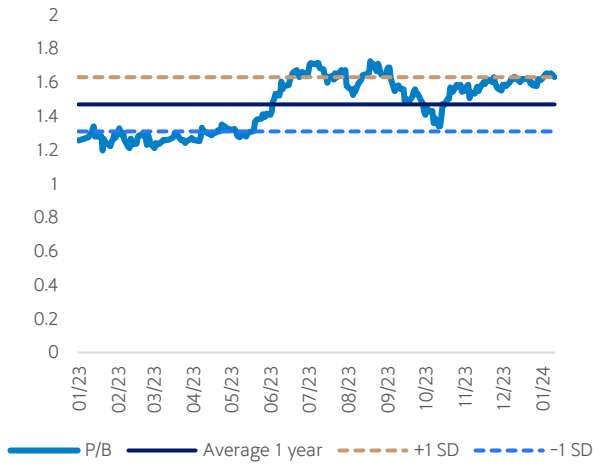


EV/EBITDA 1 year

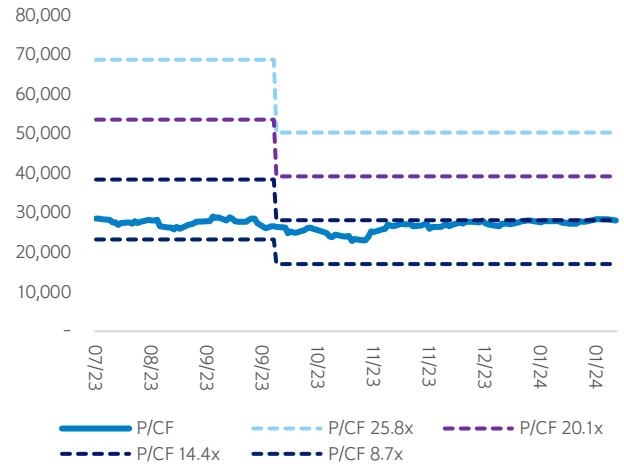


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

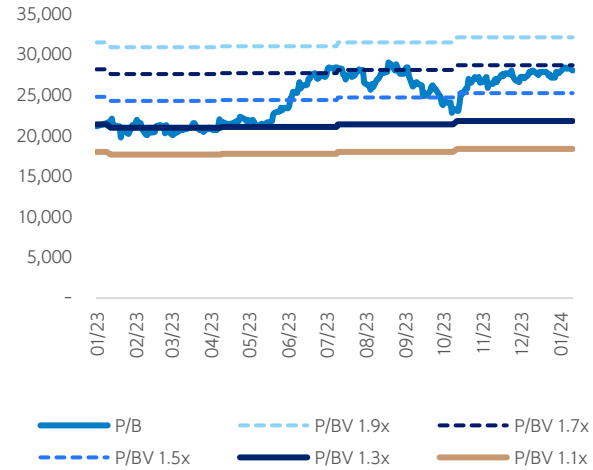


P/CF band

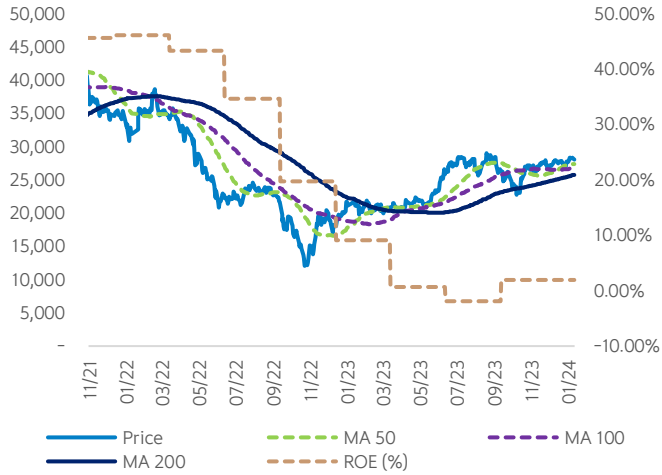


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band

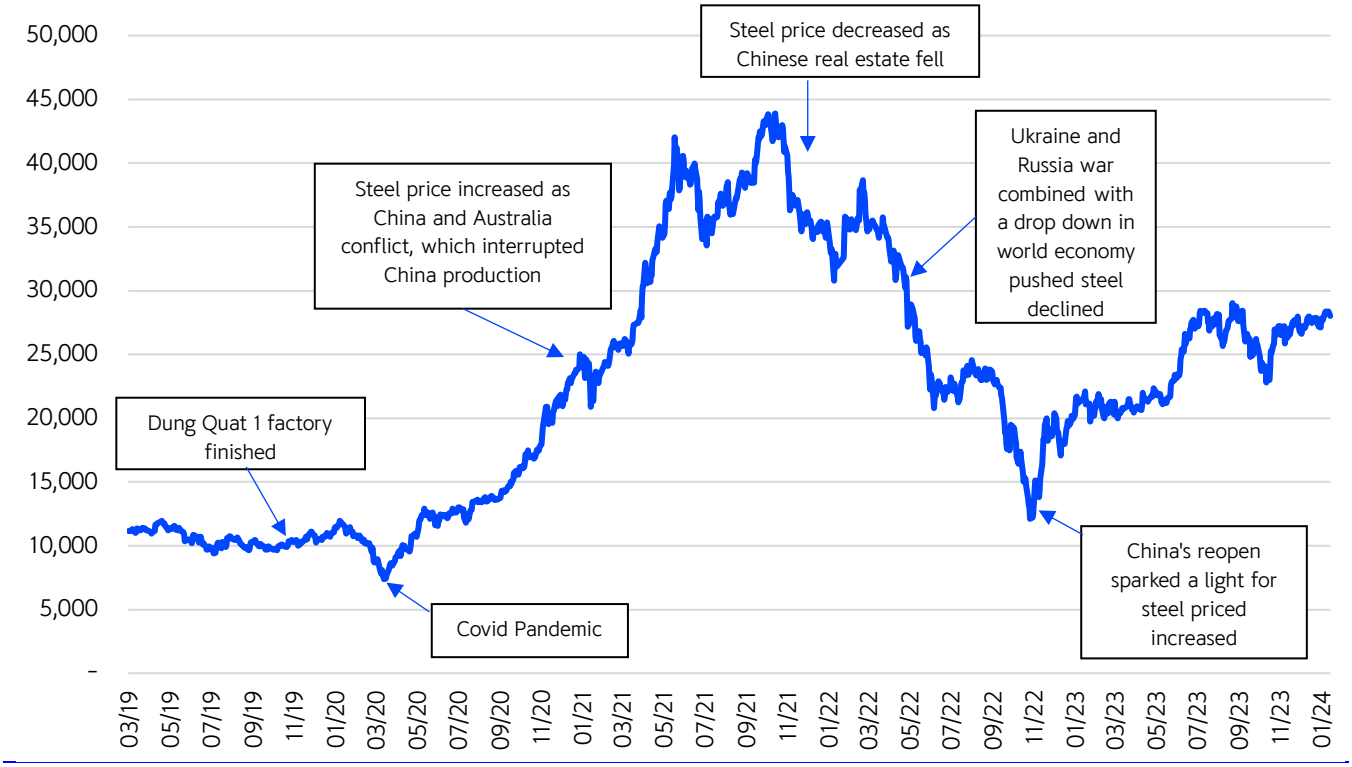


ROE and MA



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**	**184,077**	**206,477**	**241,888**	**274,568**
Current assets	80,515	71,377	73,146	83,711	120,597
Cash & equivalents	8,325	7,216	107	3,021	35,215
Short-term financial asset	26,268	26,268	26,268	26,268	26,268
Accounts receivable	11,431	8,309	10,364	12,351	14,012
Inventories	34,491	29,585	36,407	42,071	45,103
Non-current assets	89,821	112,699	133,331	158,177	153,971
Net fixed assets	70,833	93,778	114,233	139,010	134,665
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**	**83,380**	**91,980**	**106,123**	**116,040**
Current liabilities	62,385	69,644	75,742	82,868	89,814
Accounts payable	11,107	15,336	17,709	19,677	21,095
Short-term borrowings	46,749	49,758	53,460	58,595	64,099
Others	4,530	4,551	4,572	4,596	4,620
Non-current liabilities	11,837	13,736	16,238	23,255	26,225
Long-term borrowings	11,152	12,957	15,327	22,173	24,925
Other financial liabilities	686	779	912	1,082	1,300
Total shareholders' equity	**96,113**	**100,697**	**114,497**	**135,765**	**158,529**
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	38,418	52,218	73,486	96,249
Retained earnings	814	814	814	814	814
Non-controlling interest equity	106	106	106	106	106
*Total debt	57,900	62,715	68,787	80,768	89,024
*Net debt (cash)	49,576	55,499	68,680	77,747	53,810

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Revenue	**142,771**	**120,355**	**148,111**	**171,151**	**183,485**
Growth (%)	-5%	-16%	23%	16%	7%
COGS	**(124,646)**	**(109,746)**	**(126,729)**	**(140,813)**	**(150,958)**
Gross profit	**16,763**	**10,609**	**21,382**	**30,337**	**32,527**
GPM (%)	12%	9%	14%	18%	18%
SG&A	**(3,685)**	**(2,654)**	**(3,266)**	**(3,774)**	**(4,046)**
Operating profit	**13,078**	**7,955**	**18,115**	**26,563**	**28,481**
Growth (%)	-65%	-39%	128%	47%	7%
OPM (%)	9%	7%	12%	16%	16%
Non-operating profit	**(3,155)**	**(139)**	**245**	**342**	**135**
Financial income	3,744	2,803	3,450	3,986	4,273
Financial expense	(7,027)	(2,959)	(3,226)	(3,669)	(4,166)
In which: interest expenses	(3,084)	(2,959)	(3,226)	(3,669)	(4,166)
Net other non-operating profit	128	17	22	25	27
Pre-tax profit	**9,923**	**7,816**	**18,360**	**26,905**	**28,615**
Income tax	(1,479)	(1,016)	(2,387)	(3,498)	(3,720)
Net profit	**8,444**	**6,800**	**15,973**	**23,407**	**24,895**
Growth (%)	-76%	-19%	135%	47%	6%
NPM (%)	6%	6%	11%	14%	14%
Controlling interest	8,484	6,769	15,899	23,299	24,780
Non-controlling interest	(39)	(31)	(74)	(108)	(115)
EBIT	**13,007**	**10,775**	**21,586**	**30,574**	**32,781**
Growth (%)	-67%	-17%	100%	42%	7%
EBIT Margin (%)	9%	9%	15%	18%	18%
EBITDA	**19,821**	**19,862**	**33,192**	**44,979**	**49,197**
Growth (%)	-57%	0%	67%	36%	9%
EBITDA margin (%)	14%	17%	22%	26%	27%

Statement of cash flow

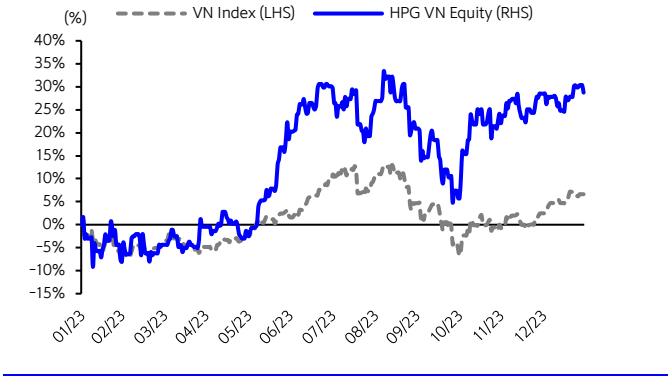
Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Cash flow from operations	**12,192**	**28,356**	**21,127**	**32,362**	**38,256**
Net profit	9,923	7,816	18,360	26,905	28,615
Depreciation expense	6,814	9,087	11,605	14,404	16,416
(Gain) from investing activities	(1,822)	-	-	-	-
Interest expense/ income	49	-	-	-	-
Change in working capital	(1,954)	12,743	(5,848)	(4,818)	(2,138)
Others	(819)	(1,322)	(3,064)	(4,238)	(4,753)
Cash flow from investments	**(24,712)**	**(32,032)**	**(32,061)**	**(39,181)**	**(12,072)**
Change in fixed assets	(17,966)	(32,032)	(32,061)	(39,181)	(12,072)
Change in investment assets	14	-	-	-	-
Others	(6,759)	-	-	-	-
Cash flow from financing	**(1,617)**	**2,567**	**3,825**	**9,733**	**6,009**
Change in equity	4	-	-	-	-
Net borrowing	626	4,814	6,073	11,981	8,257
Dividends	(2,247)	(2,247)	(2,247)	(2,247)	(2,247)
Change in total cash	**(14,137)**	**(1,109)**	**(7,109)**	**2,914**	**32,194**
Beginning cash	22,471	8,325	7,216	107	3,021
Change in FX rates	(10)	-	-	-	-
Ending cash	8,325	7,216	107	3,021	35,215

Key ratios

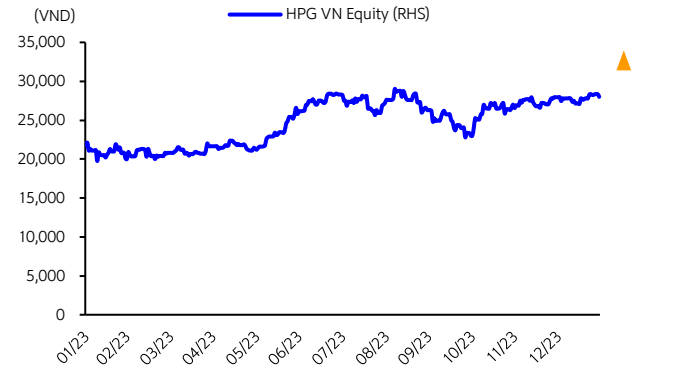
Year to Dec.	2022	2023F	2024F	2025F	2026F
EPS (VND)	1,636	1,164	2,734	4,007	4,262
BPS (VND)	18,539	17,317	19,691	23,348	27,263
DPS (VND)	433	386	386	386	386
PER (x)	11.00	24.27	10.33	7.05	6.63
PBR (x)	1.09	1.63	1.43	1.21	1.04
EV/EBITDA (x)	7.79	11.11	11.09	6.63	4.90
Dividend payout ratio (%)	2%	2%	2%	2%	1%
Dividend yield (%)	2%	1%	1%	1%	1%
Profitability					
EBITDA margin (%)	14%	17%	22%	26%	27%
OPM (%)	9%	7%	12%	16%	16%
NPM (%)	6%	6%	11%	14%	14%
ROA (%)	5%	4%	8%	10%	10%
ROE (%)	9%	7%	15%	19%	17%
Stability					
Debt to equity ratio (%)	60%	62%	60%	59%	56%
Net debt ratio (%)	250%	279%	207%	173%	109%
Cash ratio (%)	13%	10%	0%	4%	39%
Interest coverage ratio (x)	4.22	3.64	6.69	8.33	7.87
Activity (%)					
Inventory turnover (days)	97.95	97.16	81.31	83.68	86.71
Accounts receivable turnover (days)	22.44	24.57	17.34	17.85	18.49
Accounts payable turnover (days)	51.01	43.97	47.59	48.45	49.29

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
30/01/2023 (Update)	HOLD	32,000	48	4/158

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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