Shinhan Securities



Hoa Sen Group

[Vietnam / Steel]

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

HOLD

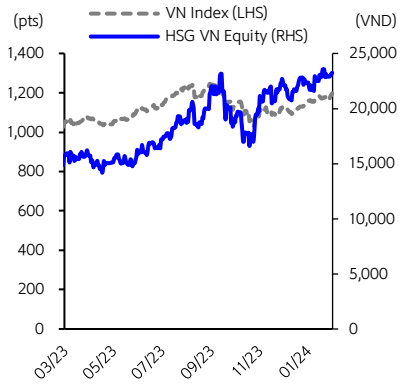
Update report

Target price (12 months)	**24,700 VND**
Current price (21/02/24)	22,700 VND
Upside/downside (%)	8.81%

VNINDEX	1,230
HNXINDEX	234
Market Cap (bn VND)	13,892
Outstanding shares (mn)	616
Free-Floating (mn)	414
52-Wk High/Low (VND)	23,900/13,884
90-day avg. trading volume (mn)	11.48
90-day avg. turnover (bn VND)	261
Major shareholders (%)	Hoa Sen Investment and Tourism Co., Ltd 19.87%
	Le Phuoc Vu 17.02%

Performance	3T	6T	12T
Absolute (%)	6.7	24.5	47.2
Relative to VN-Index (%)	-4.6	20.2	34.1

Source: Bloomberg



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Consumption demand is strengthened

Update with HOLD call and target price of VND 24,700

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 retail construction materials. Hoa Sen's business situation in Q1/2024 improved significantly compared to the same period last year. Business operations are expected to continue to grow thanks to continued recovery in both domestic and export demand. We update the valuation of HSG shares at VND 24,700, corresponding to a profit of 8.81%. We use DCF and P/E valuation methods to value Hoa Sen.

Updated Q1/2024 business results

Hoa Sen recorded Q1/2024 revenue reaching VND 9,250 billion (+16% YoY), Q1/2024 profit after tax reached VND 103 billion, while the same period Q1/2023 recorded a loss of VND 680 billion. Hoa Sen's gross profit margin has gradually improved from 2.02% in Q1/2023 to 10.47% in Q1/2024. This comes from the fact that the business has completed the liquidation of inventory at high prices, thereby significantly reducing the cost of goods sold.

Improve demand in both foreign and domestic markets

We estimate revenue in 2024 to reach VND 37,099 billion (+16% YoY), profit after tax to reach VND 1,412 billion, and sales volume of all types of steel is expected to reach 1.61 million tons (+15% YoY). We expect: (1) Domestic demand will grow by about 16% thanks to the recovery of the real estate market. Legal reforms of the domestic real estate market will contribute to promoting the real estate market therefore increasing domestic demand for steel consumption. (2) The export market is expected to grow by about 20% thanks to the Chinese government's support packages for the real estate market and the growth of world consumption demand. According to the World Steel Association, steel demand in 2024 for Vietnam's main export markets such as the US, EU, and ASEAN is forecast to grow by 1.6%, 5.8%, and 5.2% respectively.

Long-term growth prospects for Hoa Sen Home Construction Materials Supermarket chain

By the end of December 2023, the Hoa Sen Home system had 114 stores nationwide. Hoa Sen Home chain is currently continuing to expand product lines with better profit margins, while reducing operating costs, thereby improving profits for Hoa Sen Group.

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**	**37,099**	**44,519**	**53,423**	**64,107**
OP (bn VND)	96	1,578	3,147	3,819	4,583
NP (bn VND)	**30**	**1,412**	**2,785**	**3,379**	**4,054**
EPS (VND)	1,636	2,296	4,529	5,494	6,593
BPS (VND)	17,498	18,795	22,323	26,817	32,410
OPM (%)	0%	4%	7%	7%	7%
NPM (%)	0%	4%	6%	6%	6%
ROE (%)	**9%**	**12%**	**20%**	**20%**	**20%**
PER (x)	14.12	10.06	5.10	4.20	3.50
PBR (x)	1.32	1.23	1.03	0.86	0.71
EV/EBITDA (x)	11.27	6.16	3.84	3.33	2.87

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Recommend with HOLD at a target price of VND 24,700

We offer an updated valuation of Hoa Sen Group (HSG) with a hold recommendation and a target price of VND 24,700 for an increase of 8.81%. 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) Improve demand in both foreign and domestic market
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 (DCF) valuation methods with the weights of 20% and 80% respectively to value Hoa Sen Group (HSG).

Method	Weight	Price
FCFF	80%	25,000
P/E	20%	23,400
Target price (VND)		**24,700**
Current price (VND)		22,700
Upside (%)		8.81%

Discounted Cash Flow (DCF) method – FCFF

Unit: Billion VND	2024F	2025F	2026F	2027F	2028F
EBIT*(1-Tax rate)	1,498	2,815	3,379	4,054	4,577
Depreciation	972	1,085	1,099	1,116	756
- Changes in WC	-1,907	1,341	1,557	1,904	1,715
- CAPEX	141	169	203	244	275
Cashflow (FCFF)	**4,235**	**2,390**	**2,718**	**3,022**	**3,343**
Terminal value					27,993
DCF	**3,767**	**1,891**	**1,912**	**1,891**	**8,300**
Firm value	17,760				
- Debt	2,965				
+ Cash and cash equivalent	603				
Equity value	15,398				
Target price (VND)	25,000				

Variable	Value
D/E	0.21
Beta	1.31
Risk-free rate	2.5%
Cost of equity	14.3%
Cost of debt	4.2%
WACC	12.4%

For WACC, we use the 10-year Vietnamese government bond yield at 2.5% 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 25,000.

P/E method

Based on the P/E method, we collect historical P/E data for 5 years to calculate the average of the 5-year historical P/E of HSG at 10.19, we estimate HSG's target P/E at 10.19. Combined with a 2024 forward EPS of VND 2,296, the target price of HSG is valued at VND 23,400.

	2018	2019	2020	2021	2022
P/E	5.89	8.91	8.40	4.08	23.67
Average	10.19				
HSG EPS Forward (VND)	2,296				
P/E Target	10.19				
Target price (VND)	**23,400**				

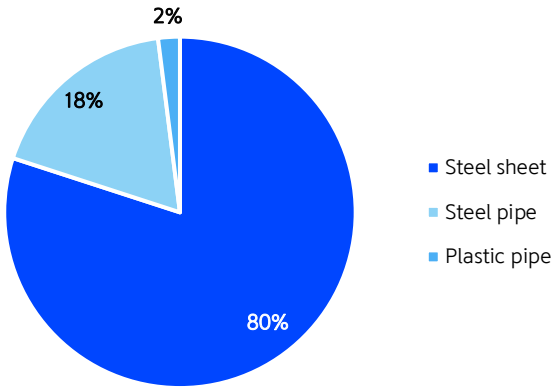
Company background

Company history

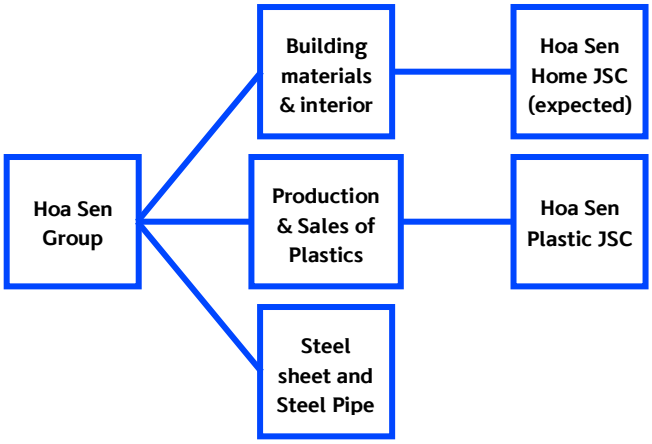
Hoa Sen Group (HSG) was established on August 8, 2001. In 2008, the Company was officially listed on HOSE with the stock ticker HSG. Over 20 years of establishment, Hoa Sen Group has become the number one enterprise in the field of galvanized steel sheets in Vietnam in both domestic and foreign markets,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

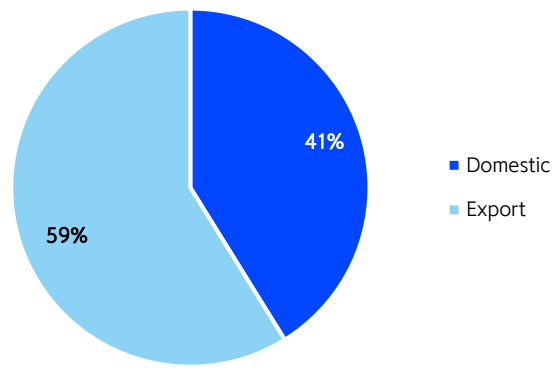


Source: Company Report, Shinhan Securities Vietnam

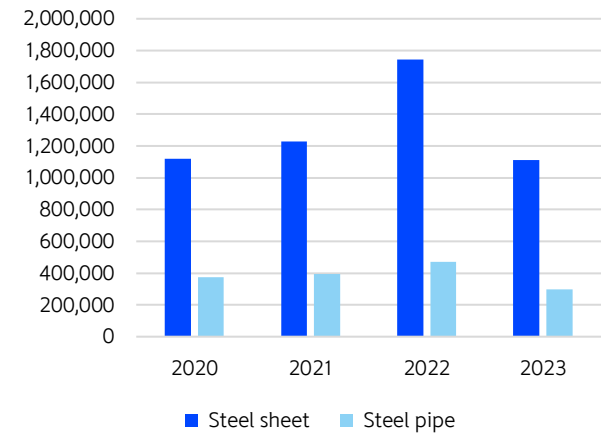
Hoa Sen Group has three main business segments including the Production and trading of steel sheets and steel pipes; the distribution of building materials and interior decoration and plastic production. Which, the plastic business segment is in charge of Hoa Sen Plastic JSC. Hoa Sen Group also plans 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.

Domestic and export revenue structure in 2023 (%)



Hoa Sen galvanized steel and steel pipe output 2020 - 2023 (tons)



Source: Company Report, Shinhan Securities Vietnam

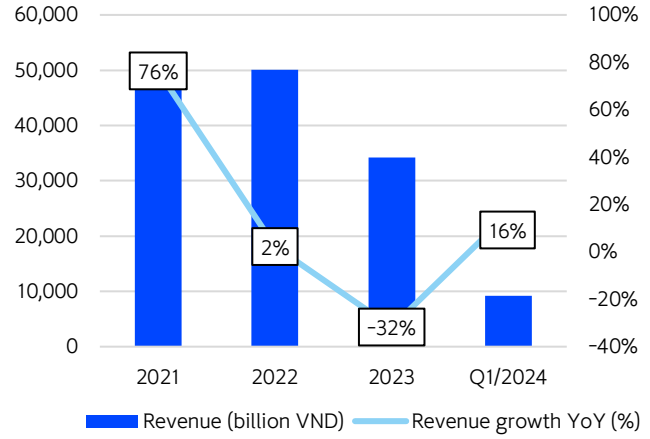
Update business results in Q1/2024

At the end of the first quarter of the 2023-2024 fiscal year (corresponding to the 4th quarter of 2023), Hoa Sen Group Joint Stock Company recorded net revenue in Q1/2024 reaching VND 9,250 billion, an increase of 16% YoY and 12% QoQ. Profit after tax reached VND 103 billion in Q1/2024, while the same period last year recorded a loss of VND 680 billion.

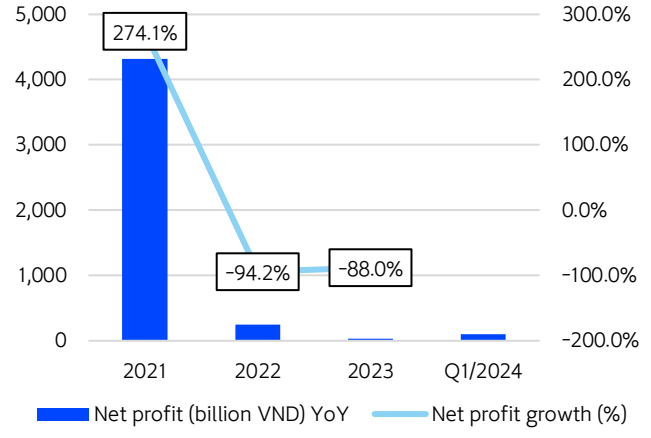
HSG's gross profit margin improved compared to the previous year, in which HSG's gross profit margin increased from 2.02% in Q1/2023 to 10.47% in Q1/2024. This comes from the fact that Hoa Sen has liquidated all old inventory at high prices, thereby helping to reduce the cost of goods sold in 2024.

Hoa Sen's net profit margin decreased from 5.41% in Q4/2023 to 1.14% in Q1/2024, this mainly comes from (1) Selling costs/revenue increased from 6.81% in Q4/2023 to 8.1% in Q1/2024. Sea freight rates increased sharply at the end of the year due to the impact of the war in the Red Sea area, thereby raising Hoa Sen's selling costs. (2) Gross profit margin decreased from 13.22% in Q4/2023 to 10.47% in Q1/2024. This comes from the fact that HRC steel prices in Q1/2024 have increased by about 14% compared to Q4/2023.

Hoa Sen revenue 2021 – Q1/2024

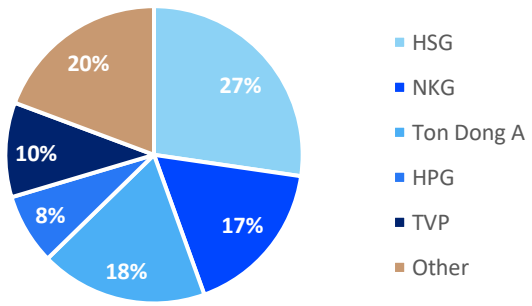


Hoa Sen net profit 2021 – Q1/2024

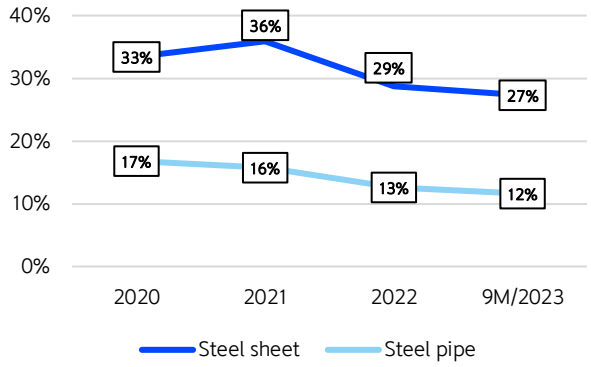


Source: Company Report, Shinhan Securities Vietnam

Steel sheet market share in 9M/2023 (%)



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

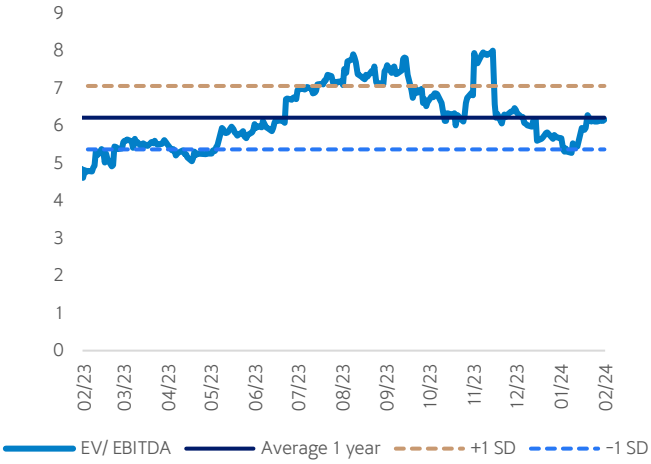


Source: Company Report, Shinhan Securities Vietnam

P/E 1 year

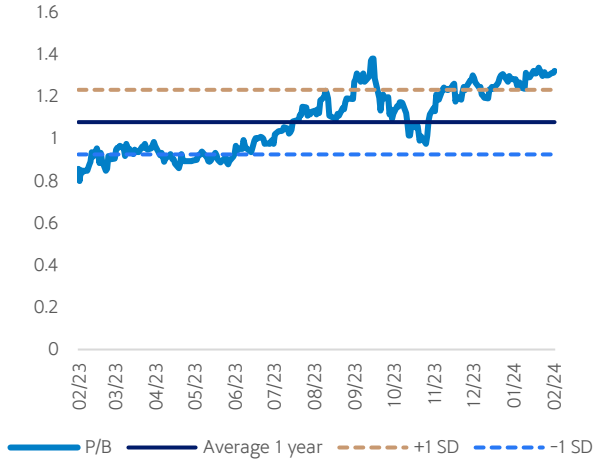


EV/EBITDA 1 year

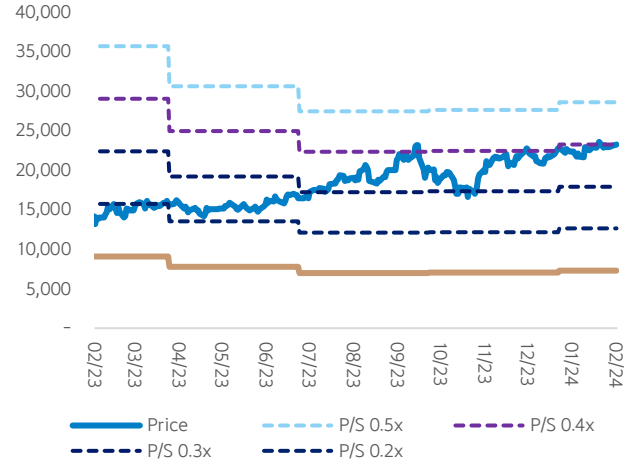


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

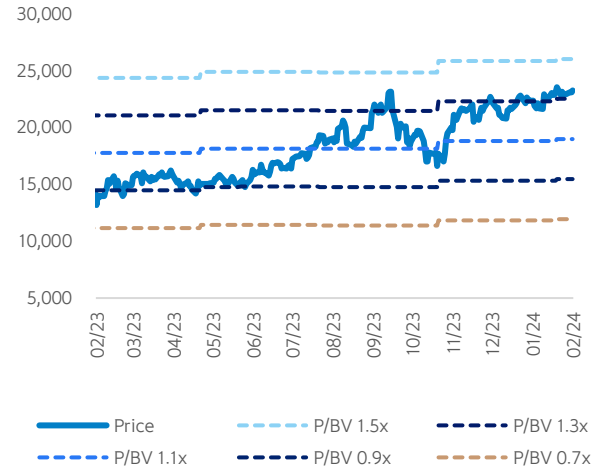


P/S band

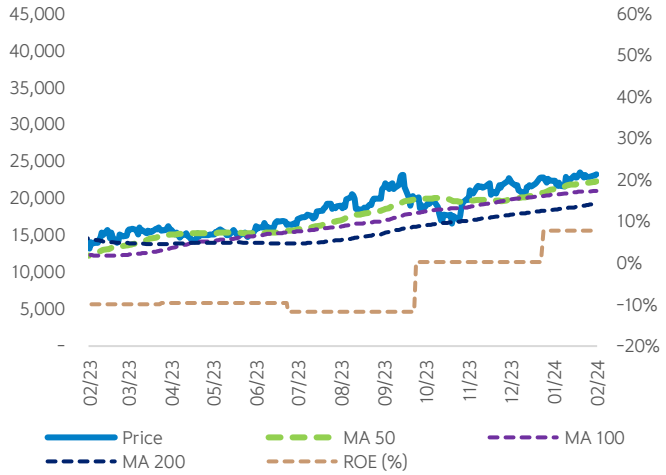


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band

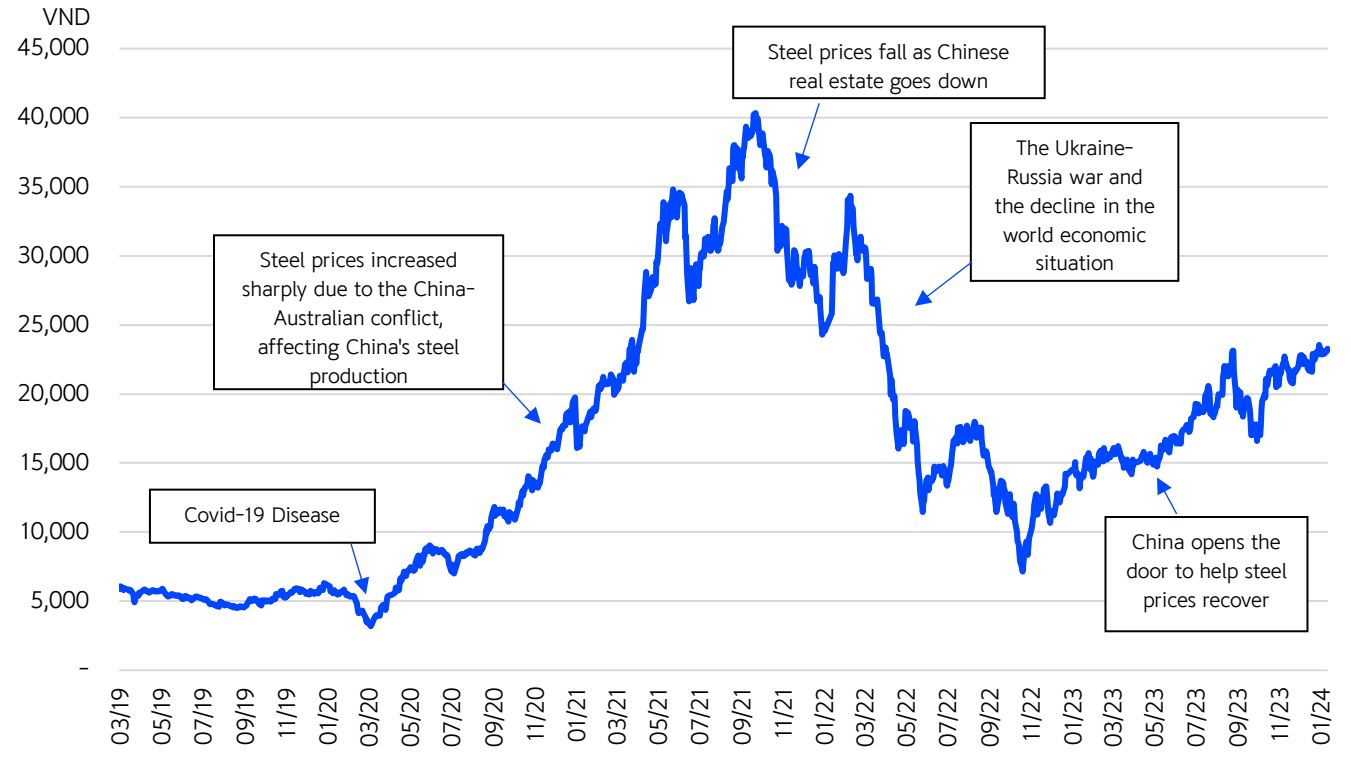


ROE and MA 1 year



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	**17,365**	**16,212**	**17,149**	**20,473**	**24,603**
Current assets	11,275	10,916	12,764	16,962	21,947
Cash & equivalents	597	2,797	2,935	5,054	7,508
Short-term financial asset	26	26	26	26	26
Accounts receivable	3,023	2,542	3,142	3,888	4,820
Inventories	7,629	5,551	6,662	7,994	9,593
Non-current assets	6,090	5,296	4,385	3,511	2,656
Net fixed assets	5,020	4,189	3,273	2,377	1,505
Investment assets	-	-	-	-	-
Other long-term assets	1,071	1,107	1,112	1,134	1,151
Total liabilities	**6,585**	**4,634**	**3,397**	**3,952**	**4,636**
Current liabilities	6,569	4,606	3,350	3,872	4,498
Accounts payable	2,885	2,231	2,597	3,117	3,740
Short-term borrowings	2,936	1,625	-	-	-
Others	747	750	753	755	758
Non-current liabilities	16	27	47	80	138
Long-term borrowings	-	-	-	-	-
Other financial liabilities	16	27	47	80	138
Total shareholders' equity	**10,780**	**11,579**	**13,753**	**16,521**	**19,967**
Capital stock	6,160	6,160	6,160	6,160	6,160
Capital surplus	157	157	157	157	157
Other capital	4,369	5,168	7,342	10,110	13,556
Retained earnings	78	78	78	78	78
Non-controlling interest equity	16	16	16	16	16
*Total debt	2,936	1,625	-	-	-
*Net debt (cash)	2,339	(1,172)	(2,935)	(5,054)	(7,508)

Statement of comprehensive income

Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Revenue	**32,084**	**37,099**	**44,519**	**53,423**	**64,107**
Growth (%)	-36%	16%	20%	20%	20%
COGS	**(28,590)**	**(32,506)**	**(37,837)**	**(45,405)**	**(54,486)**
Gross profit	**3,061**	**4,593**	**6,682**	**8,018**	**9,622**
GPM (%)	10%	12%	15%	15%	15%
SG&A	**(2,884)**	**(3,186)**	**(3,823)**	**(4,588)**	**(5,505)**
Operating profit	**177**	**1,407**	**2,858**	**3,430**	**4,116**
Growth (%)	-70%	696%	103%	20%	20%
OPM (%)	1%	4%	6%	6%	6%
Non-operating profit	**(31)**	**216**	**343**	**453**	**544**
Financial income	233	270	324	389	467
Financial expense	(314)	(98)	(35)	-	-
In which: interest expenses	(195)	(98)	(35)	-	-
Net other non-operating profit	50	45	54	64	77
Pre-tax profit	**146**	**1,623**	**3,201**	**3,883**	**4,660**
Income tax	(116)	(211)	(416)	(505)	(606)
Net profit	**30**	**1,412**	**2,785**	**3,379**	**4,054**
Growth (%)	-88%	4597%	97%	21%	20%
NPM (%)	0%	4%	6%	6%	6%
Controlling interest	30	1,415	2,790	3,385	4,062
Non-controlling interest	(0)	(3)	(5)	(6)	(7)
EBIT	**342**	**1,722**	**3,236**	**3,883**	**4,660**
Growth (%)	-47%	404%	88%	20%	20%
EBIT Margin (%)	1%	5%	7%	7%	7%
EBITDA	**1,472**	**2,693**	**4,322**	**4,983**	**5,776**
Growth (%)	-18%	83%	60%	15%	16%
EBITDA margin (%)	5%	7%	10%	9%	9%

Statement of cash flow

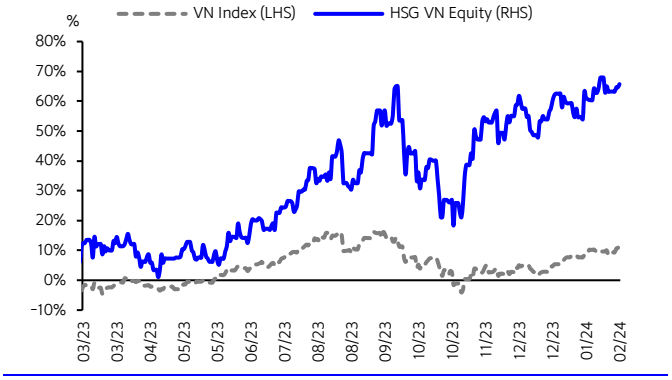
Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Cash flow from operations	**1,866**	**4,269**	**2,549**	**2,938**	**3,315**
Net profit	30	1,412	2,785	3,379	4,054
Depreciation expense	1,131	972	1,085	1,099	1,116
(Gain) from investing activities	-	-	-	-	-
Interest expense/ income	(197)	-	-	-	-
Change in working capital	1,435	2,114	(1,064)	(1,185)	(1,404)
Others	(533)	(229)	(258)	(355)	(452)
Cash flow from investments	**(350)**	**(141)**	**(169)**	**(203)**	**(244)**
Change in fixed assets	(374)	(141)	(169)	(203)	(244)
Change in investment assets	22	-	-	-	-
Others	2	-	-	-	-
Cash flow from financing	**(1,251)**	**(1,927)**	**(2,241)**	**(616)**	**(616)**
Change in equity	-	-	-	-	-
Net borrowing	(1,251)	(1,311)	(1,625)	-	-
Dividends	(0)	(616)	(616)	(616)	(616)
Change in total cash	**265**	**2,200**	**138**	**2,118**	**2,455**
Beginning cash	330	597	2,797	2,935	5,054
Change in FX rates	2	-	-	-	-
Ending cash	597	2,797	2,935	5,054	7,508

Key ratios

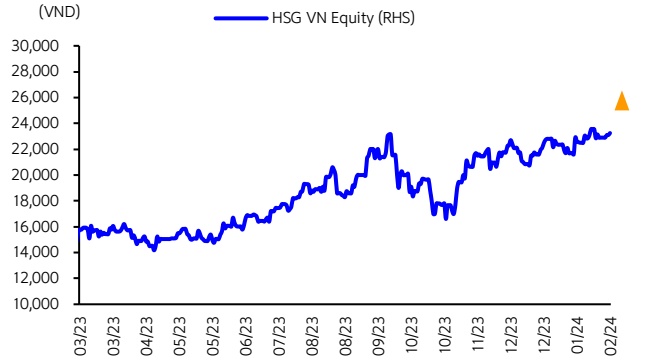
Year to Dec.	2023	2024F	2025F	2026F	2027F
EPS (VND)	1,636	2,296	4,529	5,494	6,593
BPS (VND)	17,498	18,795	22,323	26,817	32,410
DPS (VND)	0	1,000	1,000	1,000	1,000
PER (x)	14.12	10.06	5.10	4.20	3.50
PBR (x)	1.32	1.23	1.03	0.86	0.71
EV/EBITDA (x)	11.27	6.16	3.84	3.33	2.87
Dividend payout ratio (%)	0%	5%	4%	4%	3%
Dividend yield (%)	0%	4%	4%	4%	4%
Profitability					
EBITDA margin (%)	5%	7%	10%	9%	9%
OPM (%)	1%	4%	6%	6%	6%
NPM (%)	0%	4%	6%	6%	6%
ROA (%)	0%	8%	17%	18%	18%
ROE (%)	0%	13%	22%	22%	22%
Stability					
Debt to equity ratio (%)	27%	14%	0%	0%	0%
Net debt ratio (%)	159%	-44%	-68%	-101%	-130%
Cash ratio (%)	9%	61%	88%	131%	167%
Interest coverage ratio (x)	1.75	17.49	92.28		
Activity (%)					
Inventory turnover (days)	85.46	64.84	50.07	50.07	50.07
Accounts receivable turnover (days)	21.47	19.44	14.71	14.71	14.71
Accounts payable turnover (days)	25.05	28.73	23.29	22.97	22.97

Hoa Sen Group (HSG)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
14/04/2023 (Initiate)	HOLD	16,100	-36	-63/134
22/11/2023 (Update)	BUY	25,800	69	8/288
21/02/2024 (Update)	HOLD	24,700	63	4/274

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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