March 01st, 2024

Shinhan Securities



Nam Kim Steel JSC

[Vietnam / Steel]

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

BUY

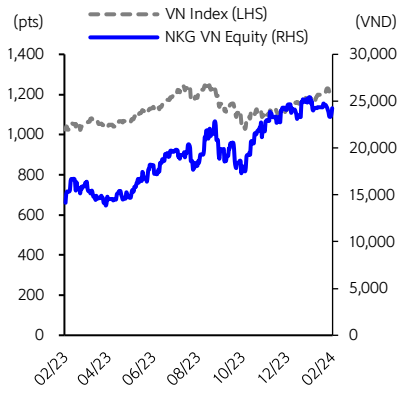
Update report

Target price (12 months)	**27,700 VND**
Current price (01/03/24)	24,150 VND
Upside/downside (%)	15%

VNINDEX			1,258
HNXINDEX			236
Market Cap (bn VND)			6,358
Outstanding shares (mn)			263
Free-Floating (mn)			160
52-Wk High/Low (VND)			25,800/13,800
90-day avg. trading volume (mn)			9.99
90-day avg. turnover (bn VND)			226
Major shareholders (%)	Ho Minh Quang		11.84%
	Unicoh Specialty Chemicals		5.85%

Performance	3T	6T	12T
Absolute (%)	11.2	34.0	70.8
Relative to VN-Index (%)	-1.8	30.1	50.4

Source: Bloomberg



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Update with BUY call and target price of VND 27,700

Nam Kim Steel JSC (NKG) is the top 3 largest enterprises in the field of galvanized steel with export markets to more than 50 countries globally. Nam Kim's business situation has had many positive changes and the business has returned to profit in 2023. Entering 2024, with domestic and export demand for steel improving strongly, the business results of Nam Kim are expected to have drastic changes. Along with that, Phu My factory will be a long-term growth driver for Nam Kim. We update the target price for NKG shares at VND 27,700, corresponding to an upside of 15%. We use DCF and P/E valuation methods with weights of 70% and 30%, respectively.

Updated business results of 2023

Nam Kim recorded 2023 revenue reaching VND 18,596 billion (+3.7%YoY), profit after tax reaching VND 117 billion, while the same period recorded a loss of VND -125 billion. Nam Kim has liquidated all old inventory at high prices, thereby significantly improving the gross profit margin. In addition, Nam Kim's sales and administrative expenses also decreased -47% YoY thanks to a reduction in transportation costs.

Both domestic and export markets show signs of recovery

We estimate revenue in 2024 to reach VND 22,538 billion (+21% YoY), profit after tax to reach VND 489 billion, and sales volume to reach 1.03 million tons (+20% YoY). We expect: (1) Nam Kim's domestic steel consumption demand will grow by about 20% thanks to the recovery of the domestic real estate market. Legal reforms in the real estate sector will form the basis for the real estate market to recover in 2024. (2) Nam Kim's export revenue is expected to grow by about 23% thanks to support packages of the Chinese government for the real estate market, which will strengthen steel demand. Besides, according to the World Steel Association, steel consumption demand in 2024 of 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.

Nam Kim Phu My project is ready to expand capacity when the steel industry recovers

Nam Kim Phu My project is expected to double Nam Kim's current capacity from 1 million tons in 2023 to 2.2 million tons in 2027. The project is divided into 3 phases in 2024, 2025, and 2027, each phase increases capacity to 400,000 tons. The project is assessed to elevate the company in the long-term prospect, taking advantage of opportunities when the steel market recovers.

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)	**18,621**	**22,538**	**27,084**	**32,501**	**39,001**
OP (bn VND)	177	562	1,099	1,295	1,530
NP (bn VND)	**117**	**489**	**957**	**1,127**	**1,331**
EPS (VND)	446	1,859	3,634	4,281	5,057
BPS (VND)	20,598	21,457	24,091	27,372	31,429
OPM (%)	1%	2%	4%	4%	4%
NPM (%)	1%	2%	4%	3%	3%
ROE (%)	**2%**	**9%**	**15%**	**16%**	**16%**
PER (x)	55.28	12.86	6.58	5.58	4.73
PBR (x)	0.60	1.11	0.99	0.87	0.76
EV/EBITDA (x)	33.89	12.15	7.45	4.83	4.02

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Recommend with BUY at a target price of VND 27,700

We offer an update valuation of Nam Kim Steel JSC (NKG) with a buy recommendation and a target price of VND 27,700 for an increase of 15%. For long-term investment vision, NKG can be considered with the following advantages:

1) Business situation improves
2) Domestic and export markets recover
3) Prospects of Nam Kim Phu My project is ready to expand capacity to seize opportunities

Valuation method

We apply a combination of P/E and Discounted Cash Flow (FCFF) valuation methods with the weights of 30% and 70% respectively to value Nam Kim Steel JSC (NKG).

Method	Proportion	Price
FCFF	70%	28,300
P/E	30%	26,200
The target price (VND)		**27,700**
Current price (VND)		24,150
Upside (%)		15%

The Discounted Cash Flow (DCF) method – FCFF

Unit: billion VND	2024F	2025F	2026F	2027F	2028F
EBIT*(1-tax rate (%))	783	1,325	1,590	1,908	2,099
Depreciation	479	603	727	836	893
- Change in working capital	993	1,234	1,669	2,003	1,202
- Investment capital	1,564	1,570	1,576	1,210	271
Free Cash Flow (FCFF)	**-1,295**	**-875**	**-929**	**-469**	**1,519**
Long-term growth rate (%)	0%				
Discount rate (%)	12.3%				
Terminal Value					38,544
Present value of free cash flow	**(1,156)**	**(698)**	**(661)**	**(298)**	**14,246**
Enterprise value	11,434				
- In debt	4,768				
+ Cash and cash equivalents	785				
Equity value	7,452				
Target price (VND)	**28,300**				

Variable	Value
D/E	0.76
Beta	1.51
Risk-free rate	2.5%
Cost of equity	18.1%
Cost of debt	5.9%
WACC	12.3%

For the Weighted average cost of capital (WACC), we use the 10-year Vietnamese government bond yield at 2.5% as the risk-free rate. Beta is calculated based on historical data of the last 5 years of NKG and VNINDEX. Based on those assumptions, NKG's FCFF target price is valued at VND 28,300.

P/E method

Based on the P/E method, we collect an average P/E of the industry at 7.21, we estimate NKG's target P/E will be the same as the industry. Combined with a forward EPS of 2024 at VND 3,634, NKG's target price is valued at VND 26,200.

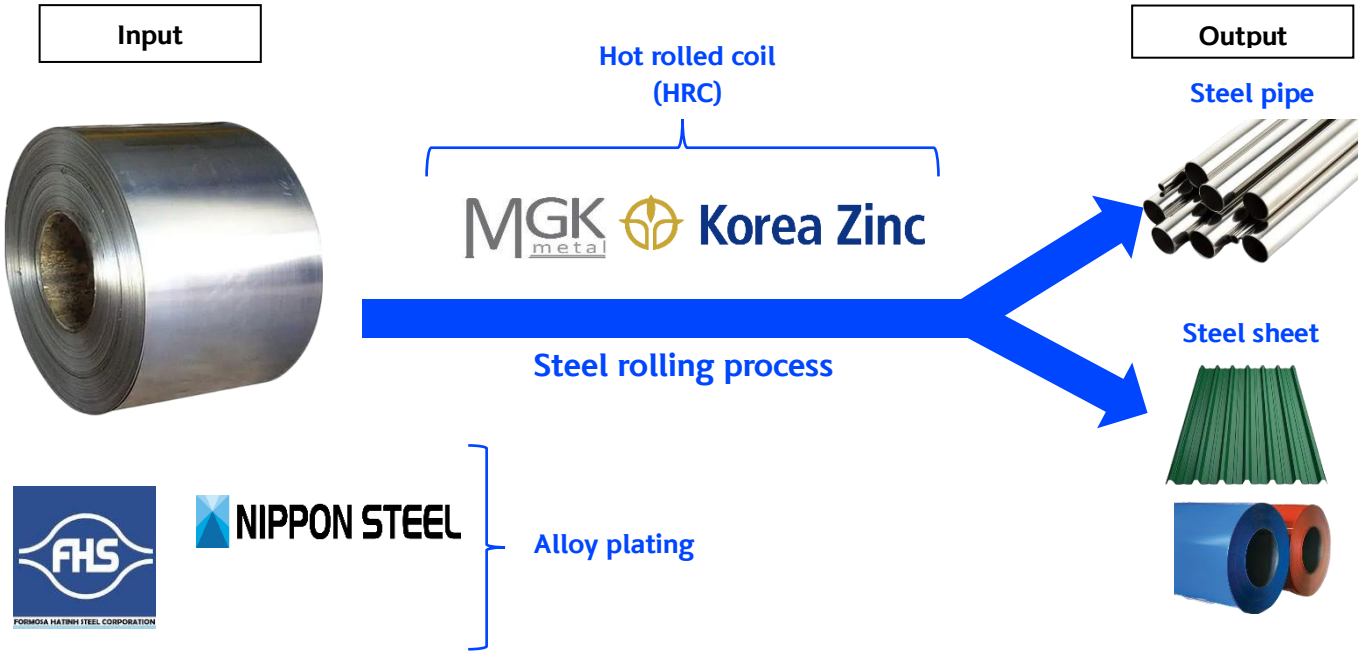
Company background

Company history

Nam Kim Steel Joint Stock Company (NKG) was established on December 23, 2002, until 2011, the company was listed on HOSE with the stock code NKG. Nam Kim Steel Joint Stock Company is a leading enterprise specializing in manufacturing galvanized steel sheets in Vietnam. The company is always a pioneer in providing products with quality standards to domestic and international customers. Currently, Nam Kim's products are trusted nationwide and exported to more than 50 countries around the globe.

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

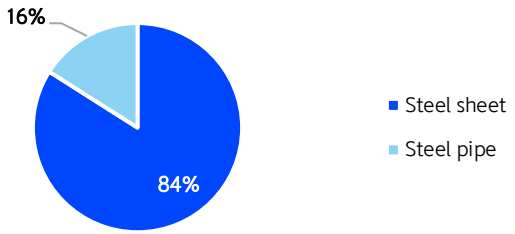
Value chain of NKG



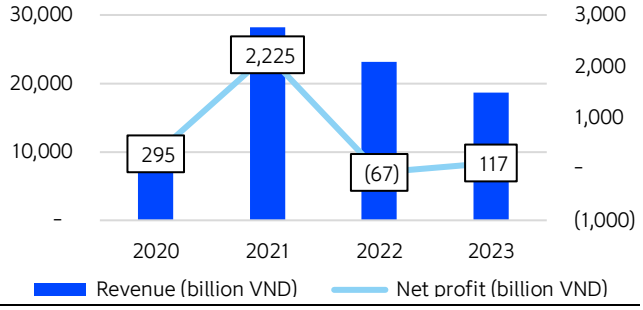
Nam Kim's input is mainly hot rolled coil (HRC), after undergoing the process of steel rolling and alloy plating, the hot rolled coil will be produced into galvanized sheets and steel pipes. The hot rolled steel coil of Nam Kim is mainly produced domestically, sourced from Formosa Ha Tinh company. Besides, other materials of Nam Kim are also imported from abroad through companies from Japan and Korea.

Update business results in Q3/2023

Nam Kim output breakdown in 2023 (%)



Nam Kim revenue and profit 2020 – 2023



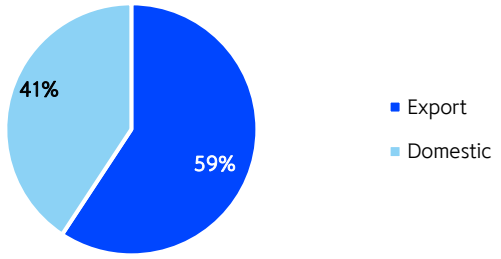
Source: Company report, Shinhan Vietnam Securities

At the end of Q4/2023, Nam Kim Steel JSC recorded net revenue of VND 4,459 billion (+3.7% YoY). Profit after tax reached VND 22 billion in Q4/2023, while the same Q4/2022 recorded a loss of VND -356 billion. Compared to Q4/2022, Nam Kim has returned to profit after liquidating all old inventory at high prices. Gross profit margin in Q4/2023 reached 6.13% while the same period in Q4/2022 recorded -3.47%.

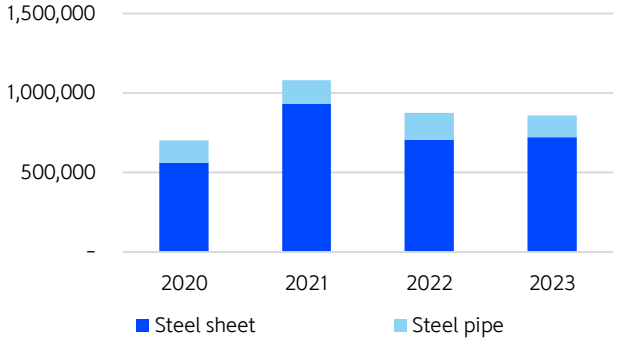
Accumulated for the whole year 2023, Nam Kim JSC recorded revenue of VND 18,596 billion (-19% YoY), and profit after tax reached VND 117 billion. Sales output reached 860,294 tons (-2% YoY) in the context of the domestic and world steel industry facing many difficulties due to reduced demand. Nam Kim's galvanized steel consumption output reached 860,294 tons of steel, of which galvanized steel products reached 722,516 tons, and steel pipe products reached 137,778 tons.

Nam Kim Steel Joint Stock Company also recorded sales and administrative expenses in 2023 reaching VND 739 billion (-47% YoY). This comes from: (1) Transportation costs have decreased sharply due to reduced ocean freight rates, reducing sales costs. (2) The company also made efforts to cut business management costs.

Nam Kim sales volume 2018 - 2023 (tons)

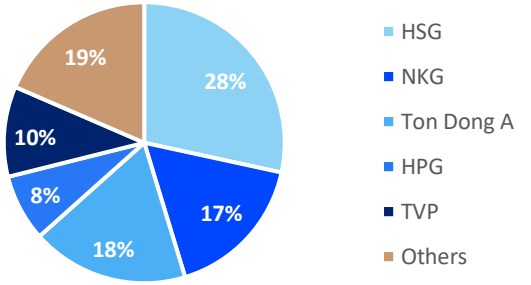


Consumption output by product structure (tons)

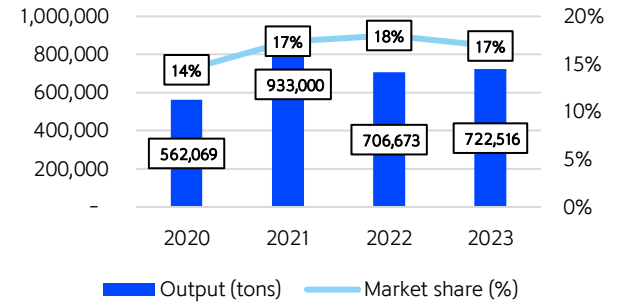


Source: Company report, Shinhan Vietnam Securities

Galvanized steel sheet market share in 2023 (%)

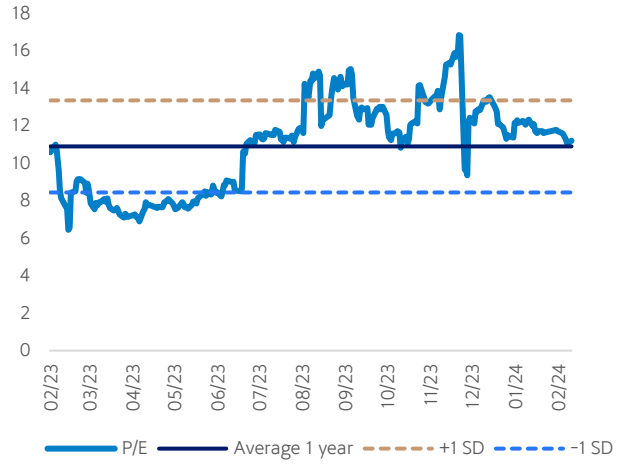


Galvanized steel output and market share 2020 –2023

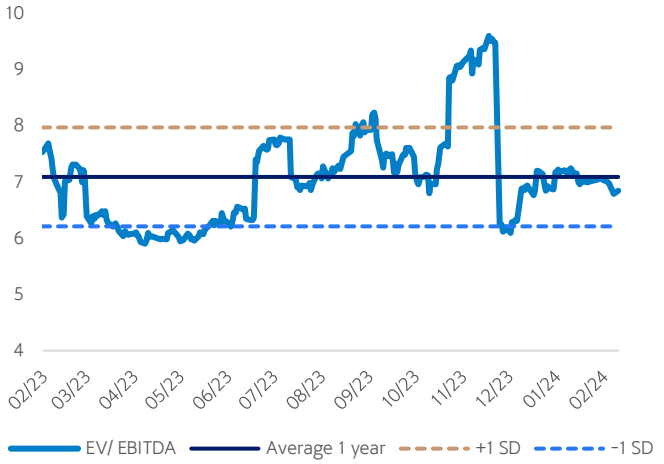


Source: Company report, Shinhan Vietnam Securities

P/E 1 year

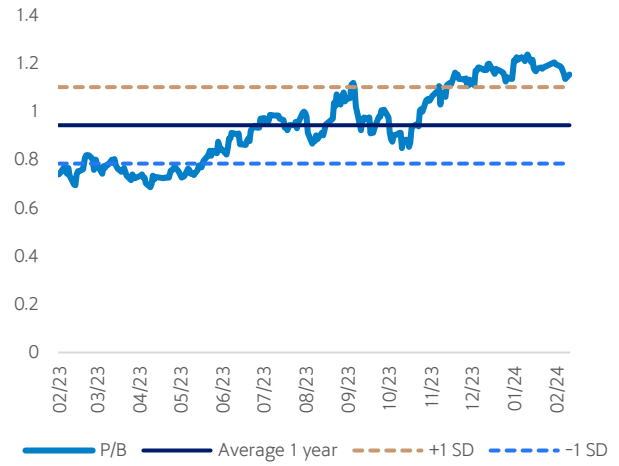


EV/EBITDA 1 year

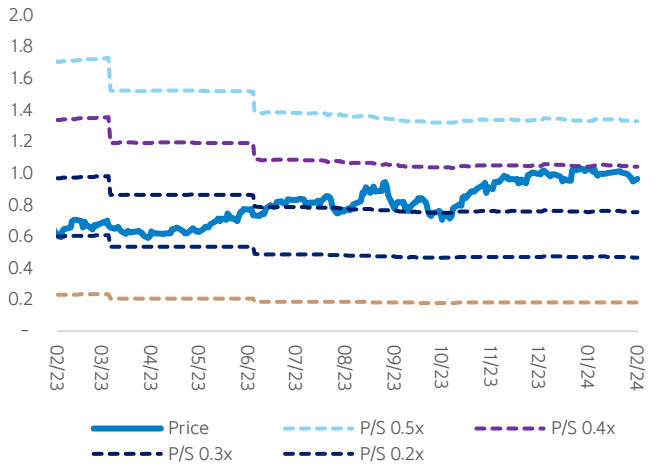


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

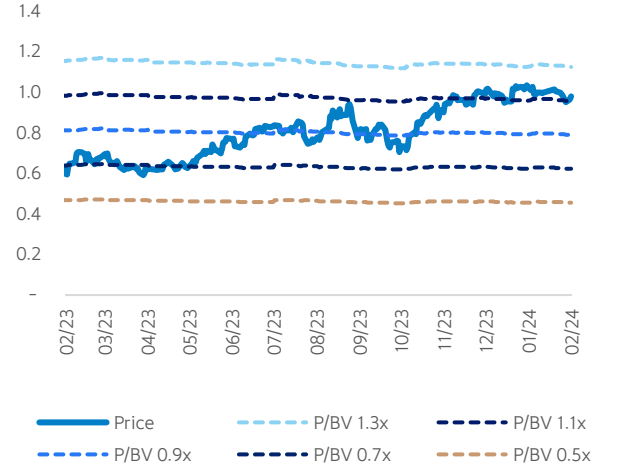


P/S band

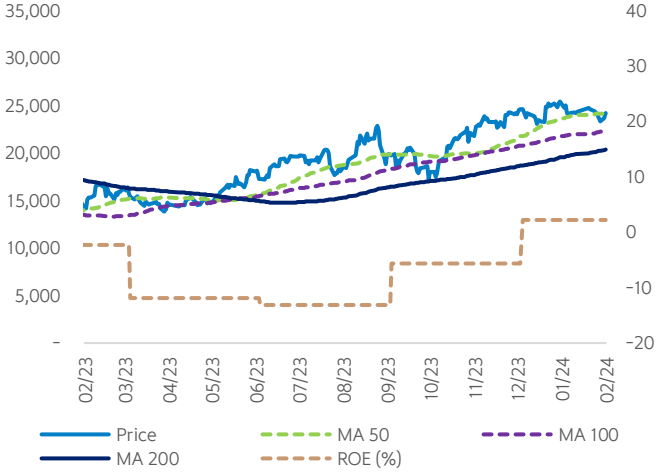


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band



ROE and MA 1 year



Source: Bloomberg data, Shinhan Securities Vietnam

Key event chart of NKG



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	**12,235**	**14,488**	**17,250**	**20,595**	**24,641**
Current assets	9,429	10,602	12,393	14,891	18,562
Cash & equivalents	785	92	149	375	1,322
Short-term financial asset	290	290	290	290	290
Accounts receivable	2,635	2,651	2,859	3,310	3,852
Inventories	5,719	7,570	9,096	10,915	13,099
Non-current assets	2,807	3,886	4,856	5,704	6,079
Net fixed assets	2,359	3,444	4,411	5,260	5,633
Investment assets	-	-	-	-	-
Other long-term assets	448	442	446	444	445
Total liabilities	**6,812**	**8,839**	**10,907**	**13,389**	**16,367**
Current liabilities	6,784	8,811	10,879	13,360	16,338
Accounts payable	1,631	2,505	3,007	3,608	4,329
Short-term borrowings	4,768	5,920	7,487	9,368	11,624
Others	385	385	385	385	385
Non-current liabilities	28	28	28	28	28
Long-term borrowings	-	-	-	-	-
Other financial liabilities	28	28	28	28	28
Total shareholders' equity	**5,423**	**5,649**	**6,343**	**7,206**	**8,275**
Capital stock	2,633	2,633	2,633	2,633	2,633
Capital surplus	786	786	786	786	786
Other capital	1,731	1,958	2,651	3,515	4,583
Retained earnings	273	273	273	273	273
Non-controlling interest equity	-	-	-	-	-
*Total debt	4,768	5,920	7,487	9,368	11,624
*Net debt (cash)	3,982	5,829	7,339	8,993	10,302

Statement of comprehensive income

Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Revenue	**18,621**	**22,538**	**27,084**	**32,501**	**39,001**
Growth (%)	-19%	21%	20%	20%	20%
COGS	**(17,484)**	**(20,980)**	**(25,177)**	**(30,212)**	**(36,254)**
Gross profit	**1,112**	**1,558**	**1,907**	**2,289**	**2,747**
GPM (%)	6%	7%	7%	7%	7%
SG&A	**(739)**	**(937)**	**(720)**	**(864)**	**(1,037)**
Operating profit	**373**	**621**	**1,187**	**1,425**	**1,710**
Growth (%)	300%	66%	91%	20%	20%
OPM (%)	2%	3%	4%	4%	4%
Non-operating profit	**(196)**	**(58)**	**(88)**	**(129)**	**(179)**
Financial income	230	279	335	402	483
Financial expense	(426)	(337)	(423)	(532)	(663)
In which: interest expenses	(293)	(337)	(423)	(532)	(663)
Net other non-operating profit	0	0	1	1	1
Pre-tax profit	**177**	**563**	**1,100**	**1,295**	**1,530**
Income tax	(60)	(73)	(143)	(168)	(199)
Net profit	**117**	**489**	**957**	**1,127**	**1,331**
Growth (%)		317%	95%	18%	18%
NPM (%)	1%	2%	4%	3%	3%
Controlling interest	117	489	957	1,127	1,331
Non-controlling interest	-	-	-	-	-
EBIT	**470**	**900**	**1,523**	**1,828**	**2,193**
Growth (%)	202%	91%	69%	20%	20%
EBIT Margin (%)	3%	4%	6%	6%	6%
EBITDA	**846**	**1,379**	**2,126**	**2,555**	**3,029**
Growth (%)	59%	63%	54%	20%	19%
EBITDA margin (%)	5%	6%	8%	8%	8%

Statement of cash flow

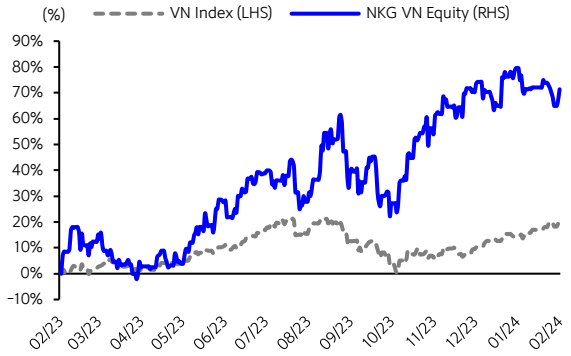
Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Cash flow from operations	**278**	**(19)**	**323**	**186**	**164**
Net profit	117	489	957	1,127	1,331
Depreciation expense	376	479	603	727	836
(Gain) from investing activities	(19)	-	-	-	-
Interest expense/ income	-	-	-	-	-
Change in working capital	(40)	(993)	(1,234)	(1,670)	(2,003)
Others	(156)	6	(3)	1	(1)
Cash flow from investments	**(151)**	**(1,564)**	**(1,570)**	**(1,576)**	**(1,210)**
Change in fixed assets	(130)	(1,564)	(1,570)	(1,576)	(1,210)
Change in investment assets	-	-	-	-	-
Others	(20)	-	-	-	-
Cash flow from financing	**(347)**	**889**	**1,304**	**1,617**	**1,993**
Change in equity	-	-	-	-	-
Net borrowing	(347)	1,153	1,567	1,880	2,256
Dividends	-	(263)	(263)	(263)	(263)
Change in total cash	**(220)**	**(694)**	**57**	**227**	**947**
Beginning cash	1,005	785	92	149	375
Change in FX rates	(0)	-	-	-	-
Ending cash	785	92	149	375	1,322

Key ratios

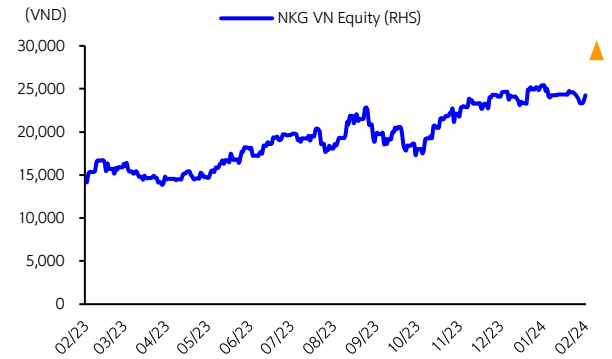
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BPS (VND)	20,598	21,457	24,091	27,372	31,429
DPS (VND)	-	1,000	1,000	1,000	1,000
PER (x)	55.28	12.86	6.58	5.58	4.73
PBR (x)	0.60	1.11	0.99	0.87	0.76
EV/EBITDA (x)	33.89	12.15	7.45	4.83	4.02
Dividend payout ratio (%)	0%	5%	4%	4%	3%
Dividend yield (%)	0%	4%	4%	4%	4%
Profitability					
EBITDA margin (%)	5%	6%	8%	8%	8%
OPM (%)	2%	3%	4%	4%	4%
NPM (%)	1%	2%	4%	3%	3%
ROA (%)	1%	4%	6%	6%	6%
ROE (%)	2%	9%	16%	17%	17%
Stability					
Debt to equity ratio (%)	88%	105%	118%	130%	140%
Net debt ratio (%)	471%	423%	345%	352%	340%
Cash ratio (%)	12%	1%	1%	3%	8%
Interest coverage ratio (x)	1.61	2.67	3.60	3.43	3.31
Activity (%)					
Inventory turnover (days)	124.66	107.60	112.30	112.37	112.37
Accounts receivable turnover (days)	34.79	33.05	29.01	27.88	27.88
Accounts payable turnover (days)	43.59	35.98	39.96	39.96	39.96

Nam Kim Steel JSC (NKG)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
17/03/2023 (Initiate)	BUY	19,100	-24	-56/177
28/11/2023 (Update)	BUY	26,700	66	13/217
01/03/2024 (Update)	BUY	27,700	40	7/101

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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