[FLASHNOTE]

Nam Kim Steel JSC.

05/06/2021

Shinhan Securities

Before you invest, ask us!

Ticker	**NKG**
RATING	**REDUCE**
Current price (VND)	**27,600**
Target price (VND)	**19,200**
Upside	**-30.4%**

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COMPANY INFORMATION

Industry	Industrial Metals & Mining
Stock Exchange	HOSE

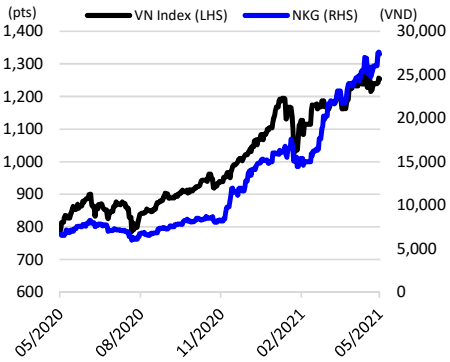
STOCK TRADING DATA

VN INDEX	1,254
Market Cap. (bn VND)	4,713
Outstanding Shares (1mn)	172
Free Floating Shares (1mn)	99
52-week High (VND)	28,350
52-week Low (VND)	5,750
Avg. Trading Volume (mn)	5.1
Avg. Reading T/O (bn VND)	113

NKG's PERFORMANCE VS VN INDEX

(%)	3M	6M	12M
Absoulute	77.9	228.9	312.0
Relative	66.7	195.3	251.8

STOCK PRICE PERFORMANCE



INVESTMENT THESIS

1. Core business

- Manufacturing flat steel products including steel pipes and toles (galvanized corrugated sheets).
- Market: Domestic market accounts for 60% of revenue; International market accounts for 40%, mostly ASEAN countries.

2. Business position

- Nam Kim Steel Joint Stock Company is one of the top tole or galvanized corrugated sheet producer in Vietnam with the market share of 14.4%, following Ton Dong A and Hoa Sen Group. Nam Kim Steel is one of the companies having the largest steel pipe market share in Vietnam (5.4%).
- Rivals: Hoa Sen Group (HSX: HSG), Hoa Phat Group (HSX: HSG), Ton Dong A, TVP, et**c.**

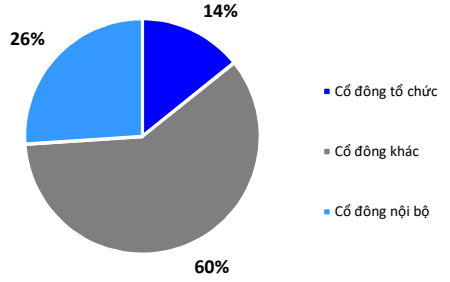
3. Investment opinion

- Data from the Ministry of Industry and Trade indicates that commercial industrial park area has surged recently with the increasing numbers of industrial parks reaching 5% in average annually. Besides, the complicated US-China relation has encouraged factories to move to ASEAN countries, particularly Vietnam. The action would help the demand for toles or galanvized corrugated steel in Vietnam have a stable growth rate since industrial park facilities require a large amount of flat steel.
- The whole world is facing severe shortage of hot-rolled coils (HRC) as China has started to limit production of steel via blast furnaces to reduce emission. In details, the Tangshan authority forces steel makers operating blast furnaces to cut the steel output amount by 50% in Q2 and 30% for the second half of 2021. China has also stopped VAT rebate on steel export in which HRC is the main product. In short-term, HRC price is expected to keep growing and help Nam Kim Steel achieve a high profit margin from the previous inventories.

4. Risks

- Tole manufacturing activities is a highly speculative activity with low value added, which makes Nam Kim Steel's performance heavily relies on HRC price. In 2018, the plummet in HRC price caused Nam Kim Steel's profits to fall by 80%. In the second half of 2021, China is going to ease the output limit. At the same time, steel makers outside Tangshan may lift their capacity to fulfill the void, helping HRC price to stabilize. As a result, the profit margin of Nam Kim Steel would drop significantly because of having the material price advantages no longer.
- Hoa Phat Group, the largest steel maker in Vietnam, is increasing its capacity of corrugated steel sheets to 600,000 tonnes/year. Thanks to the ability to manufacture HRC internally, Hoa Phat toles can be offered at a relatively lower prices while maintaining a high margin level and become a difficult opponent to Nam Kim toles when Hoa Phat's products can take over the market share from others.
- ASEAN countries, accounting for 40-50% of revenue, like Indonesia and Malaysia start taking actions to protect their domestic steel products by implying taxes on galvalume and other flat products from Vietnam with rates ranging from 3.01% to 49.2%, which lower the opportunities to approach these markets.
- We forecast the revenue may reach VND20,469 bn with a net income of VND566 bn based on the assumption of average HRC price ranging around $730 this year as China is lowering its out limitation in 2H2021. Historical P/E data indicates the reserve of investor toward the industry when HRC price elevated in 2017, ranging between 4 and 8. Thus, we decided to choose a P/E of 6 corresponding to a target price of VND19,200 per share.

SHAREHOLDER STRUCTURE



FINANCIAL INFORMATION

	2017	2018	2019	2020	2021
Sales (bn VND)	**12,619**	**14,812**	**12,177**	**11,560**	**20,496**
OP (bn VND)	1,024	390	63	509	858
Operating profit margin	8.1	2.6	0.5	4.4	4.2
NP(1bn VND)	**708**	**57**	**47**	**295**	**566**
Net profit margin	5.6	0.4	0.4	2.6	2.8
BPS(VND)	16,156	16,325	16,576	18,494	20,348
PER(x)	5.8	25.1	26.5	9.0	8.3
PBR(x)	1.7	0.5	0.4	0.8	1.3
ROE(%)	31.3	1.9	1.6	9.5	16.3
EPS (đồng)	4,779	315	260	1,672	3,290

(*) Database information provided by Bloomberg

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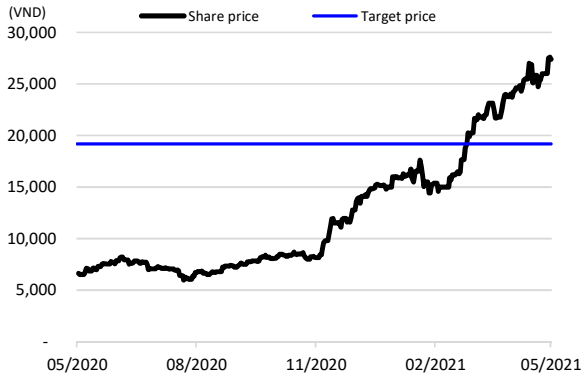
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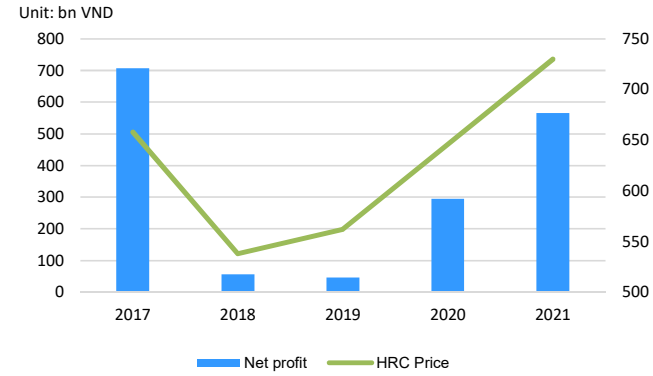
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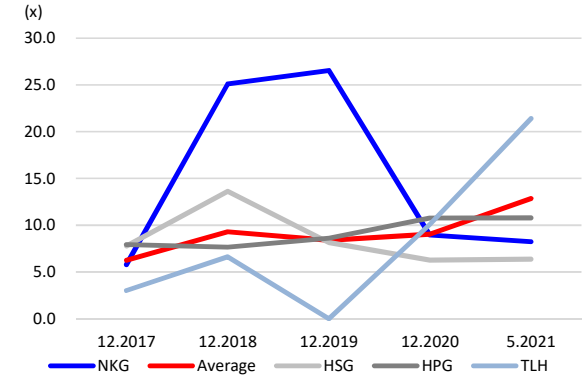
Recommendation History



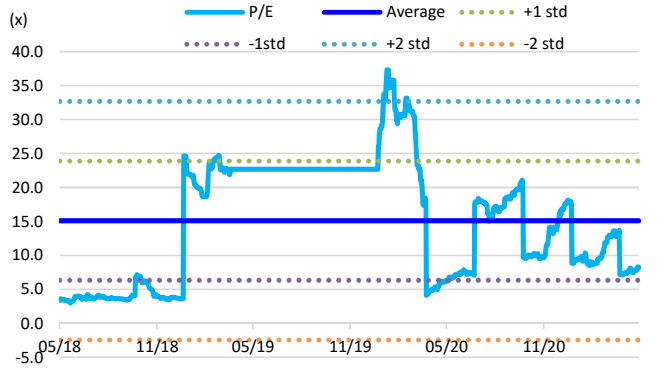
Net profits and HRC price



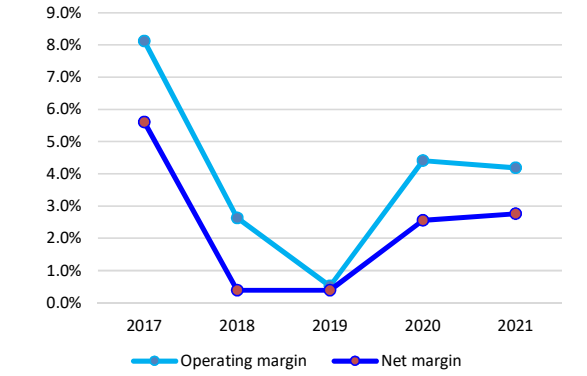
Relative valuation peers' PE



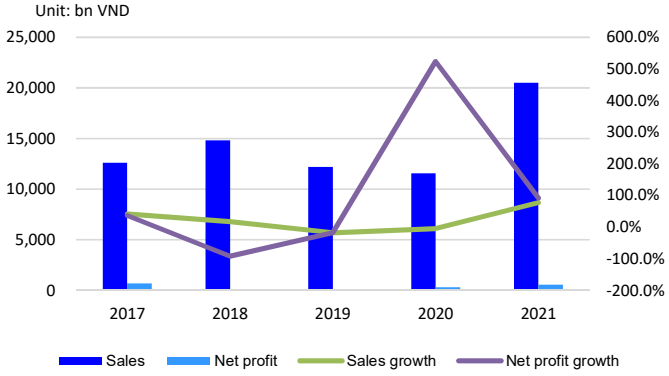
Average P/E 3 years of NKG



Operating and net margin in the past



Revenue - profit in the past



(*) Database information provided by Bloomberg



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