

Hoa Phat Group JSC.

[Vietnam / Construction Material / Steel] Bloomberg Code (HPG VN) | Reuters Code (HPG.HM)

BUY

Initiate

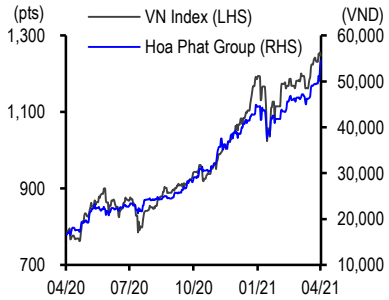
Target price (12 mths)	**VND65,700**
Current price (April 15th)	VND54,500
Upside (%)	+20.6%



[Analyst]

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VNINDEX			1,247
HNXINDEX			296
Market cap (bn VND)			180,573,905
Outstanding shares (1mn)			3,313.3
Free float (1mn)			1,782.4
52-week high/low (VND)			54,700/16,458
60-day avg. trading volume			28.8
60-day avg. turnover (bn VND)			1,726
Foreign ownership (%)			30
Major shareholders	Tran Dinh Long		26.08
	Vu Thi Hien		7.06
Performance	3M	6M	12M
Absolute (%)	22.5	87.6	225.4
Relative (%)	18.0	55.3	164.9



The tale of a metal knight

Initiate coverage with BUY rating with target price of VND 65,700

The world has gradually recovered since the COVID-19 pandemic last year, which has caused a drastic increase in steel prices recently. The latest announcement to cut emissions from BOF steel mills in Tangshan has added fuel to fire and elevated steel prices even more. Based on the DCF valuation method, we initiate coverage Hoa Phat Group with a BUY rating and the target price of VND65,700 due to the huge and stable cash flow. Currently, HPG is trading at 7.5x of 2021F PER, which is slightly higher than its 3-year average. Overall, HPG is believed to gain higher profit margins thanks to higher steel prices and the additional volume of HRC from 2021.

The Excalibur of the King

Hoa Phat Group, after years of development, has become the leader in the Vietnam steel sector with the dominant market share. Besides, the recent blast furnace no.3 and no.4 have broken the monopolistic position of Formosa in HRC supply with 2.7 tonnes per year. With the core advanced BOF technology, Hoa Phat chose the right time to invest in the Dung Quat complex with relatively low invested capital years ago. The combinations help Hoa Phat Group achieve a high steel margin while having lower end-use steel prices.

The expedition of metal

Infrastructure investment in 2021 remains the bright spot of the Vietnam economy still. In recent years, Private Participation in Infrastructure (PPI) projects has significantly contributed to the rise of steel volume. Hoa Phat steel, appearing in major PPI projects from 2015 to 2020, is expected to be a part of the upcoming infrastructure projects. Thus, the demand can help Hoa Phat Group maintain a high manufacturing capacity.

The dilemma of Northern giants

Due to environmental issues, the recent cut in steel production in Tangshan has lowered the annual capacity of China by -7%. The unfortunate situation of Chinese steelmakers has become an opportunity for Hoa Phat Group to have higher selling prices while the input costs slightly dropped. As a result, Hoa Phat Group's profit margin could even climb higher in 2021.

Year to Dec.	2019	2020	2021F	2022F	2023F
Revenue (bn VND)	**63,658**	**90,119**	**126,651**	**131,442**	**127,696**
OP (bn VND)	10,072	9,031	15,289	25,128	27,365
NP (bn VND)	**7,578**	**13,506**	**21,599**	**23,517**	**23,931**
EPS (VND)	2,726	4,056	6,487	7,063	7,187
BPS (VND)	17.2	17.8	24.3	31.4	38.6
OPM (%)	15.3	19.0	20.8	21.5	21.6
NPM (%)	11.9	15.0	17.1	17.9	18.7
ROE (%)	**15.9**	**22.9**	**26.8**	**22.6**	**18.7**
PER (x)	19.59	13.17	8.23	7.56	7.43
PBR (x)	3.09	2.99	2.19	1.70	1.38
EV/EBITDA (x)	14.60	8.23	5.40	4.98	4.87

Source: Company data, Shinhan Securities Vietnam

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Contents

3 **Valuation and Recommendation**

7 **Investment Thesis**

13 **Earning estimate**

15 **Risk**

16 **Company background**

18 **Appendix : Financial statements**

Valuation and Recommendation

Initiate coverage with BUY call and target price VND65,700

We initiate coverage Hoa Phat Group (HPG VN), our sector top pick, the leader of local players in terms of both market share and output volume, with a BUY rating based on the target price of VND65,700 (a potential upside of +21% from the current price of VND54,500).

Valuation

In our view, Hoa Phat Group is going to receive a huge and stable free cash flow thanks to the completion of the Hoa Phat Group – Dung Quat Complex. In the next few years, we expect the company to bear a much lower capex while maintaining a huge operating cash flow thanks to recently finished blast furnaces.

We took the Discounted Cash Flow (DCF) and Economic Value Added (EVA) methods into consideration for Hoa Phat Group's valuation model. In short, the DCF model tends to focus on the free cash flow while the EVA method tries to measure the residual excessive value of return on invested capital. From 2021, the completion of new steel mills causes higher depreciation with lower CAPEX and therefore lifts the free cash flow to the firm. The changes are not reflected on the EVA model as CAPEX and depreciation are excluded. Thus, DCF ended up with VND65,700, just a bit higher than VND60,100 of EVA. Consequently, we think DCF is a more appropriate technique to determine the intrinsic value of the Hoa Phat Group.

Based on historical data, Hoa Phat Group is expected to have their steel mills run at 90% capacity to supply up to 8mn tonnes of steel a year to the market. In terms of agriculture, we believe Hoa Phat Group can maintain an average growth rate of +10% in revenue due to the plan of growing its cattle volume, which contributes around 11% to the total revenue each year.

DCF-based valuation of Hoa Phat Group

(Unit: VND bn)	2021F	2022F	2023F	2024F
Revenue	126,651	131,442	127,696	126,092
EBIT	27,059	29,120	29,369	30,360
Less: Taxes	3,595	3,914	3,983	4,154
Plus: D&A	6,510	7,285	7,829	8,144
Less: Net working capital	4,166	3,234	713	226
Less: Capex	7,625	6,837	6,687	6,685
FCFF	**18,183**	**22,420**	**25,815**	**27,439**
Discount factor	0.94	0.87	0.81	0.74
PV of FCFF	17,092	19,505	20,910	20,305
Sum of PV	77,812			
Terminal growth (%)	0			
PV of Terminal value	181,033			
Implied equity value	**217,704**			
# of outstanding shares	3,313			
Value per share (VND)	**65,700**			
Current price (VND) (April 15th)	54,500			
Upside (%)	+21.0			

Source: Bloomberg, Shinhan Securities Vietnam

Our target price at VND65,700 is translated into 2021 forward PBR and PER of 1.88x and 7.5x respectively, which are nearly +1.8 STD and +0.5 STD to its 3-year historical average multiples. The current price of VND54,500 has risen +330% (versus VINDEX +61%) underpinned by recent positive market sentiment and upcycle of steel price. We think that there would be more upside for Hoa Phat Group as they may pass through the raw material inflation faster than market expectation and be the key beneficiary from lower weighted average iron and coking price. Also, the increase in the volume of steel contributed to the inevitable soar in Hoa Phat Group's net profits in 2021 and the next following years. Thus, despite a spectacular soar, HPG is considered a potential stock to invest in this year still.

EVA-based valuation of Hoa Phat Group				
Invested Capital (beginning)	76,563	94,509	113,832	133,815
NOPAT	26,724	28,681	28,828	29,730
ROIC (%)	35	30	25	22
Economic added value (EVA = NOPAT - IC*WACC)	20,369	20,837	19,380	18,623
Invested capital	76,563			
PV of EVA	166,326			
Implied Equity Value	**201,748**			
Value per share (VND)	60,900			
Upside (%)	+11.6			

WACC calculation		Remark
WACC (%)	8.31	
Risk-free rate (%)	2.80	10-year government bond yield
Equity risk premium (%)	8.2	
Beta	1.07	3-year historical data
Cost of debt (%)	5.5	
Cost of equity (%)	11.6	
Debt to capital ratio (%)	47.76	
Value of debt (bn VND)	54,142	
Value of equity (bn VND)	59,220	

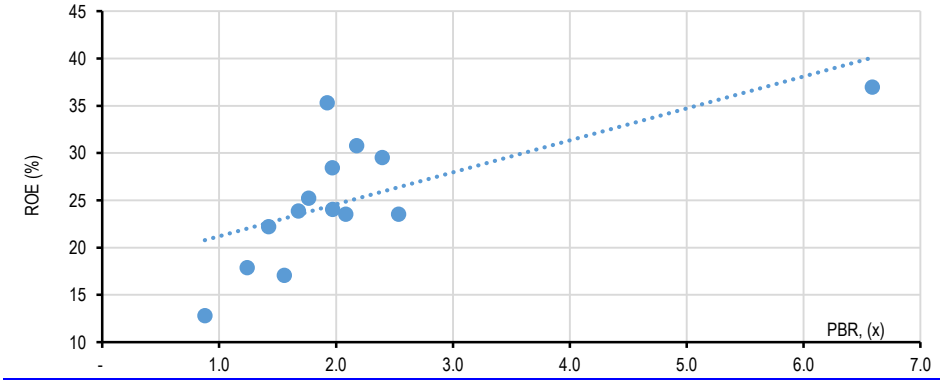
Source: Bloomberg, Shinhan Securities Vietnam

Hoa Phat Group - Historical multiples valuation table

(x)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Avg.	2021F	2022F
P/E													
End of year	4.47	8.80	8.81	8.24	6.46	6.02	7.95	7.67	8.62	10.78	7.78	9.12	8.37
Average	5.47	5.30	11.48	11.64	6.72	8.39	7.12	9.16	7.37	10.60			
High	7.20	7.70	15.54	13.99	7.90	11.67	10.06	11.11	8.60	18.31			
Low	2.99	3.32	7.74	7.66	5.50	5.22	5.48	6.92	6.51	5.83			
P/Book													
End of year	0.74	1.09	1.81	2.17	1.48	1.84	2.20	1.62	1.36	2.32	1.66	2.14	1.73
Average	1.24	0.88	1.42	2.40	1.77	1.93	2.18	2.53	1.56	1.68			
High	1.63	1.06	1.92	2.88	2.08	2.68	3.07	3.08	1.82	2.89			
Low	0.62	0.55	0.96	1.64	1.41	1.20	1.68	1.59	1.34	0.92			
P/Sales													
End of year	0.31	0.52	0.91	1.01	0.78	1.09	1.38	1.18	1.02	1.52	0.97	1.32	1.24
Average	0.52	0.37	0.68	1.20	0.83	1.01	1.29	1.59	1.13	1.25			
High	0.69	0.46	0.93	1.47	0.98	1.42	1.83	1.96	1.33	2.18			
Low	0.25	0.23	0.45	0.82	0.67	0.61	0.98	1.14	0.99	0.65			
P/Cash Flow													
End of year	11.32	3.74	5.17	9.03	4.59	5.21	10.23	7.65	8.03	11.50	7.65	8.02	6.43
Average	13.68	13.37	4.89	6.84	7.36	5.96	6.17	11.78	7.35	9.88			
High	17.99	16.16	6.61	8.39	8.65	8.29	10.04	14.29	8.58	17.05			
Low	7.48	3.28	3.30	4.67	4.37	3.71	4.74	7.51	6.50	5.43			
EV/EBITDA													
End of year	4.26	6.00	6.21	5.38	4.21	3.96	6.02	6.54	7.77	7.75	5.81	6.61	6.35
Average	5.70	5.07	7.77	8.25	4.81	5.45	5.10	7.09	6.43	9.03			
High	6.94	6.00	9.58	9.58	5.48	7.22	7.44	8.61	7.77	13.68			
Low	3.94	4.03	6.02	5.38	4.06	3.67	3.68	5.33	5.85	6.13			

Source: Bloomberg, Shinhan Securities Vietnam

Hoa Phat Group ROE and PBR correlation



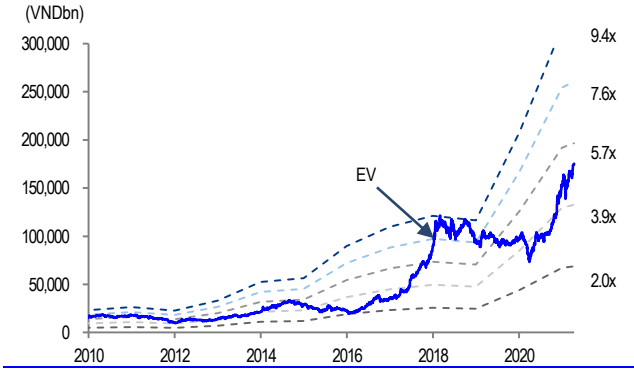
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group average 3Y Fwd EV/EBITDA



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group EV/EBITDA band chart



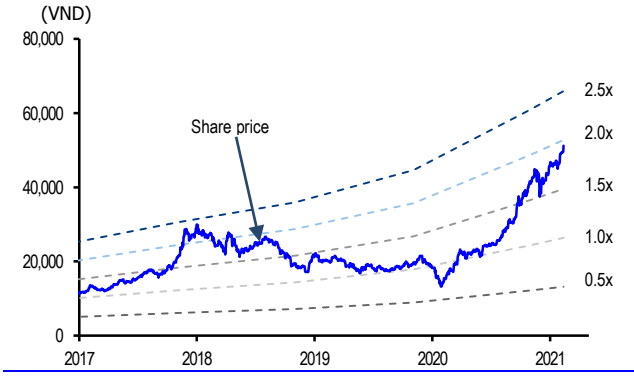
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group 12M Fwd PBR



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group PBR band chart



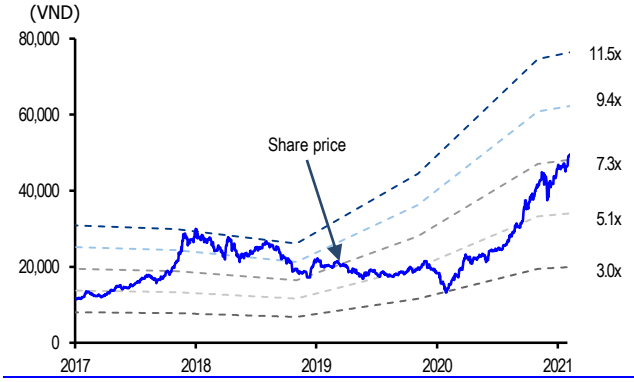
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group 12M Fwd PER



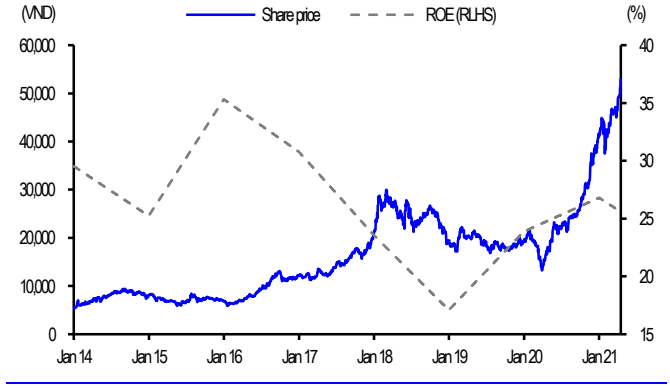
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group PER band chart



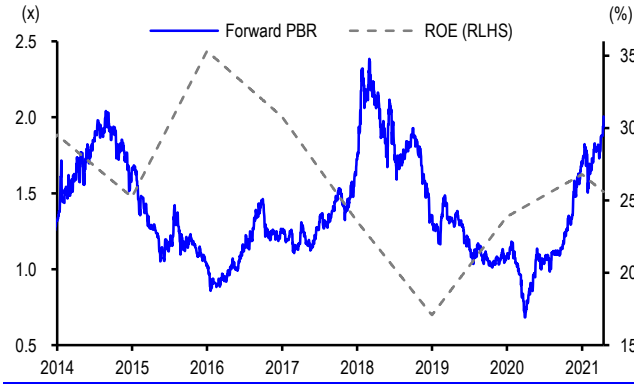
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group share price versus ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Phat Group Fwd PBR versus ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key event chart of Hoa Phat Group



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Investment Thesis

The portrait of a king

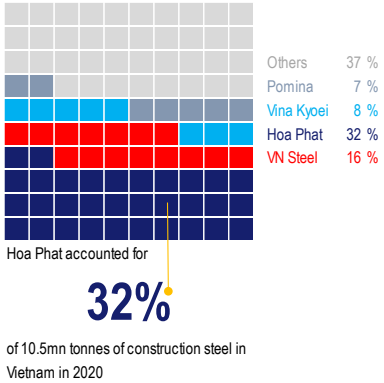
As of January 2021, Hoa Phat Group is the largest Vietnamese steel manufacturer in terms of both market share and annual steel production capacity. The company has a wide range of end-use products include construction steel, steel pipe, hot-rolled coil, and galvanized steel sheet (or tole).

- **Solid construction steel leader position.** Hoa Phat Group's construction steel (or steel bar, long steel) lifted its share to 32% in 2020 from 26% in 2019. The increase was a result of the expansion Southern of Vietnam market strategy, which was quite successful and expected to maintain a high market of the firm.
- **HRC - The rising star.** Domestic hot-rolled coils (HRC) are in scarcity with an average demand of 12mn tonnes/year, according to Hoa Phat Group. Since August 2020, Hoa Phat Group has commenced its 2 blast furnaces (No.3 and No.4) that supply up to 2.7mn tonnes of HRC/year for the domestic market. Thanks to the current shortage in supply, Hoa Phat Group's HRC is being absorbed quickly on the market and help its new steel mills to run at max capacity.
- Hoa Phat Group's steel pipe did not record such significant growth in when remaining 32% of market share partly due to the limited capacity of 900,000 tonnes of steel pipe/year, while the selling volume had reached nearly 830,000 tonnes in 2020. As Hoa Phat Group has no significant plan to increase steel pipe capacity, we suppose the volume can hardly change in the next few years.
- The volume of galvanized steel sheet (or tole in Vietnamese) lifts by +62% YoY in the first 2 months of 2021. Also, thanks to the ability to produce HRC, the input of steel sheets and pipes, Hoa Phat Group is likely to gain the market share gradually from rivals thanks to relatively lower prices while maintaining the margin.

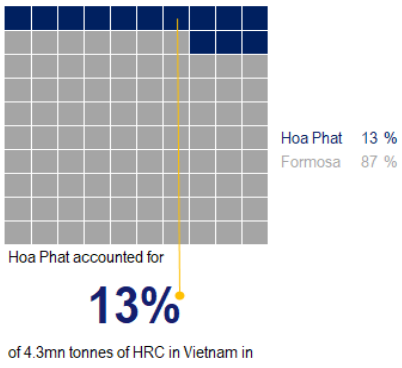
Besides the leading position, Hoa Phat Group has competitive advantages of lower prices of products thanks to the economies of scales and nearly comprehensive vertical value chain. The company, therefore, can lower the risk of steel products and become a strong rival in the market.

Moreover, Hoa Phat Group has also decided to produce containers using their HRC as input to extend the value chain recently and is expected to be put in operation in 2Q22. We think that Hoa Phat Group is moving on the right track in container production due to the impacts of COVID-19. However, there is limited disclosure on this project, we thus have not materialized this business into our model. Although the Dung Quat expansion plan reflects the eagerness to build a metallurgical empire, the current pending approvals force us to not include the project at the moment.

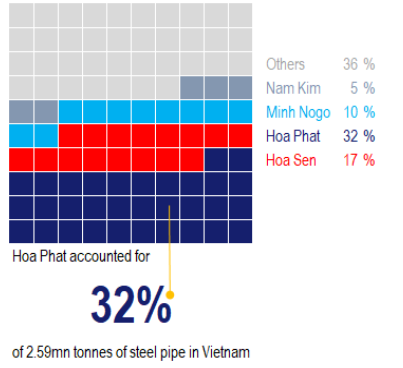
Vietnam construction steel market share in 2020



Vietnam HRC market share in 2020



Vietnam steel pipes market share in 2020



Source: VSA, Shinhan Securities Vietnam

Forging the sharpest swords

BOF technology – The Excalibur of Hoa Phat Group

Currently, most steel mills in Vietnam produce via 2 main methods, namely Basic Oxygen Furnace (BOF) and Electric Arc Furnace (EAF). Hoa Phat Group employs BOF as their main method, which is considered as the current best way to produce more vertical value chain steel products, having a 15% lower cost than the EAF method. As a result, steel firms that use blast furnaces like Hoa Phat Group is having a significant competitive advantage of cost over those using EAFs. Moreover, Hoa Phat Group chose the right time to invest in Dung Quat Complex when the steel industry was facing difficulties in 2016. In terms of fixed costs, it costed Formosa of USD1,700 to produce a tonne of crude steel while the figure was only USD500 for Hoa Phat Group at that time. Also, Hoa Phat Group is showing interest to invest in iron ore and coal mining activities in Australia to complete its vertical value chain. The comprehensive strategy is strong evidence of a good company with potential growth and stability.

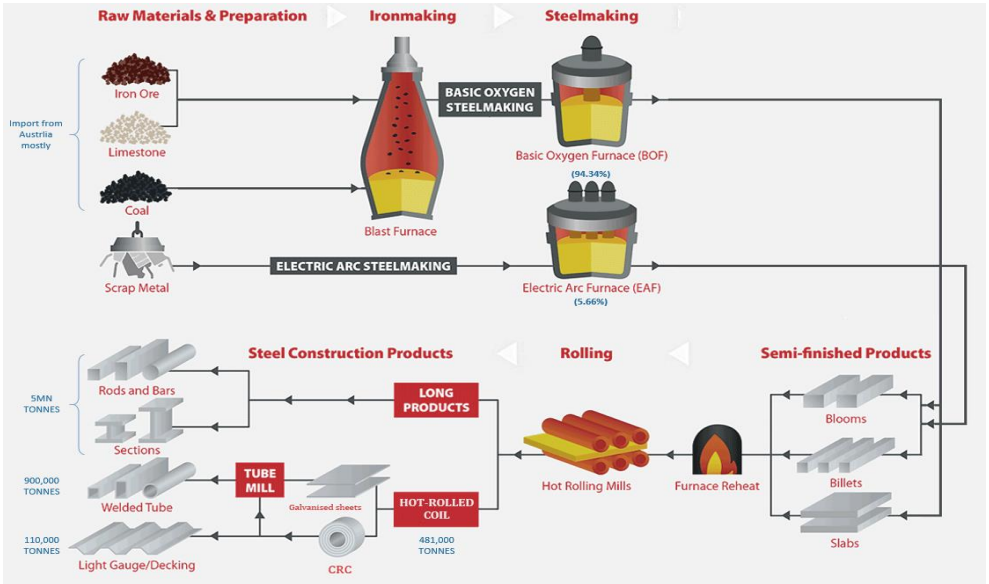
Before 2019, domestic steelmakers only produced steel bars and lacked of other high-added-value steel (i.e. hot-rolled coils, sections steel, industrial steel, etc.). In early 2021, the completion of the Dung Quat Complex, whose annual capacity reaches 2.7mn tonnes of HRC, was very successful when orders of HRC continuously came due to shortage. Thus, it is incontrovertible that Hoa Phat Group's HRC is going to be fully bought and the blast furnaces are very likely to run at their bests. Besides, the product would be the weapons to help the group achieve higher profits thanks to its high margin and increase in volume.

Comparison of BOF & EAF routes

Criteria	BOF	EAF
Materials	Coal, Iron Ore	Ferrous scrap, electrodes
Advantages	Low variable costs per tonne More capable of making HRC	Lower investment capital Much less emission of CO2
Drawbacks	High emission of CO2	Higher variable cost per tonne Highly volatile input prices (steel scrap, electrode, etc.)
Companies	Hoa Phat Group, Tisco, Formosa, etc.	Southern Steel Ltd., Vina Kyoei, Vietnam-German, etc.

Source: Shinhan Securities Vietnam

The value chain of BOF & EAF routes



Source: New Steel Construction, Shinhan Securities Vietnam

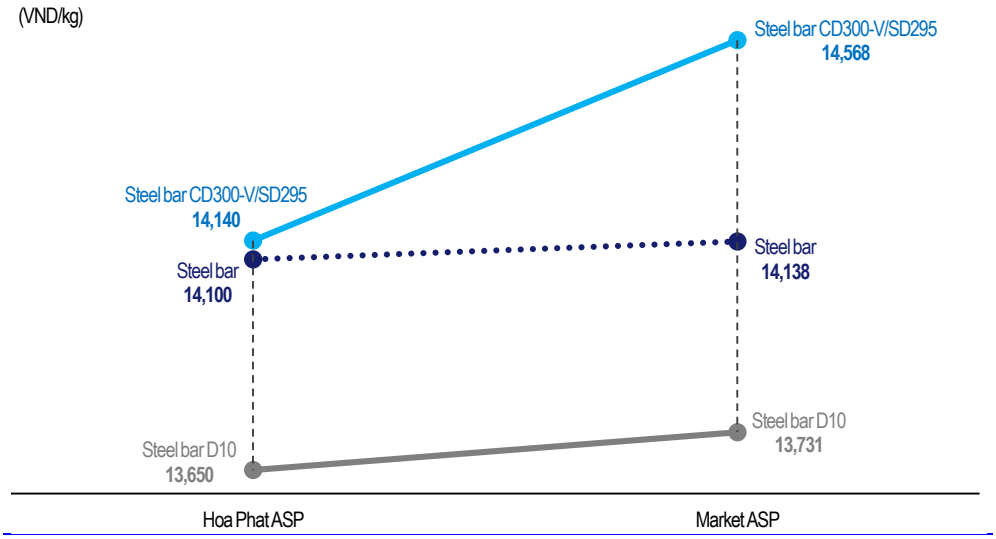
Challenging other opponents

By having the know-how steel-making process with various steel products under large-scale manufacturing, Hoa Phat Group can lower the prices of their steel, but they still secure the gross margin profit of steel over 20% from 2015 to 2019, which is higher than the market average of 13%.

Since 2017, approvals for new steel mill projects have nearly disappeared after the water pollution scandal of Formosa. Besides, that building new blast furnaces is hardly affordable to smaller steelmakers while EAF has huge variable costs has provided Hoa Phat Group with strong internal advantages that other companies are less like to achieve.

As a result, Hoa Phat Group is expected to have higher sales volume and even have to operate its steel mills at max capacity in the next few years. The barriers of capital costs and market share should not only help Hoa Phat Group stay on top but they are also reflected by the relatively high-profit margin of the company.

Comparison of steel price as of December 2020



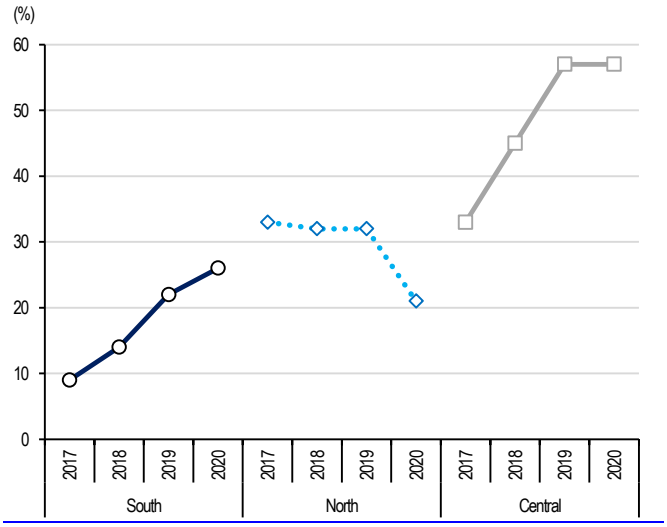
Source: Fiinpro, Shinhan Securities Vietnam

Strategic geographical location

The continuous growth of Hoa Phat Group's capacity is a big threat to other rivals when their steel has been taking the market. Earlier, Hoa Phat Group controlled and led the market in the Northern and Central regions. It was not until late-2019 when the Hoa Phat Group – Dung Quat Complex was finished did Hoa Phat Group start to boost its market share in the South.

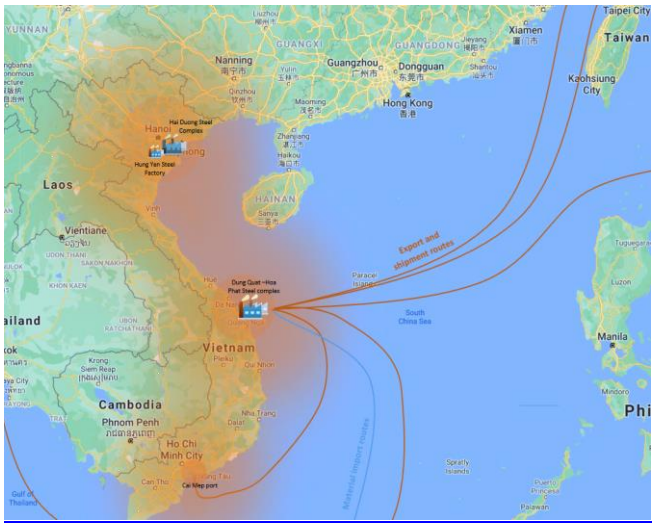
The strategic geographical location of the Dung Quat steel complex with the porting capacity of up to 200,000-tonne cargo ships has enabled the ability to transport steel to the South by seaway as well as export. Furthermore, the port has cut many costs when allowing ships transporting coal and iron ore from Brazil and Australia to directly dock right next to steel mills in the complex.

Domestic market shares of Hoa Phat Group by geography



Source: Hoa Phat Group, Shinhan Securities Vietnam

Location of Hoa Phat Group's steel mills



Source: Shinhan Securities Vietnam

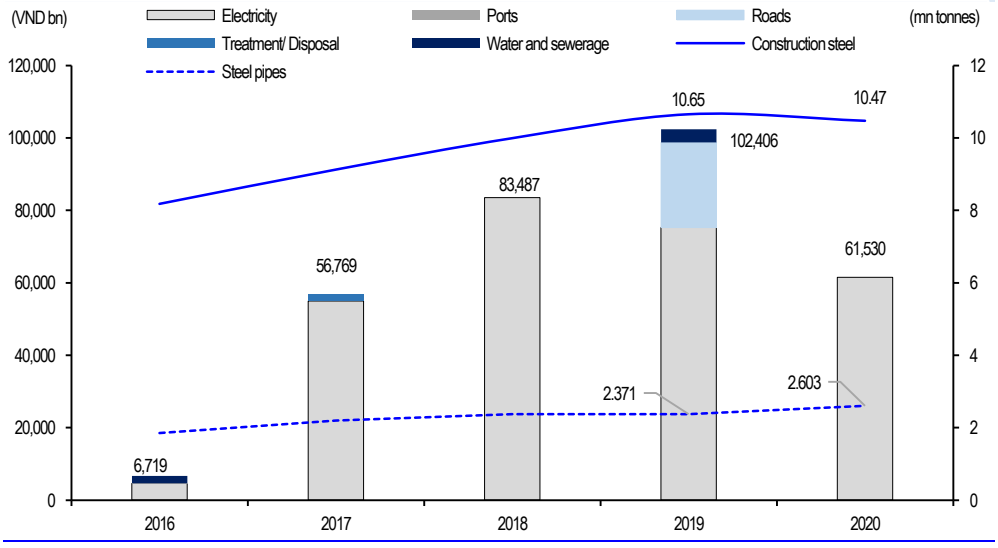
The expedition of metal

The ongoing domestic infrastructure investment

Since 2015, the rise of Private Participation in Infrastructure (PPI) has become the stimulus of Vietnam's steel industry. Since 2020, due to COVID-19, continuous lockdown reduced PPI drastically, which led to a slight drop in steel consumption. In 2021, the plan of Vietnam Ministry of Transport (MoT) has announced multiple highway and infrastructure projects started this year which are expected to be finished in 2025 and 2026, which could lift the steel demand significantly when the pandemic is over.

Hoa Phat Group reinforcing steel, thanks to its quality and relatively affordable prices, has been used in many public constructions (including the North-South Expressway, Ha Noi – Hai Phong Highway, Noi Bai, and Tan San Nhat airport renovation project, etc.). In 2021, Hoa Phat Group rebar is expected to continue to present in the upcoming construction projects. Thus, Hoa Phat Group's 5mn tonnes of construction steel is very likely to be fully absorbed including the amount of billet the company exports every year.

Private participation in infrastructure in Vietnam and steel consumption 2016-2020



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Upcoming PPI projects 2021-2025

Projects	Investment capital (VND bn)	Start date	Completion date
Metro 2 (Ben Thanh - Tham luong)	48,700	2021	2026
HCMC - Thu Dau Mot - Chon Thanh Expressway	24,150	-	2021- 2025
HCMC - Moc Bai Expressway	10,668	2021	2026
Service Road to Route 50	3,816	-	2021- 2025
Beltway no. 2	6,500	-	2021- 2025
Beltway no. 3	19,871	-	2023- 2025
Long Thanh Airpot Project	114,451	-	2021- 2025
11 Elemental Projects of the South-North Expressway	101,218	2020	2021- 2025

Source: MoT, Shinhan Securities Vietnam

The bright side of steel production limitation in China

There are more signs of significant change in the steel market landscape. China's 14th Five-Year Plan clearly stated the ongoing growth of urbanization following the orientation of carbon neutrality. The Hebei authority has just announced multiple policies (Tangshan notice) to cut down steel production in the region as a result of a large amount of emission when manufacturing restarted in late 2020. China's Ministry of Industry and Information Technology (MIIT), following the vision of carbon-neutral in 2060, has already cited a plan to cut steel production significantly in 2021. "Platts Analytics expects steel output cuts to occur in the second half of 2021", quoted S&P Global. China Chamber of Commerce for Metallurgical Enterprises (CCCME) also proposed a more gradual plan to reduce steel export and stimulate the use of steel scrap for production via EAF.

Metals, an open-access journal published by MDPI, claimed that 90.7% of the steel in China was produced via BF-BOF methods, while EAF accounted for only 9.3% of total production in 2017. In 2020, Tangshan (Hebei) produced over 144mn tonnes of steel and accounted for nearly 14% of the total crude steel output in China. The policy to cut down BF-BOF in Tangshan alone could limit the aggregate steel output capacity in China by over 7% in 2021. Due to the dilemma of limitation and urbanization policies, opportunities will find their way to developing countries including Vietnam which are very likely trying to fill the void.

Autumn 2020 has witnessed a booming of steel import in China, which contributed significantly to Hoa Phat Group's 1,600 tonnes of export billet. Thanks to the policies, Hoa Phat Group can take advantage of both large capacity and good locations to export their products to countries which shall witness a drop in Made-in-China steel. Besides, the cut itself has boosted ferrous scrap price and drastically lowered the coking coal price, which therefore causes the weighted average cost of made-by-BOF steel. The price movement is going to lift the margin of Hoa Phat steel and other BOF-based companies higher and lead to higher profits in 1H2020.

Notice on Tangshan steel enterprises production restriction and emission reduction

I. Steel Enterprises of application

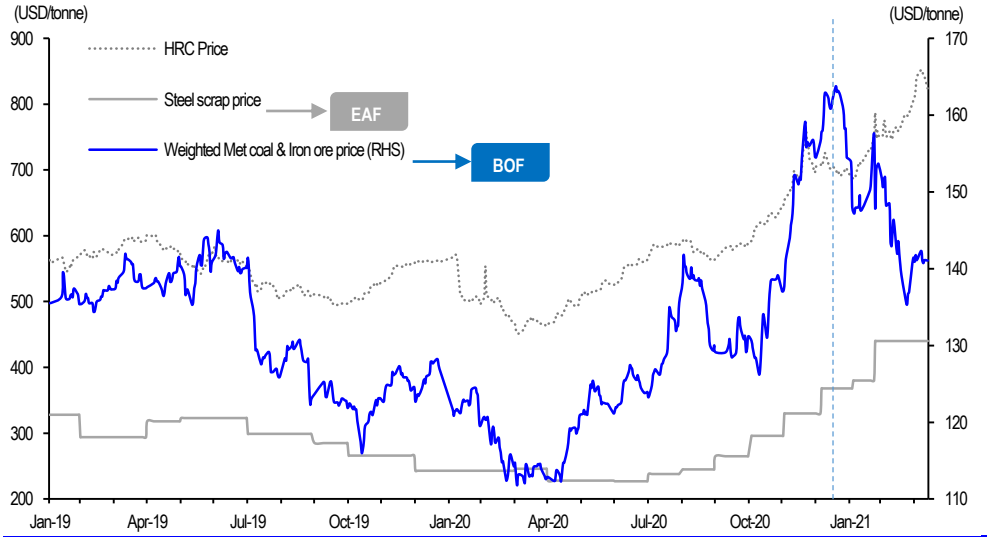
All BF-based steel enterprises in Tangshan, excluding Shougang Qian'an Steel Company, Shougang Jingtang United Iron & Steel Co., Ltd.

II. Details of the application

Steel Enterprises	Period	Production Restriction
Tangshan Songting Steel Co., Ltd Tangshan Medium and Heavy Plate Co., Ltd Hebei Xinda Iron & Steel Group Co., Ltd Tangshan Stainless Steel Co., Ltd	March 20 - June 30, 2021	Reduce the output by 50%
Tangshan Chunxing Special Steel Co., Ltd Jinma Steel Group Tangshan Donghua Iron and Steel Enterprise Group Co., Ltd (Including Kaiheng)	July 1 - December 31, 2021	Reduce the output by 30%
Other 16 steel enterprises	March 20 - December 31, 2021	Reduce the output by 30%

Source: SteelHome, Shinhan Securities Vietnam

Prices of input materials for end-use steel



Source: Bloomberg, Shinhan Securities Vietnam

Defensive taxes on foreign steel

In 2020, the featuring protection on the domestic steel industry includes 2 anti-dumping tax policies, in which Decision No. 918/QĐ-BCT is an extension of a previous tax policy on steel, focusing on long steel (construction steel) and galvanized steel products. The shield of taxes shall have its protective effects in the short-term when China gets back to production in 1H20 in terms of construction steel. The taxes on steel sheets, besides the protection of domestic steel sheet producers, may indirectly benefit hot-roll coils (HRC) providers, including Hoa Phat Group and Fomorsa, due to the higher cost of its end product cool-rolled coils (CRC). Despite the drop in steel output worldwide, the latest policies in 2020 clearly stated the attention to protect domestic steel from the government.

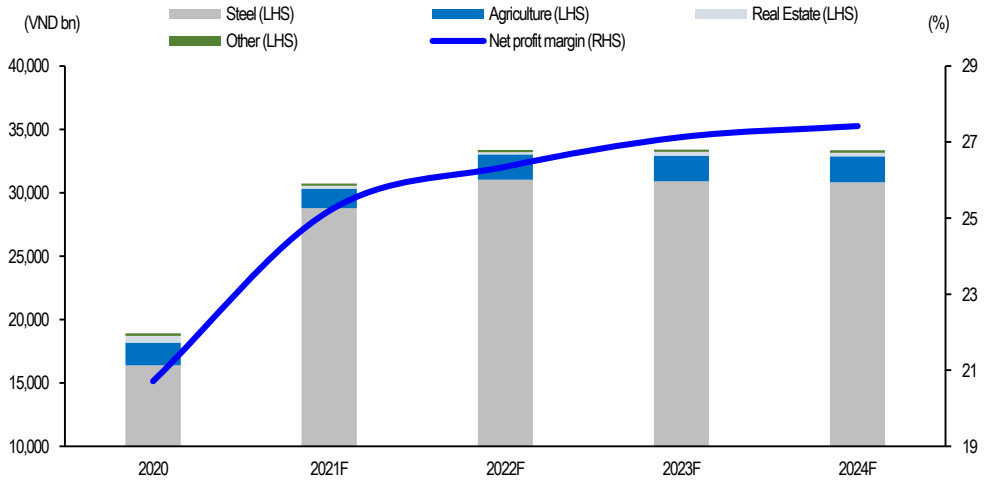
Current main anti-dumping taxes in Vietnam

Products	Regulation	Origin	Tax rates	Period
Galvanized steel sheet	No. 3023/QĐ-BCT	China	3.7% - 38.34%	Oct 2020 – Apr 2022
		Korea	7.02% - 19%	
Long steel (Steel bar) Steel billet	No. 918/QĐ-BCT	Worldwide	9.4% (2021) 6.4% (2023)	Mar 2020 - Mar 2023

Source: MoIT, Shinhan Securities Vietnam

Earnings estimates

Earnings forecast of Hoa Phat Group (2020 – 2025F)



Source: Company data, Shinhan Securities Vietnam

Hoa Phat Group's annual earning trend and outlook

(Unit: bn VND)	2020	2021F	2022F	2023F	2024F
Revenue	**91,279**	**126,651**	**131,442**	**127,696**	**126,092**
① Steel	75,700	113,291	114,734	110,549	108,933
② Agriculture	10,995	11,778	15,335	15,380	15,391
③ Real Esate	2,613	771	562	956	956
④ Other	811	811	811	811	811
Gross profit	**18,905**	**28,892**	**30,839**	**30,149**	**30,149**
OP	17,121	26,372	28,224	27,609	27,640
Net profit	**13,506**	**21,599**	**23,517**	**23,931**	**24,956**
Margin (%)					
GPM	20.7	22.8	23.5	23.6	23.9
OPM	18.8	20.8	21.5	21.6	21.9
NPM	14.8	17.1	17.9	18.7	19.8
Growth (%YoY)					
Revenue	41.1	40.8	3.8	-2.9	-1.3
GP	69.0	52.8	6.7	-2.2	0.0
OP	75.7	54.0	7.0	-2.2	0.1
NP	35.7	37.3	2.9	-3.0	-1.2

Source: Company data, Shinhan Securities Vietnam

Hoa Phat Group's quarterly earning trend and outlook

(Unit: bn VND)	1Q20	2Q20	3Q20	4Q20	1Q21F	2Q21F	3Q21F	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F	2020	2021F	2022F
Revenue	**19,233**	**20,422**	**24,686**	**25,778**	**29,763**	**31,156**	**30,016**	**35,716**	**30,889**	**32,335**	**31,152**	**37,067**	**90,119**	**126,651**	**131,442**
Gross profit	3,763	3,706	5,169	6,266	6,790	7,107	6,847	8,148	7,247	7,586	7,309	8,697	18,905	28,892	30,839
Operating profit	3,352	3,291	4,707	5,773	6,197	6,488	6,250	7,437	6,633	6,943	6,689	7,959	17,121	26,372	28,224
Net profit	**2,305**	**2,756**	**3,785**	**4,661**	**5,076**	**5,313**	**5,119**	**6,091**	**5,526**	**5,785**	**5,574**	**6,632**	**13,507**	**21,599**	**23,517**
Margin (%)															
GPM	19.6	18.1	20.9	24.3	22.8	22.8	22.8	22.8	23.5	23.5	23.5	23.5	21.0	22.8	23.5
OPM	17.4	16.1	19.1	22.4	20.8	20.8	20.8	20.8	21.5	21.5	21.5	21.5	19.0	20.8	21.5
NPM	12.0	13.5	15.3	18.1	17.1	17.1	17.1	17.1	17.9	17.9	17.9	17.9	15.0	17.1	17.9
Growth (%YoY)															
Sales	29.0	31.0	64.0	43.0	54.7	52.6	21.6	38.6	3.8	3.8	3.8	3.8	42.0	40.5	3.8
GP	44.0	22.0	91.0	121.0	80.4	91.8	32.5	30.0	6.7	6.7	6.7	6.7	69.0	52.8	6.7
OP	45.0	24.0	102.0	135.0	84.9	97.1	32.8	28.8	7.0	7.0	7.0	7.0	76.0	54.0	7.0
NP	27.0	34.0	111.0	142.0	120.2	92.8	35.2	30.7	8.9	8.9	8.9	8.9	78.0	59.9	8.9

Source: Company data, Shinhan Securities Vietnam

Shinhan's annual earnings estimation versus Bloomberg consensus

(Unit: bn VND)	Shinhan estimate			Bloomberg consensus			Difference (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue	126,651	131,442	127,696	124,284	132,922	147,035	1.9	(1.1)	(13.2)
OP	26,372	28,224	27,609	21,690	22,945	25,252	21.6	23.0	9.3
Pre-tax profit	25,194	27,431	27,914	21,267	23,191	25,729	18.5	18.3	8.5
Net profit	21,599	23,517	23,931	18,202	20,039	22,173	18.7	17.4	7.9

Source: Bloomberg, Shinhan Securities Vietnam

Risks

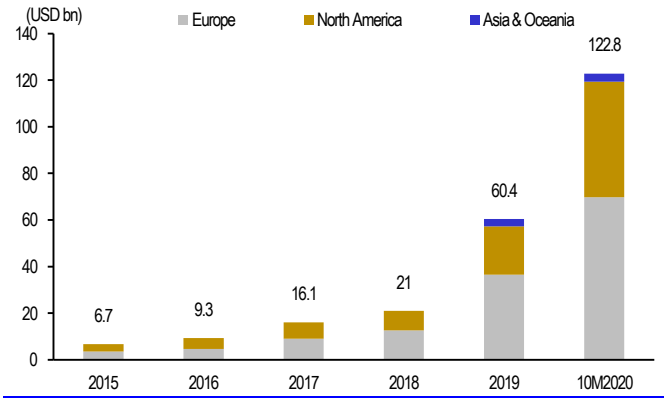
The double-edged sword

In 2016, Vietnam signed the Paris Agreement which is a legally binding international treaty on the environment. Decision No. 2053/QĐ-TTg mentions the mandatory tasks has to conduct reducing greenhouse gases gradually in various industries. Following the mentioned document, Decision No. 967/QĐ-BXD in 2020 announces the preparation of a Measurement Reporting And Verification (MRV) system and an Emission Trading Scheme (ETS) that monitors and controls emissions. The ETS system has been operated in developed countries for years with New Zealand being the first country to conduct it. In 2018, China also started a similar scheme. In these countries, carbon allowances are traded among corporations that reach their limits at certain prices.

BHM researchers have conducted a comparison of CO2 emissions via steel-making routes to discover that EAFs produce around 380 kg of CO2/tonne of steel while BOF technology throws out nearly 1,500 kg CO2/tonne on average. The fact clearly indicates that BOF manufacturers are 4 times more likely to run out of CO2 allowances than those operating EAFs with the same amount of emission credits. In the short term, the impact is minimal as the system is still in a planning phase, but BOF is going to face limitations in the future. If the ETS system is operated, Hoa Phat Group may have to buy more CO2 allowance for each additional tonne of emission and quickly surges its COGS, leading to a profit plummet.

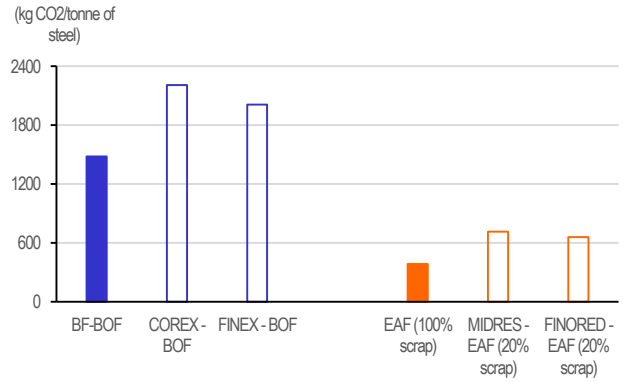
Reports from PwC Luxembourg insist on the importance of Environmental, Social, and Governance (ESG) criteria in Europe which play an important role in the investment decision. In recent years, not only Europe but also North America and even Asia have been interested in the trend when the total asset under management in ESG ETFs has risen to $122.8 bn in 10M2020. Carbon emission, obviously, is one of the main issues of the ESG system which could prevent funds from investing in Hoa Phat Group due to its core steel-making technique.

ESG ETF Asset under management worldwide



Source: Morgan Stanley, Shinhan Securities Vietnam

Carbon emission comparison of EAF and BOF methods



Source: Primetals Technologies Austria GmbH, Shinhan Securities Vietnam

Limitation control on input materials

Despite being interested in mining activities in Australia to completely control the value chain, Hoa Phat steel, at the moment, is exposed to the volatile prices of iron ore and metallurgical coal still. In recent years, unexpected events have continuously occurred and impacted material prices. The Brazilian iron mine disaster (in 2019), Australian wildfires, and COVID-19 pandemic have indicated how fragile the material supply is when iron ore and met coal prices fluctuated hugely in these periods. An unexpected drop in supply can negatively affect the margin of steel manufacturers as their selling prices could not fully follow the input costs.

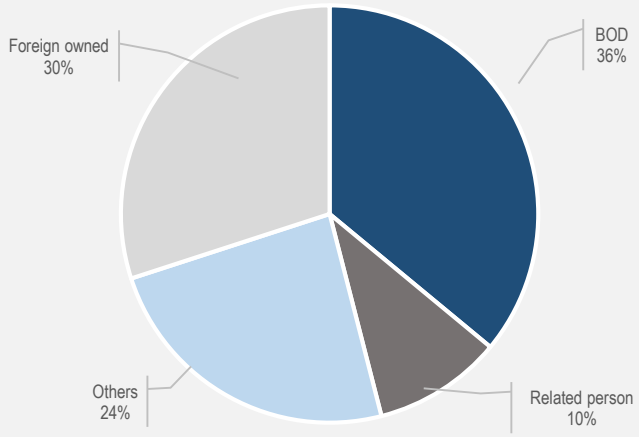
Company background

History

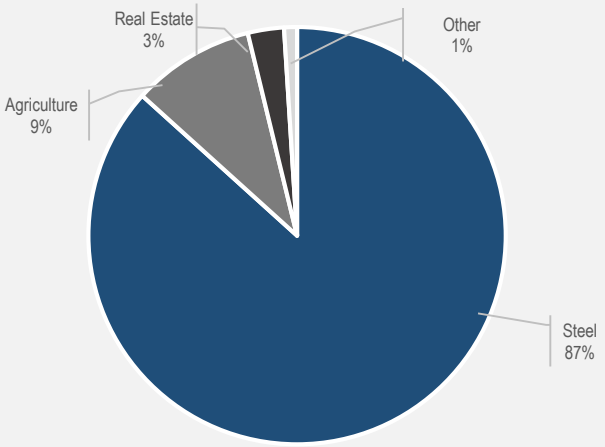
Starting up as a construction machine and equipment trading company in August 1992, Hoa Phat Group gradually expanded its business to trading and production of Furniture (1995), Steel Pipe (1996), Steel (2000), Refrigeration (2001), Real Estate (2001), Agriculture (2016). In 2007, Hoa Phat Group was reorganized into a group structure, with Hoa Phat Group Joint Stock Company restructured as the Parent Company of its subsidiaries.

Since November 15, 2007, Hoa Phat Group has been officially listed on the Stock Exchange under the stock ticker 'HPG'.

Shareholder structure

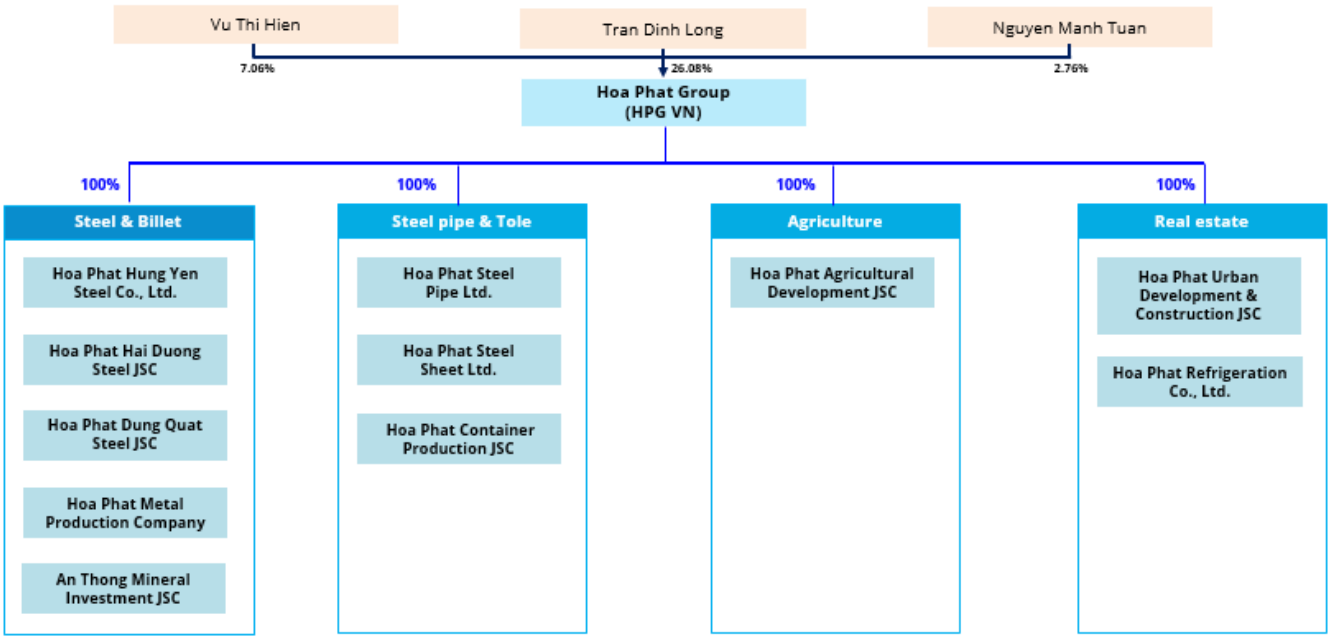


Business mixed



Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's corporate governance structure in 2021



Source: Company data, Shinhan Securities Vietnam

Appendix : Financial statements

Statement of financial position

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Total assets	**101,776**	**131,511**	**144,146**	**165,679**	**184,340**
Current assets	30,437	56,800	68,361	90,343	110,146
Cash & equivalents	4,545	13,001	17,002	34,225	53,644
Short-term financial asset	2,919	11,388	11,831	11,942	11,851
Accounts receivable	3,561	6,125	7,202	8,159	8,203
Inventories	19,412	26,287	32,326	36,017	36,448
Non-current assets	71,339	74,711	75,784	75,337	74,194
Net fixed assets	69,261	72,373	73,488	73,041	71,898
Investment assets	45.8	171.1	171.1	171.1	171.1
Other long-term assets	2,032	2,167	2,125	2,125	2,125
Total liabilities	**53,989**	**72,292**	**63,328**	**61,344**	**56,074**
Current liabilities	26,984	51,975	46,673	48,888	47,571
Accounts payable	7,507	10,916	12,953	14,980	14,525
Short-term borrowings	16,838	36,799	28,136	28,821	27,828
Others	2,639	4,261	5,584	5,087	5,219
Non-current liabilities	27005.2	20316.4	16654.9	12456	8502.86
Long-term borrowings	19842.1	17343.3	13689.9	9496.45	5548.45
Other financial liabilities	7163.1	2973.2	2965	2959.55	2954.41
Total shareholders' equity	**47,787**	**59,220**	**80,819**	**104,336**	**128,266**
Capital stock	27,611	33,133	33,133	33,133	33,133
Capital surplus	3211.6	3211.6	3211.6	3211.6	3211.6
Other capital	924.2	934.2	940.65	947.67	954.81
Retained earnings	15,877	21,783	42,154	64,332	86,901
Non-controlling interest equity	163	158	265	382	500
*Total debt	36,680	54,142	41,826	38,317	33,376
*Net debt (cash)	30,761	32,319	16,001	(4,730)	(29,090)

Statement of comprehensive income

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Revenue	**63,658**	**90,119**	**126,651**	**131,442**	**127,696**
Growth (%)	14.3	41.1	40.8	3.8	-2.9
COGS	52,473	71,214	97,759	100,603	97,547
Gross profit	**11,185**	**18,905**	**28,892**	**30,839**	**30,149**
GPM (%)	(4.2)	69.0	52.8	6.7	(2.2)
SG&A	**1,442.0**	**1,784.0**	**2,520.0**	**2,615.0**	**2,540.0**
Operating profit	**9,743**	**17,121**	**26,372**	**28,224**	**27,609**
Growth (%)	(7.6)	75.7	54.0	7.0	(2.2)
OPM (%)	15.3	19.0	20.8	21.5	21.6
Non-operating profit	**(646)**	**(1,765)**	**(1,178)**	**(793)**	**305**
Financial income	471	991	1,056	1,248	2,075
Financial expense	1,182	2,824	2,300	2,107	1,836
In which: interest expenses	937	2,207	2,300	2,107	1,836
Net other non-operating profit	65	68	66	66	66
Pre-tax profit	**9,097**	**15,356**	**25,194**	**27,431**	**27,914**
Income tax	1,518	1,849	3,595	3,914	3,983
Net profit	**7,579**	**13,507**	**21,599**	**23,517**	**23,931**
Growth (%)	(11.9)	78.2	59.9	8.9	1.8
NPM (%)	11.9	15.0	17.1	17.9	18.7
Controlling interest	7,527	13,439	21,492	23,400	23,812
Non-controlling interest	51	67	107	117	119
EBIT	**9,826**	**17,229**	**27,059**	**29,120**	**29,369**
Growth (%)	(5.4)	75.0	56.6	7.4	0.7
EBIT Margin (%)	15.4	19.1	21.4	22.2	23.0
EBITDA	**12,419**	**22,028**	**33,569**	**36,405**	**37,198**
Growth (%)	(1.9)	77.1	52.1	8.3	2.1
EBITDA margin (%)	19.5	24.4	26.5	27.7	29.1

Statement of cash flow

Year to Dec.(bn VND)	2019	2020	2021F	2022F	2023F
Cash flow from operations	**7,716**	**9,004**	**23,943**	**27,568**	**31,047**
Net profit	9,097	15,355	25,194	27,431	27,914
Depreciation expense	2,593	4,799	6,510	7,285	7,829
Amortization expense	-	-	-	-	-
Interest expenses	937	2,207	2,300	2,107	1,836
Change in working capital	(4,291)	(12,582)	(8,672)	(7,899)	(4,534)
Others	(620)	(775)	(1,389)	(1,356)	(1,998)
Cash flow from investments	**(18,064)**	**(16,604)**	**(7,625)**	**(6,837)**	**(6,687)**
Change in tangible assets	(20,798)	(9,334)	(7,625)	(6,837)	(6,687)
Change in investment assets	2,364	(7,663)	-	-	-
Others	370	393	-	-	-
Free cash flow	**(10,348)**	**(7,600)**	**16,318**	**20,731**	**24,360**
Cash flow from financing	**12,377**	**16,051**	**(12,316)**	**(3,508)**	**(4,942)**
Change in equity	-	3	-	-	-
Net borrowing	12,390	17,467	(12,316)	(3,508)	(4,942)
Dividends	(13)	(1,419)	-	-	-
Change in total cash	**2,029**	**8,451**	**4,002**	**17,223**	**19,418**
Beginning cash	2,516	4,545	13,001	17,002	34,225
Change in FX rates	-	6	-	-	-
Ending cash	4,545	13,002	17,003	34,225	53,643

Source: Company data, Shinhan Securities Vietnam

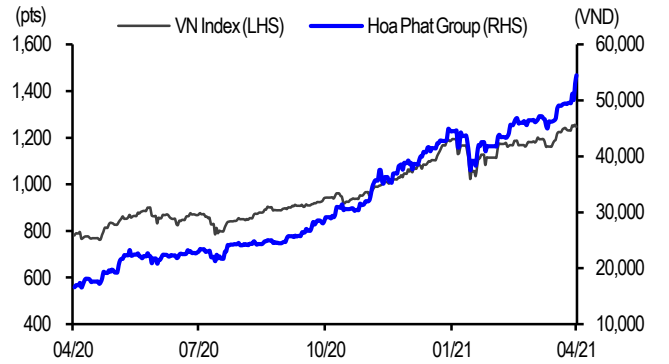
Key ratios

Year to Dec.	2019	2020	2021F	2022F	2023F
EPS (VND)	2,726	4,056	6,487	7,063	7,187
BPS (VND)	17.2	17.8	24.3	31.4	38.6
DPS (VND)	0	500	0	0	0
PER (x)	19.59	13.17	8.23	7.56	7.43
PBR (x)	3.09	2.99	2.19	1.70	1.38
EV/EBITDA (x)	14.60	8.23	5.40	4.98	4.87
Dividend payout ratio (%)	0.0	5.0	0.0	0.0	0.0
Dividend yield (%)	0.0	1.1	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	19.5	24.4	26.5	27.7	29.1
OPM (%)	15.3	19.0	20.8	21.5	21.6
NPM (%)	1,190.0	1,500.0	1,710.0	1,790.0	1,870.0
ROA (%)	7.4	10.3	15.0	14.2	13.0
ROE (%)	15.9	22.9	26.8	22.6	18.7
Stability					
Debt to equity ratio (%)	77.0	91.7	51.9	36.9	26.1
Net debt ratio (%)	247.7	146.7	47.7	-13.0	-78.2
Cash ratio (%)	44.3	66.3	102.5	160.2	235.4
Interest coverage ratio (x)	10.5	7.8	11.8	13.8	16.0
Activity (%)					
Working capital turnover (times)	4.12	4.19	4.77	4.50	4.24
Inventory turnover (days)	2.70	2.71	3.02	2.79	2.68
Receivable turnover (days)	17.88	14.71	17.59	16.11	15.57

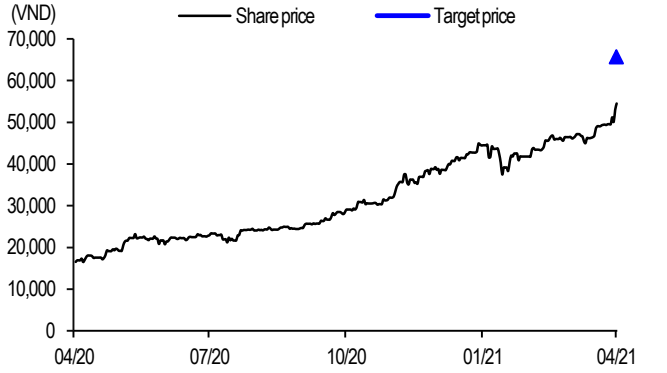
Source: Company data, Shinhan Securities Vietnam

Hoa Phat Group (HPG VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%) Average	Max/Min
April 15th, 2021 (Initiate)	BUY	65,700	(1.4)	(12.1)/13.1

Note: Calculation of target price gap based on past 6 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 6-month gain of 20% or more ◆ **Trading BUY:** Expected 6-month gain of 10% to loss of 10% ◆ **HOLD:** Expected 6-month loss of 10% to 20% ◆ **REDUCE:** Expected 6-month loss of 20% 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 Trading BUY or HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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