August 28th, 2024

Shinhan Securities



# Hoa Phat Group JSC

[ Vietnam / Steel ]

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

## BUY

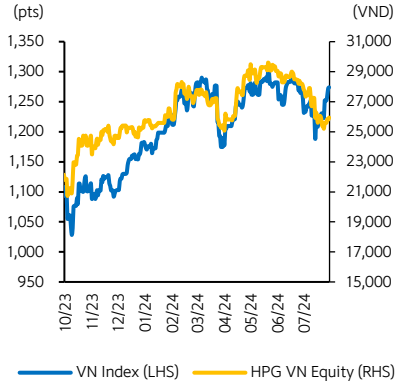
Initiation Coverage

| | |
|---|---|
| **Target price** (12 months) | **34,000 VND** |
| Current price (28/08/24) | 26,000 VND |
| Upside/downside (%) | 31% |

| | | |
|---|---|---|
| VNINDEX | | 1,281.14 |
| HNXINDEX | | 238.23 |
| Market Cap (bn VND) | | 166,302 |
| Outstanding shares (mn) | | 6,396 |
| Free-Floating (mn) | | 3,578 |
| 52-Wk High/Low (VND) | | 29,600/20,700 |
| 90-day avg. trading volume (mn) | | 22.13 |
| 90-day avg. turnover (bn VND) | | 627 |
| Major shareholders (%) | Tran Dinh Long | 26.08% |
| | Dragon Capital | 7.65% |

| Performance | 3T | 6T | 12T |
|---|---|---|---|
| Absolute (%) | -7.1 | -0.4 | -0.4 |
| Relative to VN-Index (%) | -6.3 | -3.3 | -0.1 |

Source: Bloomberg





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# The transition

### Initiate coverage with BUY call and target price of VND 34,000

Hoa Phat Group Joint Stock Company (HPG) is one of the leading steel enterprises in Vietnam. We offer an initial valuation of HPG at the price of 34, 000VND corresponding to a profitability of 31%. We use P/E and DCF valuation methods with weights of 50% and 50% respectively, with the following key arguments: **(i)** Vietnamese steel "tycoon" with the prospect of Dung Quat 2 project, **(ii)** "nudge" from the Civil Real Estate Market and Public Investment, **(iii)** Improved profit margin thanks to low input costs, **(iv)** Anti-dumping tax (CBPG) on imported HRC help reduce domestic competitive pressure.

### Vietnamese steel "tycoon" and the prospect of Dung Quat 2 project operating in early 2025

After a "quiet" period of the steel market, Hoa Phat still maintains its No. 1 domestic market share with the advantage of owning the "full" industry value chain. As of May 2024, HPG's construction steel market share has reached 38%. In addition, the super project Hoa Phat Dung Quat 2 Iron and Steel Complex will elevate Hoa Phat's position from 2025, contributing to increasing output by more than 70% compared to present.

### "Nudge" from the Civil Real Estate Market and Public Investment

The Civil Real Estate market (accounting for 60% of steel consumption demand) will flourish from the end of 2024 thanks to: **(1)** The loosened credit policy is gradually "permeating" the Real Estate market, **(2)** The situation of overlapping legal procedures is improved thanks to related laws taking effect early from August 1, 2024. In addition, the expected acceleration of public investment disbursement in the second half of 2024 will be a bright spot for the steel industry.

### Improved profit margin thanks to low input costs

Gross profit margin of the steel segment will continue to improve from 8.8% in 2023 to 13.5% in 2024 and 15% in 2025 thanks to **(1)** input material prices continuing to stay low, **(2)** Domestic steel prices are expected to recover in late 2024 and early 2025.

### Initiating anti-dumping tax on imported HRC into Vietnam

The wave of foreign steel imports of HRC steel from China (4.4 million tons as of June 2024, + 52.6% YoY) will be controlled if the Ministry of Industry and Trade concludes to apply anti-dumping tax on HRC imported from China and India from the end of this year.

**Risks : (1)** Risk of fluctuations in steel and coke prices; **(2)** Slow penetration of real estate market support policies; **(3)** Risks of the real estate market situation in China, **(4)** Risks of exporting to Europe; **(5)** Risks of competing with cheap steel from China.

| Year to Dec. | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| **Revenue (bn VND)** | **141,409** | **118,953** | **138,266** | **180,182** | **240,697** |
| OP (bn VND) | 9,794 | 7,651 | 12,707 | 18,339 | 35,731 |
| **NP (bn VND)** | **8,444** | **6,800** | **11,411** | **16,586** | **32,082** |
| EPS (VND) | 1,452 | 1,117 | 1,954 | 2,844 | 5,509 |
| BPS (VND) | 16,511 | 17,674 | 18,753 | 19,748 | 22,074 |
| OPM (%) | 7% | 6% | 9% | 10% | 15% |
| NPM (%) | 6% | 6% | 8% | 9% | 13% |
| **ROE (%)** | **9%** | **7%** | **10%** | **11%** | **17%** |
| PER (x) | 11.0 | 23.8 | 13.2 | 9.1 | 4.7 |
| PBR (x) | 1.1 | 1.6 | 1.4 | 1.3 | 1.2 |
| EV/EBITDA (x) | 7.8 | 11.9 | 9.0 | 6.9 | 3.8 |

Source: Company data, Shinhan Securities Vietnam


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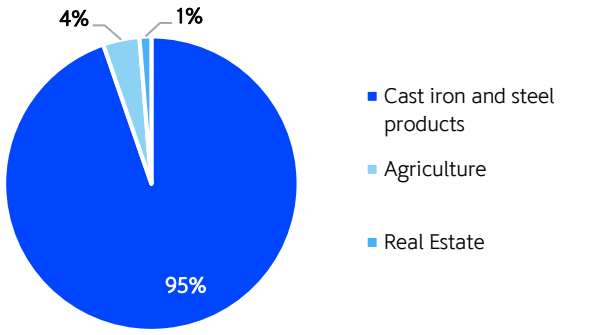
# Company background

## Company history

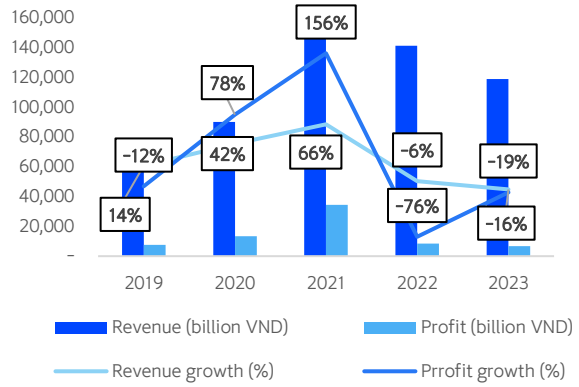
Hoa Phat was established in August 1992, beginning as a construction machine trading company, then expanded to other fields such as furniture, steel pipes, construction steel, refrigeration, real estate, and agriculture. On November 15, 2007, Hoa Phat officially listed shares on the Vietnam stock market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

Currently, the group operates in 05 fields: **Iron and steel (construction steel, hot rolled steel), Steel products (including steel pipes, galvanized steel sheets, wire drawing steel, pre-stressed steel), Agriculture, Real estate and household electrical appliances**. Hoa Phat's core business is Steel, contributing over 90% of the group's revenue and profit. With an average capacity of 8.5 million tons of crude steel/year, Hoa Phat holds the top 1 market share in Vietnam for construction steel and steel pipes, the top 10 largest private enterprises in Vietnam and is in the top 15 steel companies with largest capitalization in the world steel industry. Hoa Phat's average revenue and profit growth rate from 2019-2023 reaches 22% and 35%.

**Hoa Phat revenue structure in 2023 (%)**

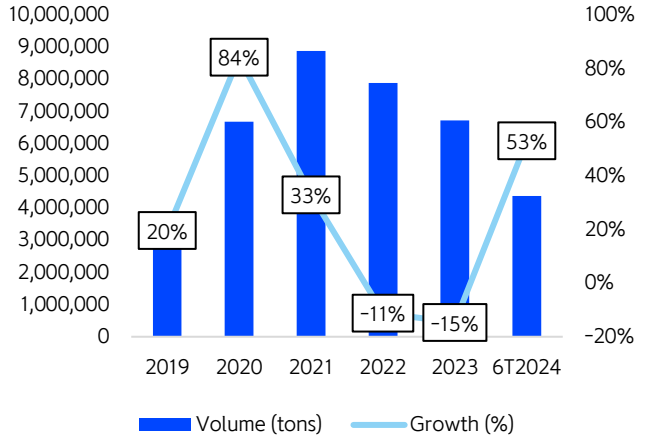



**Hoa Phat revenue and profit 2019-2023**

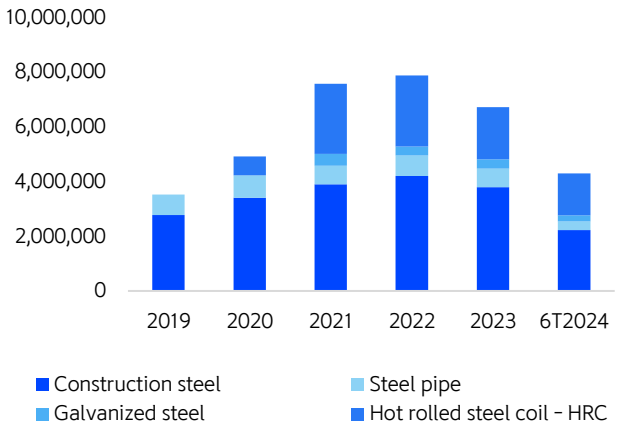



Source: Company report, Shinhan Securities Viet Nam

**Hoa Phat sales volume 2019 – 6M2024**




**Consumption volume by product 2019-6T2024 (tons)**




Source: Company report, Shinhan Securities Viet Nam

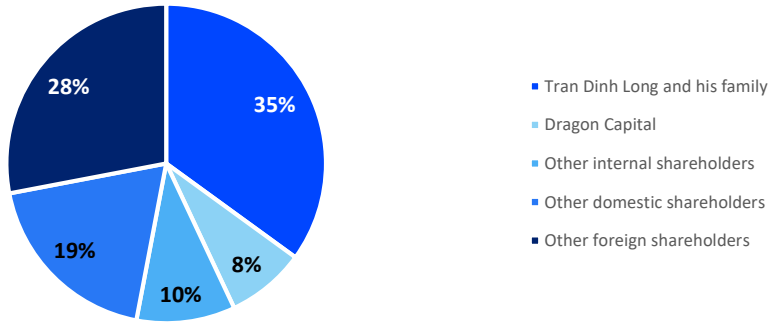
Hoa Phat's main steel products include: construction steel, hot rolled steel coil - HRC, steel billets, steel pipes and galvanized steel sheets. Of which, the largest contributions are construction steel (50%) and hot rolled steel - HRC (37%).

Hoa Phat Steel's sales volume also increased significantly. Within 5 years, Hoa Phat's steel output has nearly doubled from 3.5 million tons in 2019 to 6.7 million tons in 2023.

## 1. Shareholders structure

HPG's outstanding share volume as of July 30, 2024 is nearly 6.4 billion shares. Of which, the total ownership of Mr. Tran Dinh Long - Chairman of the Board of Directors of HPG and his family is 35%. In addition, Dragon Capital fund holds 8%, other internal shareholders hold 10%, and the remaining are other domestic and foreign shareholders.

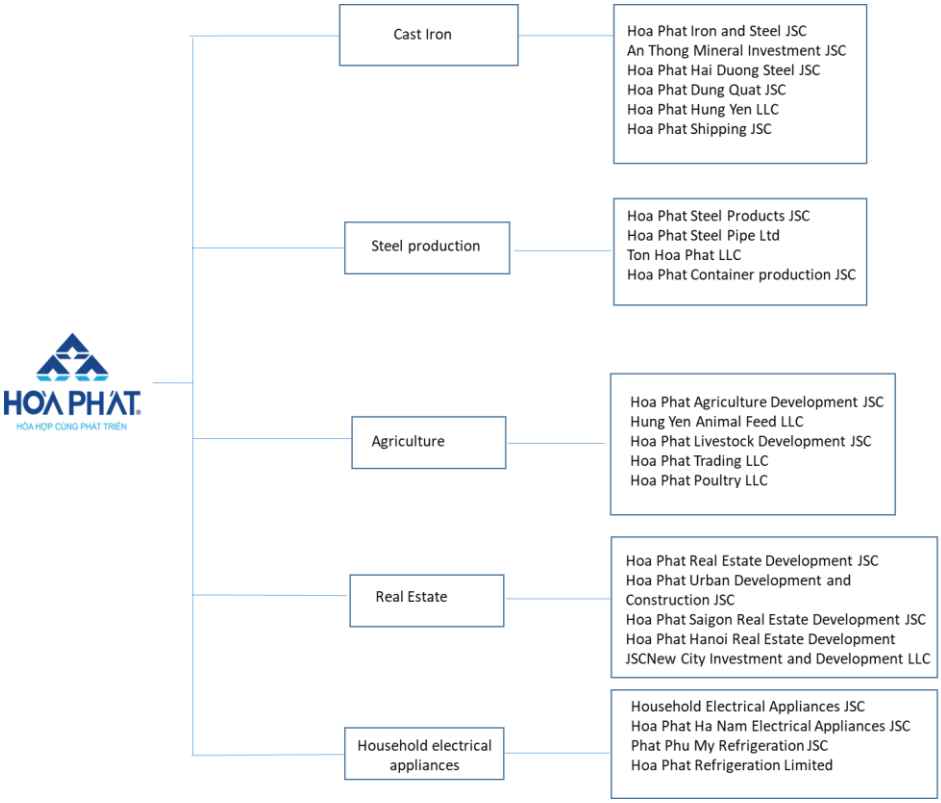
**Shareholders structure of Hoa Phat (%)**



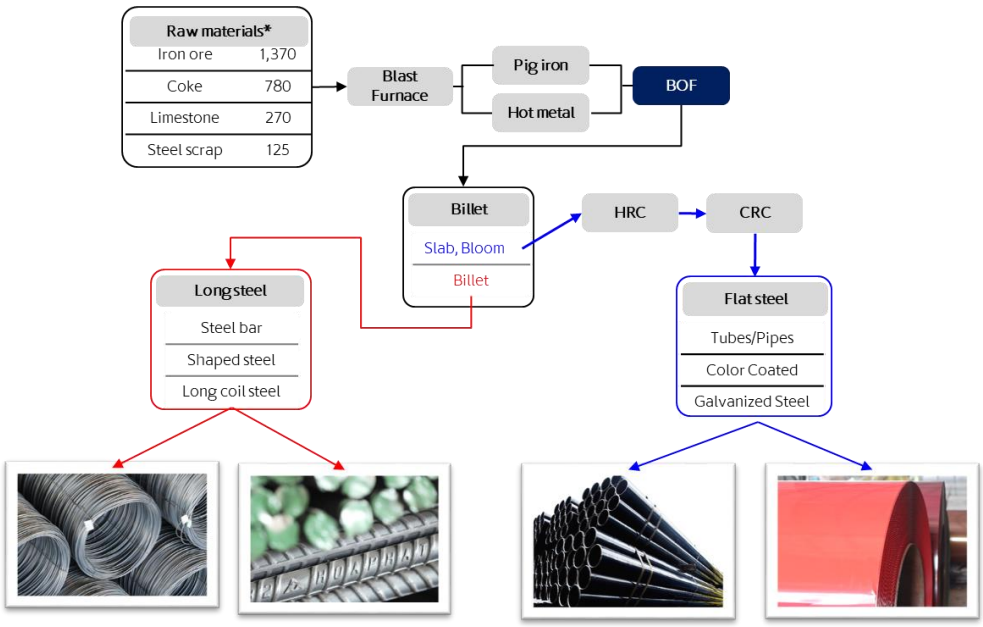

Source: Company report, Shinhan Securities Viet Nam

## 2. Organizational structure

HPG's business activities include 5 segments: **Iron and Steel, Steel Products, Agriculture, Real Estate, and Electrical Appliances.** HPG owns a total of 24 subsidiaries with many different fields.



## 3. Value chain of steel segment

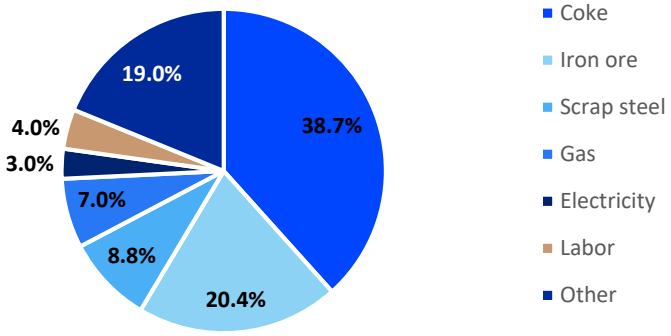



**(*) Unit: ton**

### 3.1. Input:

**Coke, iron ore and scrap steel** are the three main components in HPG's steel production cost. The enterprise uses blast furnace technology to refine iron and blowing oxygen furnace (BOF) to refine steel. In 2023, coke (38.7%), iron ore (20.4%), and scrap steel (8.8%) account for 67.9% of the cost of making 1 ton of steel using BOF furnace technology.

**Cost structure of Hoa Phat steel segment (%)**




Source: Company report, Shinhan Securities Viet Nam

### 3.2. Manufacture:

HPG uses modern European closed cycle steel production technology, with main stages including: Refining raw materials (sintering, pelletizing iron ore + coke refining) -> Blast furnace -> Blowing furnace -> Billet casting -> Steel rolling. With a designed capacity by 2023 of 8.5 million tons of crude steel/year, HPG's steel production activities are concentrated in 3 provinces of Hai Duong, Hung Yen and Quang Ngai.

The enterprise has plans to expand its iron and steel segment by building Hoa Phat Dung Quat 2 factory, expected to come into operation in early 2025 and increase Hoa Phat's crude steel capacity to 14.5 million tons/ year.

### 3.3. Output:

HPG's product portfolio is more extensive than other businesses on the market. HPG's steel segment output includes trading steel billets and post-rolled products including **construction steel, special steel (black wire, galvanized wire,...)**, **HRC steel, steel pipes and galvanized steel sheets.** In Vietnam, only HPG has the capacity to produce special steel products such as prestressed steel (PC Bar and PC strand), galvanized steel wire, container shells, to serve export to demanding markets such as EU, US, Canada,...

Steel billet



Rebar steel



Rolled steel wire



HRC



Black steel pipe



Galvanized steel pipes



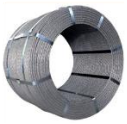
Color-coated galvanized steel coils



Color-coated zinc-aluminum coated steel coils



Pre-stressed steel



Steel wire drawstring



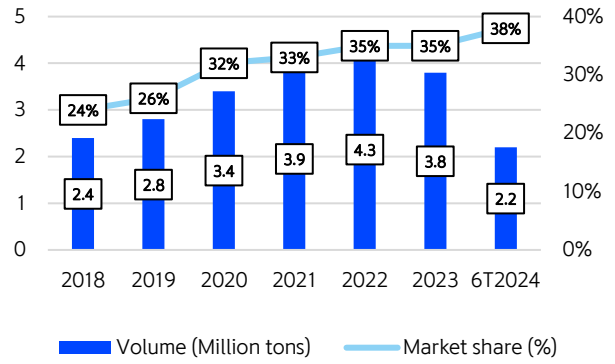
Despite experiencing many ups and downs in the domestic and world steel market, HPG's market share not only maintained but also continuously grew. As of June 2024, **HPG supplies 38% and 27% of domestic construction steel and steel pipes, respectively.**

# Investment thesis

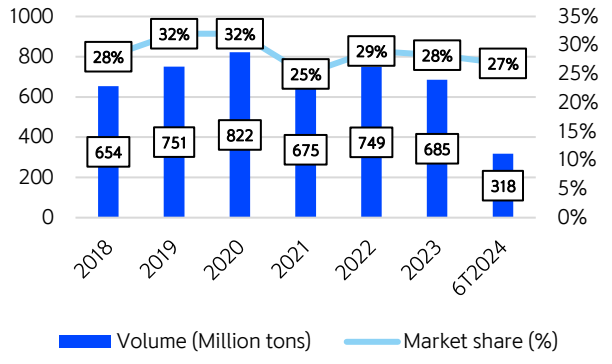
## 1.Vietnam's steel "tycoon" and the prospect of the Dung Quat 2 project operating in early 2025

HPG is the "tycoon" of domestic steel production with a market share of ~38% of total construction steel consumption. **HPG's market share will continue to expand when the Hoa Phat Dung Quat 2 Iron and Steel Complex project comes into operation in early 2025** (a pivotal year for the economy in general and the Real Estate market in particular); It is expected to bring total HRC capacity to 8.6 million tons/year. In fact, the gross profit margin of the domestic HRC segment is higher than that of exports, so when Dung Quat 2 comes into operation, HRC consumption in the domestic market will be boosted; in the context of HRC supply not meeting domestic demand.

**Construction steel output and market share 2018 – 6M/2024**



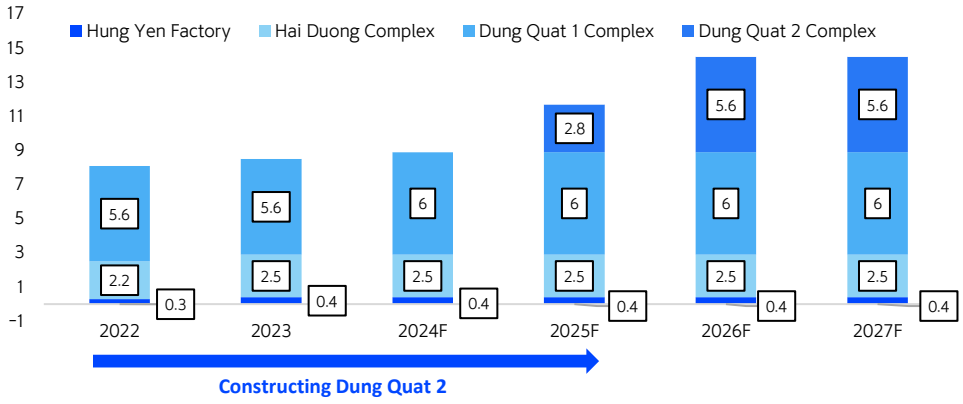

**Steel pipe output and market share 2018 – 6M/2024**




Source: Company report, Shinhan Securities Viet Nam

**Update on progress of Dung Quat 2 Project:** Dung Quat 2 project will be divided into 2 phases with phase 1 being completed in Q4/2024 with a capacity of 2 million tons of HRC steel. Phase 2 is expected to be completed in Q3/2025 with a capacity of 3.6 million tons of HRC steel. **The business provide information that it is currently 80% completed in phase 1.** It is expected that Q1/2025 will have the first products launched on the market. After completing the entire project, Hoa Phat's crude steel production capacity will reach over 14.5 million tons/year.

**Hoa Phat's crude steel capacity 2017-2027 (million tons)**




Source: Company report, Shinhan Securities Viet Nam

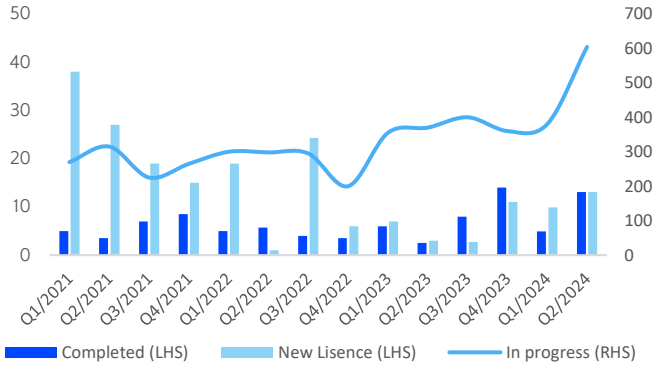
The advantages help Hoa Phat maintain its position in the steel playground: **(1)** the only Vietnamese enterprise that owns the "full" steel industry value chain, and can produce high quality steel; **(2)** widespread distribution system; **(3)** with the advantage of Dung Quat deep-water port, HPG can import large quantities of raw materials at a cheaper price of 3-5 USD/Ton

(on a total need for imported raw materials of 10-15 million tons/year) , **(4)** Dung Quat 2 is an "Steel punch" that affirms the position of the business in the long term.

However, we believe that **Hoa Phat's ability to consume HRC after Dung Quat 2 comes into operation depends largely on the anti-dumping tax policy with Chinese HRC due to** (1) Strong competition between Chinese steel and domestic steel, (2) oversupply may occur if anti-dumping is not applied.

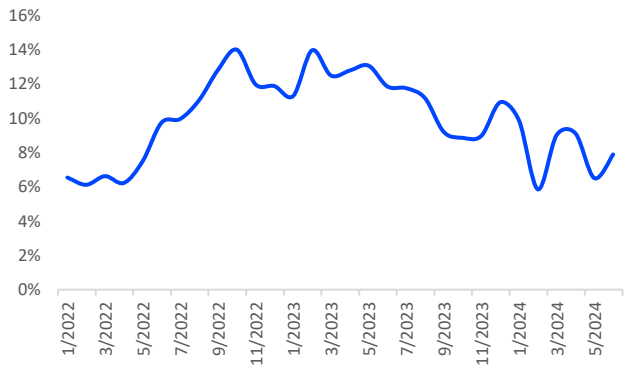
## 2. A "nudge" from the Residential Real Estate and Public Investment

**Number of commercial housing projects Q1/2021-Q2/2024 (Projects)**




Source: Ministry of Construction, Shinhan Securities Vietnam

**Credit growth in Construction and Real Estate industry (%)**




Source: Fiinpro, Shinhan Securities Vietnam

**The residential Real Estate Market will prosper from the end of 2024 due to:**

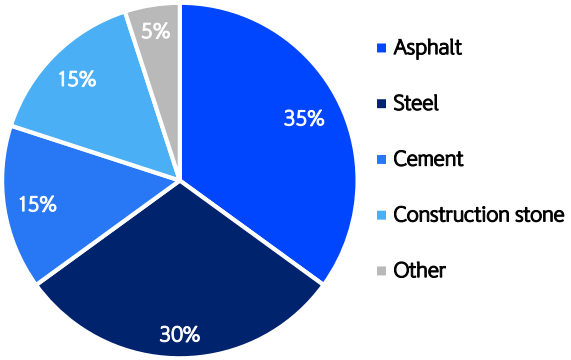
**Firstly**, policies to troubleshoot the Real Estate market such as: **(1)** Housing Law, **(2)** Real Estate Business Law, **(3)** Amended Land Law take effect earlier from January 1, August 2024; will untie the legal ties, creating momentum for the Real Estate market to prosper in the near future.

**Secondly**, the low interest rate level will be maintained continuously from 2023 to the present (in June 2024, the average medium and long-term loan interest rate is about 6.9-9.3%/year, the lowest level within 2 years) will be a factor to support liquidity for the economy in general and the Real Estate market in particular. In fact, in Q2/2024, the number of registered, licensed and completed projects has recovered strongly compared to Q1, equivalent to the number of the whole of 2023. At the same time, credit growth for the Construction and Real Estate recorded signs of recovery, apartment selling prices also increased in Q2, especially in the primary apartment segment. Thus, the Real Estate industry is gradually "following" the recovery process; expected to be a growth driver for the steel industry at the end of the year. However, the new laws taking effect need time to "absorb" into the market (about 6 months), so a clear recovery will come in late 2024 and early 2025.

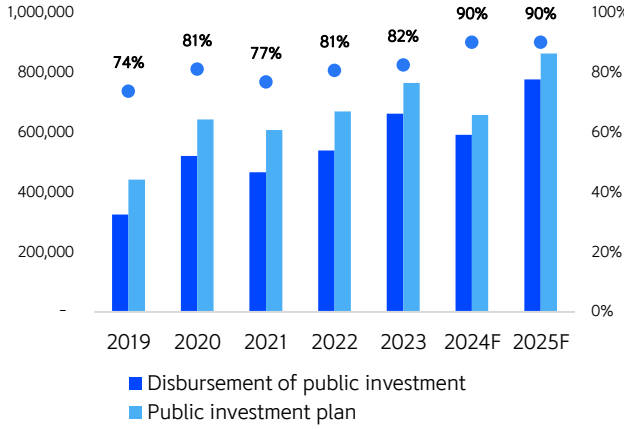
**Public investment is a bright spot for the steel industry this year**

**With major projects having completed the bidding stage and entering construction, the mobilization of large amounts of raw materials for 2024 is an important driving force for the steel industry.** According to the plan, total public investment capital in 2024 reaches 669,264 billion VND (-12 YoY); By the end of July 2024, the whole country has disbursed VND 232,091 billion (reaching 34.6% of the plan). It is expected that the progress of infrastructure construction will be accelerated in the last 5 months of 2024 to soon complete the set goal.

**Structure of raw materials for infrastructure construction (%)**




**Disbursement of public investment 2018 - 2025 (billion VND)**



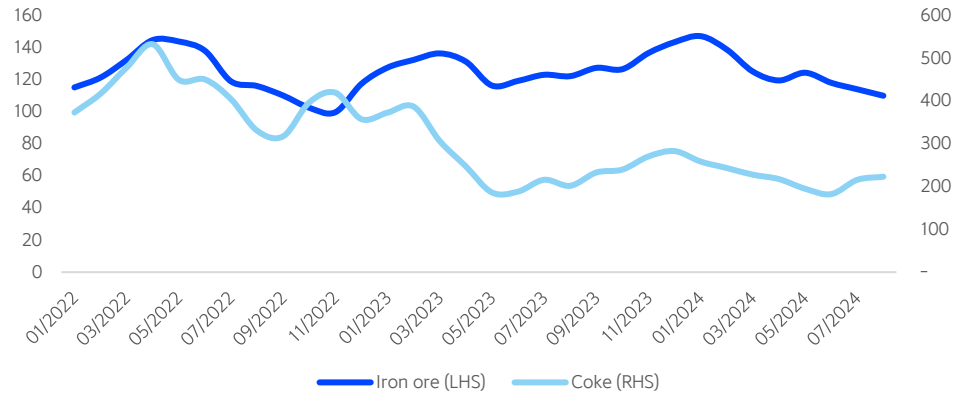

Source: Company report, Shinhan Vietnam Securities

## 3. Profit margins improve by taking advantage of low input costs

**We expect the steel segment's gross profit margin to improve from 8.8% in 2023 to 13.5% in 2024 and 15% in 2025** thanks to **(1)** input raw material prices continuing to stay low, **(2)** Domestic steel prices recovered slightly.

**First,** the prices of coke, iron ore, and scrap steel continue to adjust in Q3/2024 due to **(1)** oversupply of steel in China, reducing demand for raw materials, **(2)** iron ore supply increased in Australia. We believe that **iron ore and coking coal prices will continue to decrease slightly in 2024**, at 116 USD/ton (-5% YoY) and 190 USD/ton (-6% YoY) respectively due to weak demand and stable supply. In the short term, the low price of input materials is a factor holding back steel manufacturers in the context of steel price decrease.

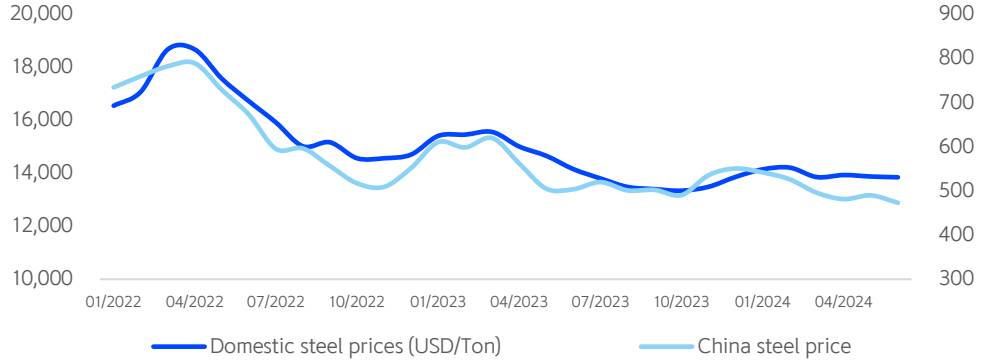
**Price of iron ore and coking coal (USD/Ton)**




Source: Bloomberg, Shinhan Vietnam Securities

**Second,** although Chinese steel prices have decreased by ~17.2%YTD, due to the prolonged "stagnation" of the Real Estate market, hence steel inventories have increased.; Domestic steel prices have not decreased too much (-2.1% YTD). We assess that Chinese steel prices are entering the bottom stage and will not decrease significantly compared to current prices because if prices continue to adjust, it could affect the profit margins of steel mills and reduce output in the coming months. Based on the view of the recovery of domestic demand, **we believe that domestic steel prices may recover slightly (+7% YoY) in 2024** thanks to world steel prices bottoming out and domestic demand recovering.

**Domestic and Chinese steel prices (USD/Ton)**




Source: Bloomberg, Shinhan Vietnam Securities

## 4. Initiate anti-dumping tax on HRC and galvanized steel imported into Vietnam

**Anti-dumping duties on HRC and galvanized steel products from China, India and Korea are expected to be issued soon in October and November 2024.** This will be a driving force to help increase HPG's steel consumption volume, especially HRC products. After increasing capacity thanks to Dung Quat 2 coming into operation in early 2025, the domestic market will be HPG's main consumption market, and the imposition of CPBG tax will reduce competitive pressure from foreign steel when there are up to 60 -70% of industry consumption comes from imports.

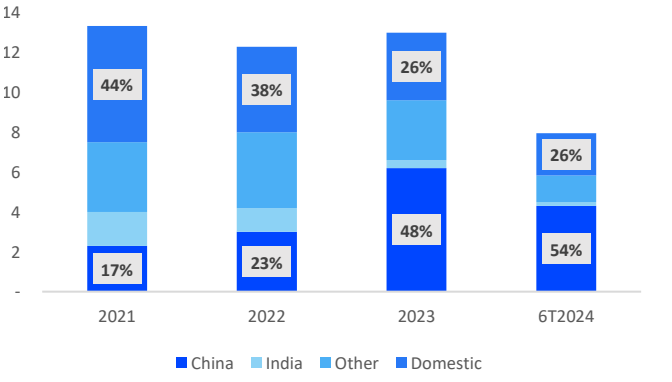
**Progress of anti-dumping investigation of HRC and galvanized steel:**

• **Anti-dumping against imported HRC:** The Ministry of Industry and Trade issued Decision No. 1985/QD-BCT on the decision to investigate anti-dumping against imported HRC from China and India on July 26, 2024. Thereby, the complainant has provided enough data to show that the dumping margin for HRC from India is 22.27% and from China is 27.83%. **If there is enough evidence, the temporary CPBG measure with imported HRC will be applied in mid-November 2024.**

• **Anti-dumping against imported galvanized steel sheets:** The Ministry of Industry and Trade issued Decision No. 1535/QD-BCT to officially investigate imported galvanized steel sheets from China and Korea. Thereby, the complainant has provided full data showing that the dumping margin is 69.23% for galvanized steel imported from China and 3.41% for galvanized steel imported from Korea, and at the same time proposed the level equivalent anti-dumping tax. **If there is enough evidence, temporary anti-dumping measures on imported galvanized steel will be applied in mid-September 2024.**

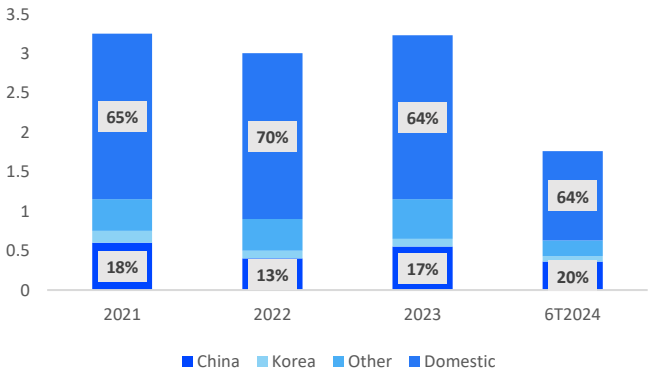
**We believe that the application of anti-dumping tax on HRC and galvanized steel is necessary** in the context of **(1)** a decline in domestic steel consumption due to fierce competition with imported steel, leading to a decrease in domestic steel prices, **(2)** the capacity of domestic HRC furnaces will increase in 2025 to meet domestic demand, so measures are needed to protect the interests of businesses.

**Structure of Vietnam's HRC supply (Million tons)**




Source: General Department of Customs, Shinhan Securities Vietnam

**Supply structure of galvanized steel sheets in Vietnam (Million tons)**



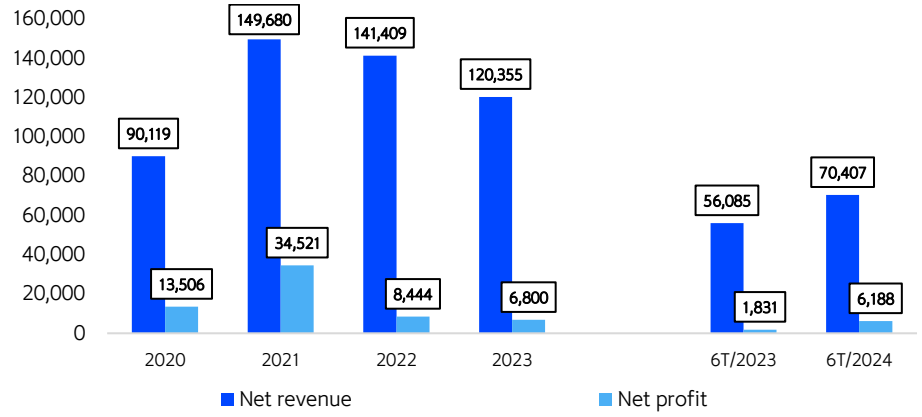

Source: General Department of Customs, Shinhan Securities Vietnam

# Business results forecast

## 1. Update Q2/2024 business results

**Hoa Phat's business results in 6M/2024 increased sharply compared to the low base of last year**

**Hoa Phat revenue and profit 2019-6M/2024 (billion VND)**

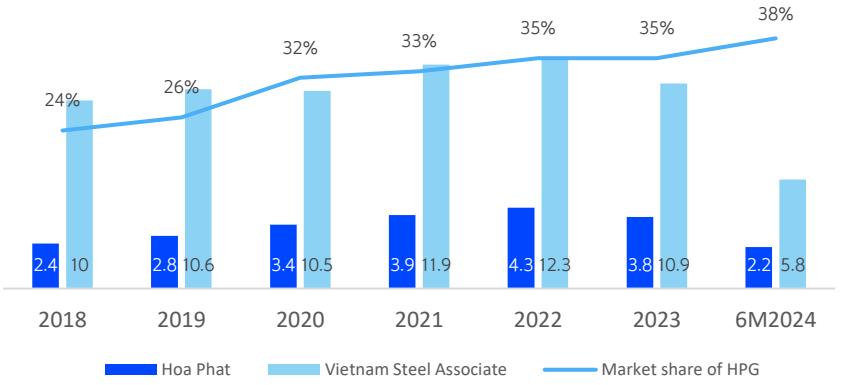



Source: Company report, Shinhan Securities Vietnam

**Hoa Phat achieved net revenue in 6M/2024 of 70,407 billion VND (+25% YoY), profit after tax reached 6,188 billion VND (+237% YoY).** Positive results mainly come from **(1)** strong increase in revenue thanks to the contribution of the construction steel segment, **(2)** improved net profit margin (from 3.2% to 8.7%) and **(3)** financial costs decline.

In the first 6 months of 2024, Hoa Phat has produced 4.37 million tons of crude steel (+53% YoY), **the main driver of output growth comes from construction steel (2.22 million tons, +39% YoY),** HRC output reached 1.5 million tons (+25.7 YoY). The domestic construction steel market share of HPG still maintains its leading position at 38%. Construction steel output increased sharply due to **(1)** low base level in the same period last year **(2)** domestic construction demand began to recover slightly, especially in the second quarter (peak construction season).

**Construction steel output and market share (million tons)**



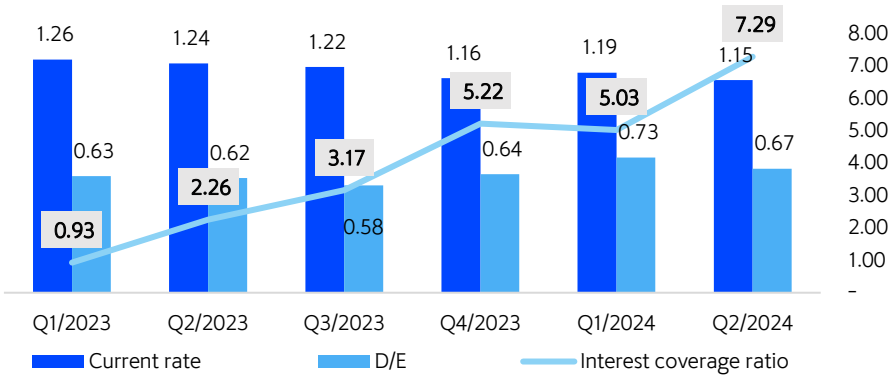

Source: Company report, Shinhan Securities Vietnam

**In the context of falling construction steel and HRC selling prices in Q2/2024, Hoa Phat still maintained profit margin growth** due to **(1)** Declining financial costs, **(2)** input costs (coke, iron ore) is lower and the business has been completely self-sufficient in power sources from Q4/2023.

**Hoa Phat's financial costs have decreased over the same period (-21% YoY).** The financial cost coverage ratio increased significantly thanks to reduced interest expenses (654 billion, -11% QoQ) and HPG's flexible loan structure adjustment (reducing USD loans, increasing VND loans) helped reduce the risk of rising exchange rates in Q2. Long-term loan balance increased due to disbursement of investment capital for the Dung Quat 2 project, but short-term loan debt decreased. In addition, Hoa Phat still maintains current liquidity ratios at

around 1.2, D/E index around 0.6; shows stable financial health.

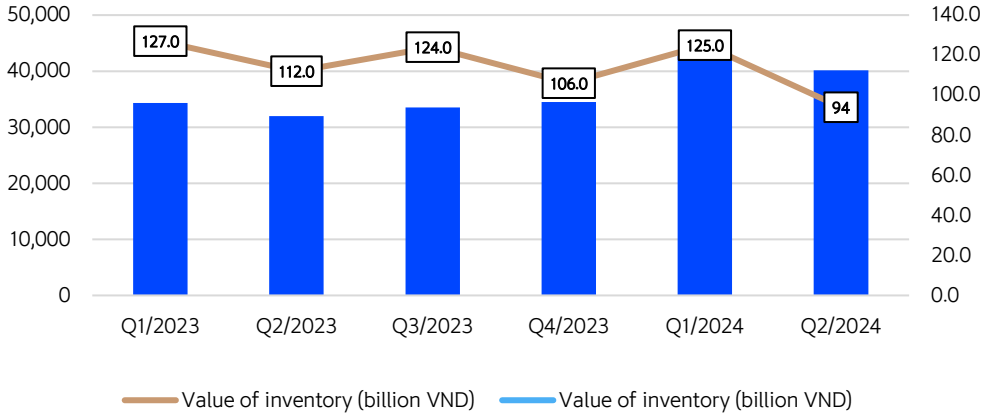
**Hoa Phat's liquidity and leverage 2018 - Q2/2024**




Source: Company report, Shinhan Securities Vietnam

**HPG's net inventory and average days of inventory decreased significantly in Q2/2024**, recording 40,164 billion and 94 days, respectively, thanks to **(1)** better sales volume and **(2)** control policy of raw materials of Hoa Phat's relatively in the context of falling raw material prices and potential risks decreasing domestic steel prices.

**Hoa Phat's inventory and average days in inventory Q1/2023-Q2/2024**

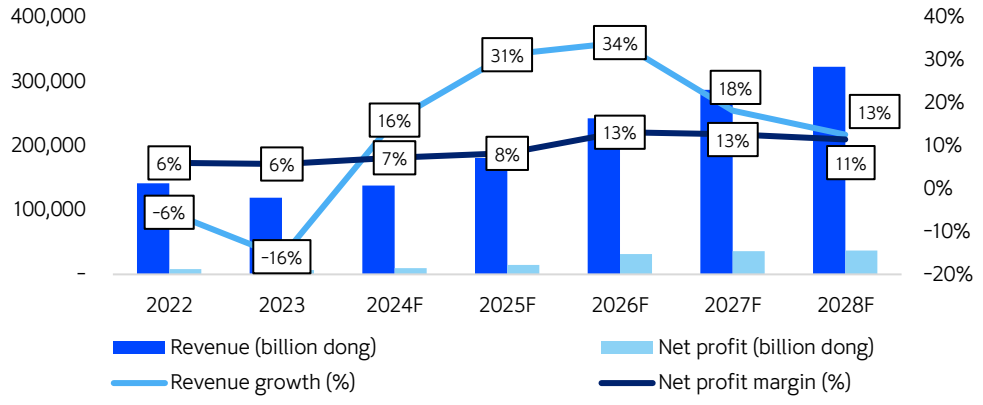



Source: Company report, Shinhan Securities Vietnam

## 2. "A turning point" from 2024

**Revenue and profit growth will return to positive**

**Hoa Phat's revenue and profit forecast for 2021 - 2027F**



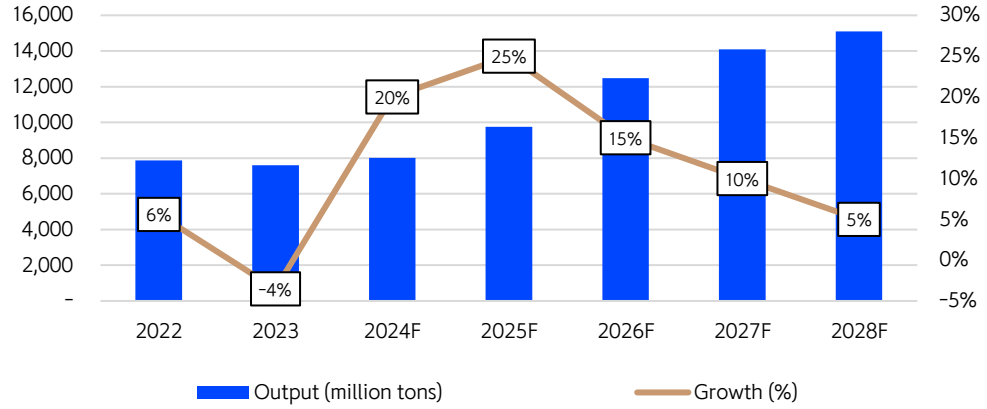

Source: Company report, Shinhan Securities Vietnam

After uncertainties related to the steel industry in 2023, Hoa Phat's revenue is expected to recover in 2024 when real estate-related issues are gradually resolved and the economic

situation recovers. In 2024, we expect HPG's revenue to reach VND 137,922 billion (+15.9% YoY) and NPAT to reach VND 8,879 billion (+44.6% YoY), net profit margin will continue to improve to 7% thanks to sales volume growth (7.98 million tons, +19.1% YoY) and average selling price recovered (+7% YoY).

**Output volume prospects increase after 2024**

**Hoa Phat output forecast 2021 – 2027F**




Source: Company report, Shinhan Securities Vietnam

Hoa Phat sales volume is expected to recover from a low base level (+19.1% YoY) for all HPG steel segments:

- Construction steel: sales volume reached 4.0 million tons (+7% YoY), based on the general growth forecast of the construction industry.
- HRC: sales volume reached 2.8 million tons (+2% YoY) because HPG nearly reached maximum capacity for HRC before phase 2 of Dung Quat factory operation.
- Steel pipes: sales volume reached 710 thousand tons (+4% YoY), thanks to expectations that the residential Real Estate market will recover slightly.
- Galvanized steel: sales volume reached 370 thousand tons (+10% YoY) thanks to the expectation that CPBG tax on galvanized steel from India and Korea will be applied (expected September 2024).

# Valuation and recommendation

## Initial valuation with BUY recommendation, target price 34,000 VND

We make our first valuation of Hoa Phat Group Joint Stock Company (HPG) with a buy recommendation and target price of 34,000 VND, corresponding to an increase of 31%. For a vision in the next 12 months, HPG can be considered with the following advantages:

(1) Vietnamese Steel "tycoon" and the prospect of Dung Quat 2 project operating in early 2025

(2) The "nudge" from the Residential Real Estate and Public Investment

(3) Profit margins improve by taking advantage of low input costs

(4) Initiation of anti-dumping tax on HRC steel from China and India helps increase domestic sales volume

## Valuation method

We apply a combination of P/E and Discounted Cash Flow (FCFF) valuation methods with proportions of 50% and 50% respectively, to valuate Hoa Phat Group Joint Stock Company (HPG).

| Method | Density | Price (VND) |
|---|---|---|
| P/E | 50% | 36,200 |
| FCFF | 50% | 31,700 |
| **Target price** | | **34,000** |
| Current price | | 26,000 |
| **Profit rate (%)** | | **31%** |

**Discounted Cash Flow method (DCF) – FCFF**

| Variable | Value |
|---|---|
| D/E | 0.44 |
| Beta | 1.13 |
| Risk - free rate | 2.9% |
| Cost of equity | 13.05% |
| Cost of debt | 5.46% |
| WACC | 10.92% |

For the Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond interest rate at 2.9% as the risk-free interest rate. Beta is calculated based on the most recent 5-year historical data of HPG and VNINDEX. Based on those assumptions, the target price according to the FCFF method of HPG is valued at 31,700 VND.

| HPG's FCF valuation model | | | | | |
|---|---|---|---|---|---|
| Unit: billion VND | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** |
| Net profit | 11,411 | 16,586 | 32,082 | 38,291 | 38,987 |
| Plus: Interest after tax | 3,482 | 5,502 | 7,574 | 5,819 | 6,292 |
| Plus: Depreciation | 7,863 | 8,729 | 9,621 | 9,879 | 8,899 |
| Minus: Change in working capital | 1,542 | 12,204 | 8,657 | 9,300 | 9,166 |
| Minus: Investment capital | 20,749 | 24,018 | 10,951 | 5,944 | 5,876 |
| Free Cash Flow (FCFF) | 466 | -5,404 | 29,669 | 38,744 | 39,135 |
| Discount rate | 0.90 | 0.81 | 0.73 | 0.66 | 0.60 |
| Present value of free cash flow | **420** | **-4,392** | **21,740** | **25,594** | **23,307** |
| Long-term growth rate | 3% | | | | |
| Present value of long term value | 180,472 | | | | |
| Enterprise value | 247,141 | | | | |
| In debt | 72,989 | | | | |
| Cash and cash equivalents | 28,346 | | | | |
| Number of outstanding shares (billion units) | 6.396 | | | | |
| Target price | **31,700** | | | | |

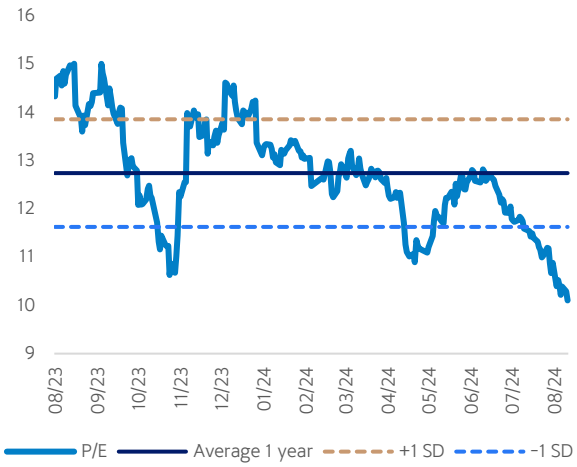
Source: Company data, Shinhan Securities Vietnam

**P/E method**

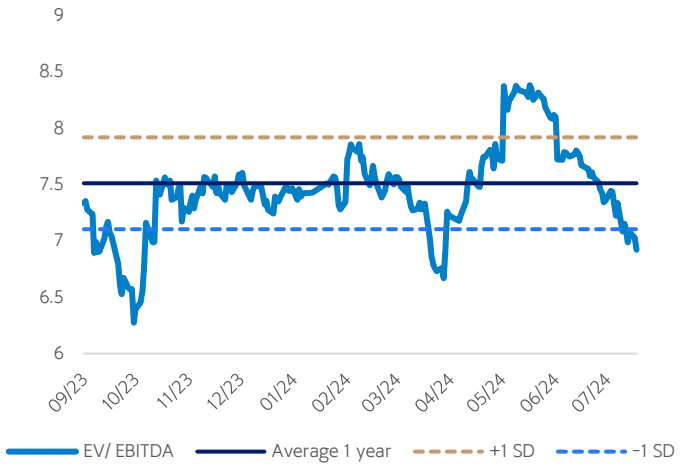
Based on the P/E method, we collect data from domestic and foreign steel companies. We estimate HPG's target P/E at 12.72. Combined with forecast EPS of 2,844 VND, HPG's target price is valued at 36,185 VND.

| Ticker | Company name | Market Cap (USD) | P/E | Gross margin (%) | ROE (%) | ROA (%) |
|---|---|---|---|---|---|---|
| HPG | TẬP ĐOÀN HÒA PHÁT | 6.6B | 11.8 | 13.3 | 8 | 5.83 |
| HSG | TẬP ĐOÀN HOA SEN | 515M | 11 | 12.33 | 2.46 | 1.31 |
| NKG | CTCP THÉP NAM KIM | 226T | 13.58 | 9.04 | 3.87 | 1.7 |
| 600019 | Baoshan Iron &Steel | 19.7B | 11.53 | 4.75 | 6.04 | 3.13 |
| 000709 | HBIS Co | 2.7 B | 20.30 | 8.91 | 1.92 | 0.38 |
| Average | | | 14.21 | | | |
| Median | | | 13.67 | | | |
| P/E forward | | | 13.94 | | | |
| HPG EPS Forward (VND) | | | 2,528 | | | |
| **Target price (VND)** | | | **35,300** | | | |

**P/E 1 year**

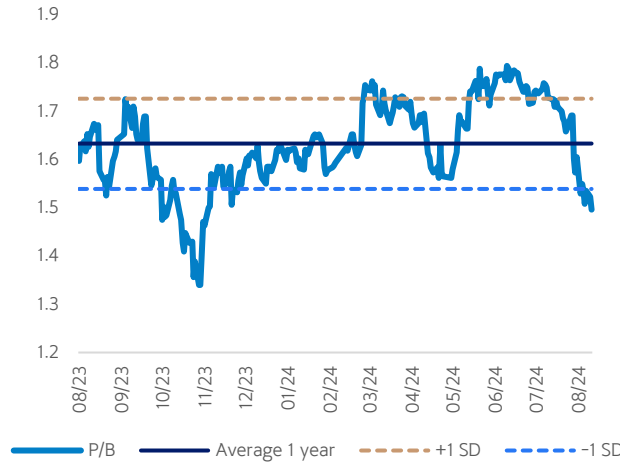



**EV/EBITDA 1 year**

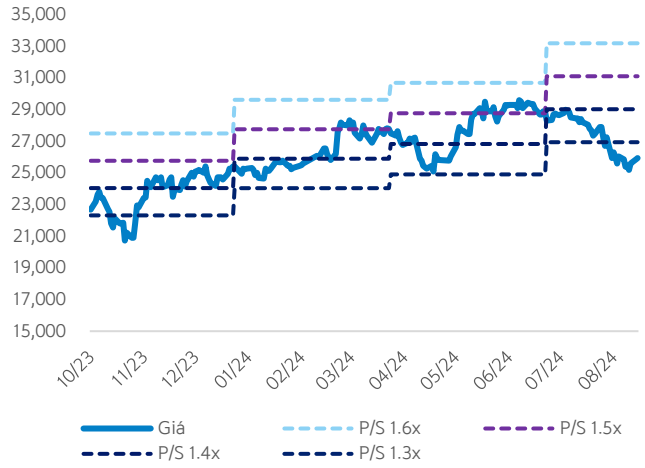



Source: Bloomberg data, Shinhan Securities Vietnam

**P/B 1 year**

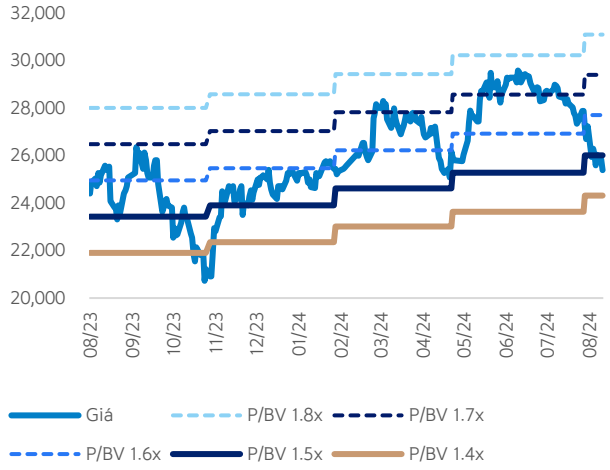



**P/S band**

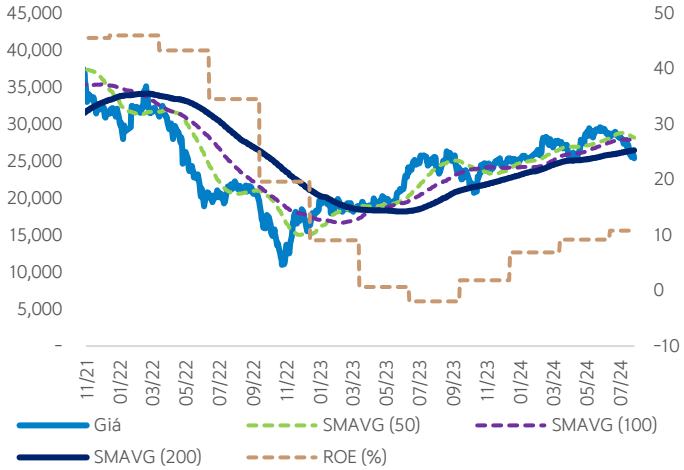



Source: Bloomberg data, Shinhan Securities Vietnam

**P/B band**

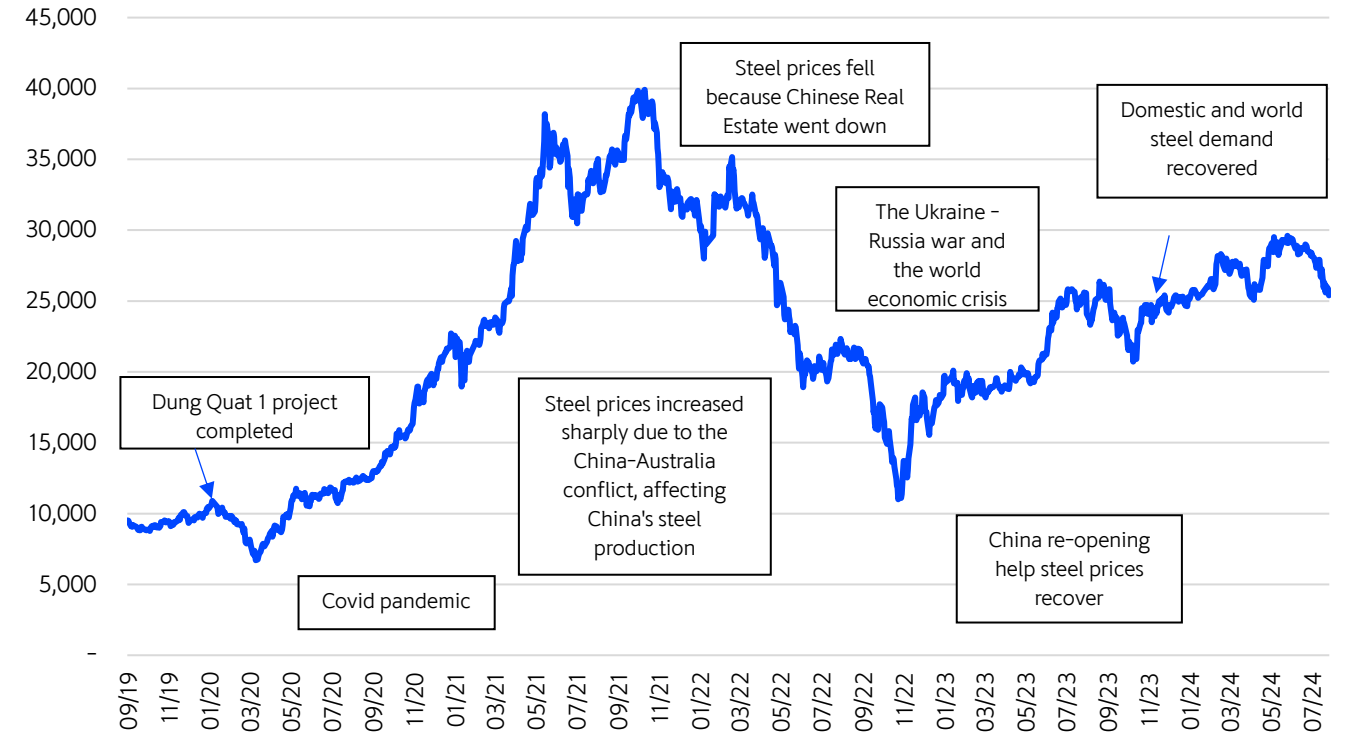



**ROE and MA 1 year**




Source: Bloomberg data, Shinhan Securities Vietnam

**Key event chart of HPG**




Source: Bloomberg, Company data, Shinhan Securities Vietnam

# Risks

## Risk of fluctuations in steel and coke coal prices

Steel price fluctuations have a great impact on Hoa Phat's selling price. With the ratio of export revenue accounting for 20% - 30% of Hoa Phat's revenue, steel selling prices are influenced by changes in domestic and world steel prices. Coke coal price directly affects Hoa Phat's input costs, thereby directly affecting Hoa Phat's profit margin.

## Risk of unstable domestic real estate market

The real estate market directly affects Hoa Phat's steel consumption. Steel consumption in the real estate sector accounts for more than 30% of domestic steel consumption. Unstable developments in the real estate situation will negatively affect the steel industry.

## Risks of the real estate market situation in China

Vietnam is currently importing a large amount of Chinese steel (especially hot rolled steel products - HRC). Unstable developments in China's real estate market will cause the country's steel prices to stay low, affecting Vietnam's domestic steel prices.

## Risks of exporting to Europe

The European Commission (EC) has issued a decision to investigate anti-dumping tax on imported steel until the end of June 2026, and at the same time apply a 15% quota for steel imported from other countries (equivalent to 142 thousand tons/quarter for Vietnam). In addition, the EC has also received a request for an anti-dumping investigation on HRC imports from Vietnam. If this tax is applied, HPG must reduce its dependence on the European market.

## Risk of competition with cheap steel from China

As the data mentioned in the report, Chinese steel imports into Vietnam increased sharply in Q2/2024, while import prices decreased due to severe oversupply in the country. If this problem is not overcome by protection measures, domestic steel prices will continue to be affected, negatively impacting the business results of domestic steel enterprises.

# Appendix: Financial statements

## Statement of financial position

| Year to Dec. (bn VND) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| **Total assets** | **170,336** | **187,783** | **239,366** | **305,420** | **353,065** |
| Current assets | 80,515 | 82,716 | 122,260 | 173,025 | 219,340 |
| Cash & equivalents | 8,325 | 12,252 | 54,257 | 85,396 | 107,220 |
| Short-term financial asset | 26,268 | 22,177 | 20,194 | 26,316 | 35,155 |
| Accounts receivable | 9,893 | 10,702 | 9,967 | 12,922 | 15,877 |
| Inventories | 34,491 | 34,504 | 37,842 | 48,390 | 61,089 |
| Non-current assets | 89,821 | 105,066 | 117,106 | 132,395 | 133,725 |
| Net fixed assets | 70,199 | 71,787 | 93,551 | 107,709 | 121,829 |
| Investment assets | 1 | 40 | 40 | 40 | 40 |
| Other long-term assets | 4,100 | 4,454 | 4,454 | 4,454 | 4,454 |
| **Total liabilities** | **86,060** | **98,379** | **146,311** | **190,061** | **193,351** |
| Current liabilities | 74,223 | 84,946 | 123,264 | 164,139 | 170,461 |
| Accounts payable | 15,637 | 16,532 | 17,624 | 19,052 | 26,194 |
| Short-term borrowings | 46,749 | 54,982 | 82,594 | 119,165 | 121,378 |
| Others | 4,530 | 4,144 | 4,113 | 5,993 | 8,103 |
| Non-current liabilities | 11,837 | 13,433 | 23,047 | 25,922 | 22,890 |
| Long-term borrowings | 11,152 | 10,399 | 20,057 | 22,932 | 19,900 |
| Other financial liabilities | 686 | 3,034 | 2,990 | 2,990 | 2,990 |
| **Total shareholders' equity** | **96,113** | **102,836** | **120,061** | **145,415** | **186,929** |
| Capital stock | 58,148 | 58,148 | 63,963 | 73,557 | 84,591 |
| Capital surplus | 3,212 | 3,212 | 3,212 | 3,212 | 3,212 |
| Other capital | 34,648 | 41,411 | 52,775 | 68,488 | 98,923 |
| Retained earnings | 33,834 | 40,593 | 51,957 | 67,670 | 98,105 |
| Non-controlling interest equity | 106 | 66 | 112 | 158 | 204 |
| *Total debt | 57,900 | 65,381 | 102,651 | 142,097 | 141,278 |
| *Net debt (cash) | 23,307 | 30,952 | 28,200 | 30,385 | (1,097) |

## Statement of comprehensive income

| Year to Dec. (bn VND) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| **Revenue** | **141,409** | **118,953** | **138,266** | **180,182** | **240,697** |
| Growth (%) | -5.5 | -15.9 | 16.2 | 30.3 | 33.6 |
| **COGS** | **(124,646)** | **(106,015)** | **(119,944)** | **(153,792)** | **(193,859)** |
| **Gross profit** | **16,763** | **12,938** | **18,323** | **26,389** | **46,839** |
| GPM (%) | 11.9 | 10.9 | 13.3 | 14.6 | 19.5 |
| **SG&A** | **(3,685)** | **(3,269)** | **(3,179)** | **(4,142)** | **(5,534)** |
| **Operating profit** | **9,794** | **7,651** | **12,707** | **18,339** | **35,731** |
| Growth (%) | (73.5) | (21.9) | 66.1 | 44.3 | 94.8 |
| OPM (%) | 6.9 | 6.4 | 9.2 | 10.2 | 14.8 |
| **Non-operating profit** | **(4,026)** | **(2,648)** | **(3,073)** | **(4,541)** | **(6,209)** |
| Financial income | 3,744 | 3,173 | 2,481 | 3,106 | 3,512 |
| Financial expense | (7,027) | (5,192) | (4,918) | (7,014) | (9,086) |
| In which: interest expenses | (3,084) | (3,585) | (3,104) | (4,906) | (6,752) |
| Net other non-operating profit | (743) | (630) | (637) | (633) | (635) |
| **Pre-tax profit** | **9,923** | **7,793** | **12,978** | **18,616** | **36,005** |
| Income tax | (1,479) | (992) | (1,567) | (2,030) | (3,922) |
| **Net profit** | **8,444** | **6,800** | **11,411** | **16,586** | **32,082** |
| Growth (%) | (75.5) | (19.5) | 67.8 | 45.4 | 93.4 |
| NPM (%) | 6.0 | 5.7 | 8.3 | 9.2 | 13.3 |
| Controlling interest | 8,484 | 6,835 | 11,365 | 16,540 | 32,036 |
| Non-controlling interest | (39) | (35) | 46 | 46 | 46 |
| **EBIT** | **13,007** | **11,378** | **16,082** | **23,522** | **42,757** |
| Growth (%) | (67.1) | (12.5) | 41.3 | 46.3 | 81.8 |
| EBIT Margin (%) | 9.2 | 9.6 | 11.6 | 13.1 | 17.8 |
| **EBITDA** | 19,502 | 17,736 | 23,945 | 32,251 | 52,378 |
| Growth (%) | (56.2) | (9.1) | 35.0 | 34.7 | 62.4 |
| EBITDA margin (%) | 13.8 | 14.9 | 17.3 | 17.9 | 21.8 |

## Statement of cash flow

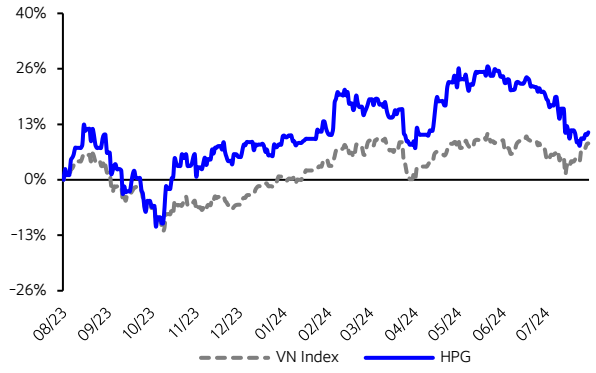
| Year to Dec. (bn VND) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| **Cash flow from operations** | **12,278** | **8,643** | **16,723** | **11,533** | **30,937** |
| Net profit | 8,444 | 6,800 | 11,411 | 16,586 | 32,082 |
| Depreciation expense | 6,495 | 6,359 | 7,863 | 8,729 | 9,621 |
| (Gain) from investing activities | (1,832) | (1,928) | (1,010) | (1,579) | (2,109) |
| Change in working capital | (6,274) | (2,151) | (1,542) | (12,204) | (8,657) |
| Others | 5,445 | (437) | - | - | - |
| **Cash flow from investments** | **1,698** | **2,222** | **(17,756)** | **(28,561)** | **(17,680)** |
| Change in fixed assets | (7,950) | (7,947) | (28,617) | (21,308) | (21,632) |
| Change in investment assets | - | - | 1,983 | (6,122) | (8,839) |
| Others | 9,648 | 10,169 | 8,878 | (1,131) | 12,791 |
| **Cash flow from financing** | **-** | **-** | **43,038** | **48,168** | **8,566** |
| Change in equity | - | - | 5,815 | 9,594 | 11,034 |
| Net borrowing | - | - | 37,270 | 39,447 | (819) |
| Dividends | - | - | (47) | (873) | (1,648) |
| **Change in total cash** | **13,975** | **10,865** | **42,005** | **31,140** | **21,824** |
| Beginning cash | 22,471 | 8,325 | 12,252 | 54,257 | 85,396 |
| Change in FX rates | - | - | - | - | - |
| Ending cash | 8,325 | 12,252 | 54,257 | 85,396 | 107,220 |

## Key ratios

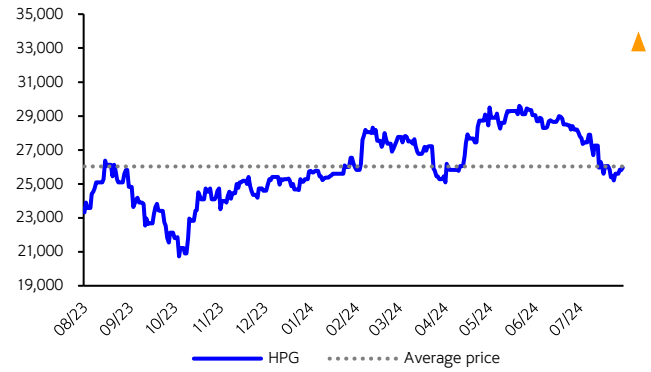
| Year to Dec. | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| EPS (VND) | 1,452 | 1,117 | 1,954 | 2,844 | 5,509 |
| BPS (VND) | 16,511 | 17,674 | 18,753 | 19,748 | 22,074 |
| DPS (VND) | 13.1 | 25.4 | 16.5 | 11.0 | 5.1 |
| PER (x) | 11.0 | 23.8 | 13.2 | 9.1 | 4.7 |
| PBR (x) | 1.1 | 1.6 | 1.4 | 1.3 | 1.2 |
| EV/EBITDA (x) | 7.8 | 11.9 | 9.0 | 6.9 | 3.8 |
| Dividend payout ratio (%) | 2% | 2% | 2% | 2% | 1% |
| Dividend yield (%) | 2% | 1% | 1% | 1% | 1% |
| **Profitability** | | | | | |
| EBITDA margin (%) | 13.8 | 14.9 | 17.3 | 17.9 | 21.8 |
| OPM (%) | 6.9 | 6.4 | 9.2 | 10.2 | 14.8 |
| NPM (%) | 6.0 | 5.7 | 8.3 | 9.2 | 13.3 |
| ROA (%) | 5.0 | 3.6 | 4.8 | 5.4 | 9.1 |
| ROE (%) | 8.8 | 6.6 | 9.50 | 11.4 | 17.2 |
| **Stability** | | | | | |
| Debt to equity ratio (%) | 60.2 | 63.6 | 85.5 | 97.7 | 75.6 |
| Net debt ratio (%) | 119.5 | 174.5 | 117.8 | 94.2 | (2.1) |
| Cash ratio (%) | 46.6 | 40.5 | 60.4 | 68.1 | 83.5 |
| Interest coverage ratio (x) | 4.2 | 3.2 | 5.2 | 4.8 | 6.3 |
| **Activity (%)** | | | | | |
| Working capital turnover (times) | 45.0 | 36.0 | 34.2 | 26.9 | 23.6 |
| Inventory turnover (days) | 112.2 | 118.8 | 110.1 | 102.3 | 103.1 |
| Receivable turnover (days) | 22.7 | 31.6 | 27.3 | 23.2 | 21.8 |

# Hoa Phat Group JSC (HPG)

## Share price




## Target price (VND)




| Date | Rating | TP (VND) | TP gap (%) | |
|---|---|---|---|---|
| | | | TB | Max/Min |
| 27/08/2024 (Initiation) | BUY | 34,000 | 35.46 | 14.19/66.46 |

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<br>◆ **HOLD:** Expected 12-month loss of 15% to gain of 15%<br>◆ **SELL:** Expected 12-month loss of 15% or more | ◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY<br>◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD<br>◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL |

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