# Hoa Sen Group JSC.

01/26/2021

Shinhan Securities
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| RATING | REDUCE |
|---|---|
| Current price (VND) | 25,150 |


| | |
|---|---|
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## COMPANY INFORMATION

| | |
|---|---|
| Industry | Industrial Metals & Mining L3 |
| Ticker | HSG |
| Stock Exchange | HOSE |

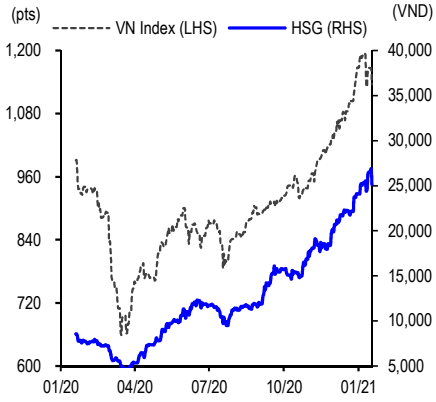
## STOCK TRADING DATA

| | |
|---|---|
| VN INDEX | 1,136.1 |
| Market Cap. (bn VND) | 11,174.1 |
| Outstanding Shares (1mn) | 444.3 |
| Free Floating Shares (1mn) | 304.0 |
| 52-week High (VND) | 27,250 |
| 52-week Low (VND) | 4,152 |
| Avg. Trading Volume (mn) | 11.49 |
| Avg. Reading T/O (bn VND) | 211.7 |

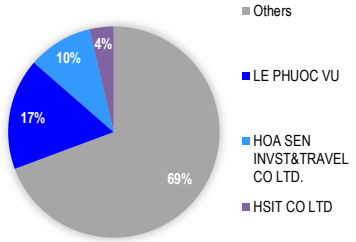
## STOCK PERFORMANCE

| (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absoulute | 64.9 | 140.7 | 194.1 |
| Percentage | 45.4 | 103.6 | 179.5 |

## STOCK PRICE PERFORMANCE




## SHAREHOLDER STRUCTURE




## INVESTMENT THESIS

### 1. Main changes in core business

- Hoa Sen Group (HSX: HSG) announced big changes in the business from the steel maker to material retailer in its 2021 AGM. HSG decided to stop expanding their manufacturing capacity and focusing into payment debts; focus on developing Hoa Sen Home, the new distibution and retail channel which aims to sell all construction materials and interiors for building houses; and M&A construction material companies.

### 2. Reasons for the changes

#### 2.1. Core businesses

- According to the BOD, the market of galvanised steel sheet has gradually become saturated and Hoa Sen Group wants to look for the opportunities in the distribution and retail sector of housing materials and interiors. The company also planned to increase the profits to VND1,500 bn in 2020-2021.
- Hoa Sen Group wants to utilise its logistics system and take advatages of factories locations to support Hoa Sen Home chain.
- Build an ecosystem of housing materials with partnerships of providers nationwide.

#### 2.2. Financial purpose

- The decision to stop the expansion of manufacturing capacity can save a significant cash flow for HSG to pay its debt.
- The land and properties used to develop Hoa Sen Home stores will be rent and therefore use their own cash flow to run the business.
- No cash dividend are chosen to save cash for debt payment in coming years.

### 3. Feasibility

- In the next few years, manufacturing will still be the main source of cash flow. Although net income soard by +219% in 2019-2020, HSG performance relies heavily on HRC price. According to KeyBanc Capital Markets, the HRC price in 2020 will likely to keep high and continue to rise in 2021, which then shall drop as produciton returns. HSG has hedged enough materials for months according to the BOD, but such scenario of stablising HRC price can lead to lower profit margin compared to this year. Overall, the profits of HSG are volatile, making the plan to drop debt to 0 within 4 years become doubtful.
- Hoa Sen Home and the plan to deploy a mobile app for buying housing materials and interiors online aimed to changed its core business from a manufacturer to a distributor and retailer, which is quite risky to penetrate the new business. In addition, HSG targets the very aggressive plan to open up to 150 stores in 2021 and around 200 to 350 stores in following years, while debt repayment is still a burden, can a double-edged sword in case the stores can not operate effectively.
- Also, the stock dividend strategy can threaten the future benefits of shareholders as the expected positive performance is uncertain.

## FINANCIAL INFORMATION

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| **Sales (tr VND)** | **17,894** | **26,149** | **34,441** | **28,035** | **27,531** |
| OP (tr VND) | 2,136 | 2,104 | 1,266 | 979 | 1,946 |
| Pre-tax (tr VND) | 1,907 | 1,643 | 529 | 462 | 1,376 |
| **NP(1mn VND)** | **1,504** | **1,332** | **409** | **361** | **1,153** |
| EPS(VND) | 3,636 | 3,179 | 884 | 781 | 2,507 |
| BPS(VND) | 10,388 | 12,763 | 11,512 | 12,288 | 14,819 |
| PER(x) | 5.7 | 7.8 | 13.6 | 8.2 | 10.0 |
| EV/EBITDA(x) | 5.0 | 7.7 | 8.4 | 5.6 | 4.6 |
| PBR(x) | 2.0 | 1.9 | 1.0 | 0.5 | 1.7 |
| ROE(%) | 41.0 | 27.6 | 7.7 | 6.6 | 19.2 |

*(*) Database information provided by Bloomberg*

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