November 28th, 2024

Shinhan Securities



Hoa Sen Group

[Vietnam / Steel]

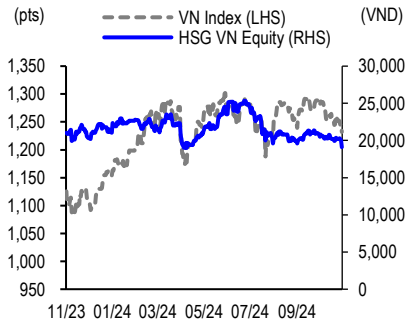
Bloomberg Code (HSG VN) | Reuters Code (HSG.HM)

BUY

Update report

Target price (12 months)	**23,100 VND**
Current price (28/11/24)	19,000 VND
Return (%)	21.5

VNINDEX			1,242
HNXINDEX			224
Market Cap (bn VND)			11,799
Outstanding shares (mn)			620
Free-Floating (mn)			472
52-Wk High/Low (VND)			26,100/18,150
90-day avg trading volume (mn)			9.00
90-day avg turnover (bn VND)			171
Major shareholders (%)	Hoa Sen Investment and Tourism Co., Ltd		19.87%
	Le Phuoc Vu		17.02%
Performance	3M	6M	12M
Absolute (%)	-9.1	-13.8	-10.8
Relative to VN-Index (%)	-6.0	-10.7	-24.2



Source: Bloomberg

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Benefit from the policy

Updated valuation with BUY recommendation, target price of VND 23,100

Hoa Sen Group Corporation (HSG) is a leading enterprise in the galvanized steel industry in Vietnam (20% of the domestic and 35% of the industry's export market share). Key products include: galvanized steel, steel pipes, plastic pipes and retail construction materials. Using the DCF and PE valuation methods, we update the valuation for HSG shares at VND 23,100, upside of 21.5%, with the following main arguments: (1) The galvanized steel industry protection policy officially extended, helping to increase output; (2) Steel prices increase thanks to recovering demand; (3) Expected profit margins improve.

Q4/FY2023-2024 business results update:

In Q4/FY2023-2024, HSG recorded revenue of VND 10,109 billion (+25% YoY, +24% QoQ), and NPAT of VND 152 billion (-65% YoY, -10% QoQ). In fact, positive revenue is due to growth in sales volume. Specifically, steel pipe and galvanized steel output reached 499,200 tons (+28% YoY) in Q4 and 1.9 million tons (+41% YoY) for the whole year. The negative profit growth is due to: (1) Decrease in output steel prices (-7% YoY) putting pressure on profit margins, (2) Large stockpiles of input materials (HRC) at high prices in Q1 and Q2/2024, (3) Sharp increase in sales and management costs (+69% YoY), mainly due to high sea freight rates. In whole 2023/2024, HSG achieved net revenue of 39,272 billion (+24% YoY), NPAT reached 510 billion (16 times higher than the same period), and exceeded 2% of the set target.

Policy for the galvanized steel was extended in the context of recovering domestic demand

On 24/10/2024, the Ministry of Industry and Trade officially issued a decision to extend anti-dumping tax on galvanized steel imported from China and South Korea (tax rates from 2.56-34.27%). This is the force for domestic enterprises while the steel industry in general being in the process of recovery.

Steel prices are expected to have bottomed out and started an upward cycle thanks to (1) domestic demand recovering as supply expansion of real estate this year; (2) The trend of lowering interest rates in key partner countries such as the US, EU, and ASEAN helps stimulate the housing market; (3) Steel demand in China has many drivers of recovery after the government's strong stimulus measures. Hence, HSG's profit margin will improve by taking advantage of gap between input and output prices.

Forecast of business results for the fiscal year 2024-2025

In the FY2024-2025, we expect that HSG's sales volume is 2.1 million tons (+9% YoY), of which galvanized steel and steel pipes output will increase by 14%YoY and 4% YoY respectively. We assume that the average steel price will increase by 6% YoY. From there, the company's revenue and NPAT will reach VND 45,933 billion (+17% YoY) and VND 1,213 billion (+138% YoY) respectively.

Risks: (1) Risk of market share decline; (2) Risk of HRC price fluctuation; (3) The risk of domestic real estate

Year to Dec.	2022	2023	2024	2025F	2026F
Revenue (bn VND)	**49,711**	**31,651**	**39,272**	**45,933**	**53,612**
OP (bn VND)	584	177	413	1,526	1,895
NP (bn VND)	**251**	**22**	**510**	**1,213**	**1,457**
EPS (VND)	420	49	828	1,970	2,151
BPS (VND)	18,171	17,475	17,689	18,958	20,006
OPM (%)	1.2	0.6	1.1	3.3	3.5
NPM (%)	0.5	0.1	1.3	2.6	2.7
ROE (%)	**2.3**	**0.2**	**4.67**	**9.4**	**9.8**
PER (x)	11.0	23.8	24.5	10.3	9.4
PBR (x)	1.1	1.6	1.1	1.1	1.0
EV/EBITDA (x)	7.8	11.9	11.5	4.5	3.7

Source: Company data, Shinhan Securities Vietnam

*HSG's fiscal year: from October 1 to September 30 of the following year

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Update 2024 business results and 2025 forecast

Items	2024 (Billion VND)	%YoY	2025F (Billion VND)	%YoY	Chú thích
Net revenue	**39,272**	**+24%**	**45,933**	**17%**	Revenue growth is mainly due to the recovery of output, especially in the domestic market (reaching 985 thousand tons, +25% YoY).
Output (thousand tons)					
Galvanized Steel	1,549	40%	1,759	14%	We forecast galvanized steel sheet sales volume to reach 1.7 million tons (+14% YoY) thanks to the implementation of the CBPG policy (contributing an additional 10% of output compared to the current level).
Steel Pipe	359	25%	374	4%	Steel pipe output depends mainly on the domestic market. We forecast steel pipe output in 2025 to reach 374 thousand tons (+4% YoY).
Gross Profit	**4,253**	**39%**	**5,515**	**35%**	We forecast HSG's BGN to increase slightly to 12% in 2025 thanks to reduced pressure on inventory provisioning and the recovery of finished steel prices.
Gross Profit Margin	11%		12%		
SG&A expenses	3,840	33%	3,990	4%	In 2024, freight rates doubled, causing HSG's selling expenses to increase sharply. We expect freight rates to return to a stable level in 2025.
Profit from Operating Activities	**413**	**133%**	**1,526**	**269%**	
EBIT	541	138%	1,650	205%	
NPAT	**510**	**2218%**	**1,213**	**137%**	

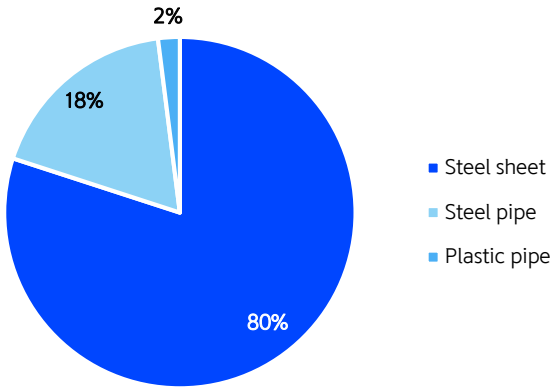
Company background

Company history

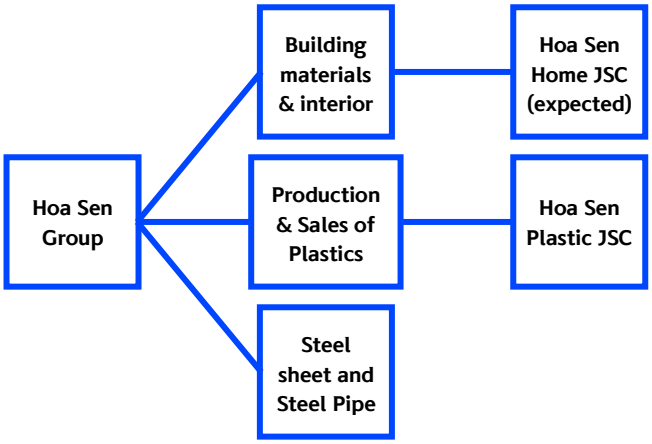
Hoa Sen Group (HSG) was established on August 8, 2001. In 2008, the Company was officially listed on HOSE with the stock ticker HSG. Over 20 years of establishment, Hoa Sen Group has become the number one enterprise in the field of galvanized steel sheets in Vietnam in both domestic and foreign markets, accounting for 29% of the domestic market share and 30% of the export market.

Hoa Sen Group owns a system of more than 600 branches and retail stores across the country. In addition to the domestic market, Hoa Sen Group constantly promotes export activities in many potential markets in the Middle East, South Asia, Africa, Australia, Europe, and America. Currently, Hoa Sen Group's products are present in more than 87 countries and territories.

Structure of Hoa Sen products in 2023



Hoa Sen's business structure

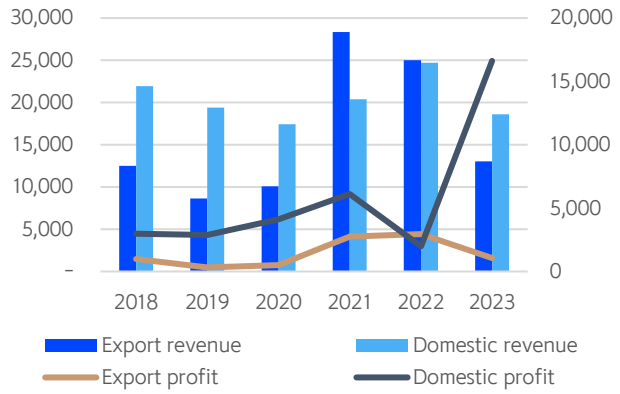


Source: Company Report, Shinhan Securities Vietnam

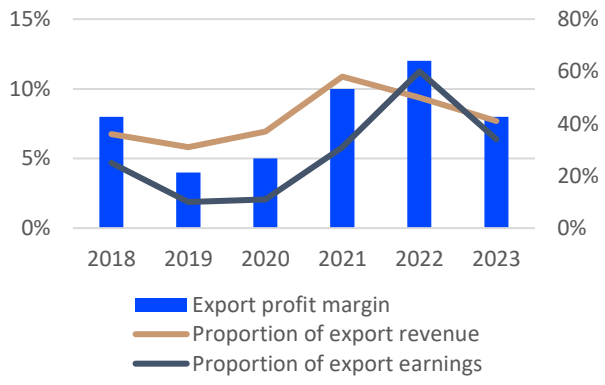
Hoa Sen Group has three main business segments including the Production and trading of steel sheets and steel pipes; the distribution of building materials and interior decoration and plastic production. Which, the plastic business segment is in charge of Hoa Sen Plastic JSC. Hoa Sen Group also plans to establish Hoa Sen Home Joint Stock Company, thereby separating the building materials segment for Hoa Sen Home to be in charge of.

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

Structure of domestic and export revenue 2018 – 2023 (billion VND)



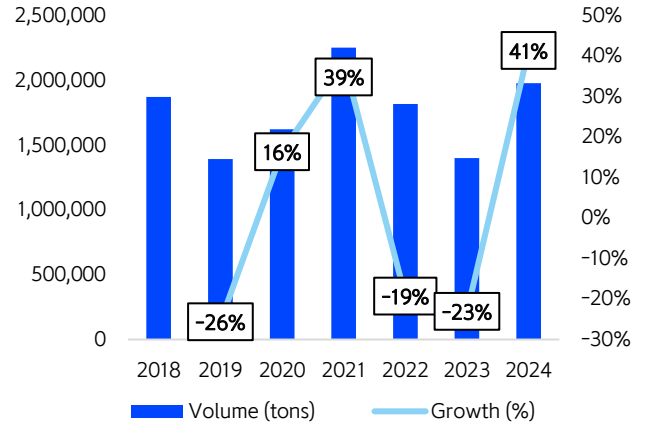
The proportion of export revenue and profit 2018 - 2023



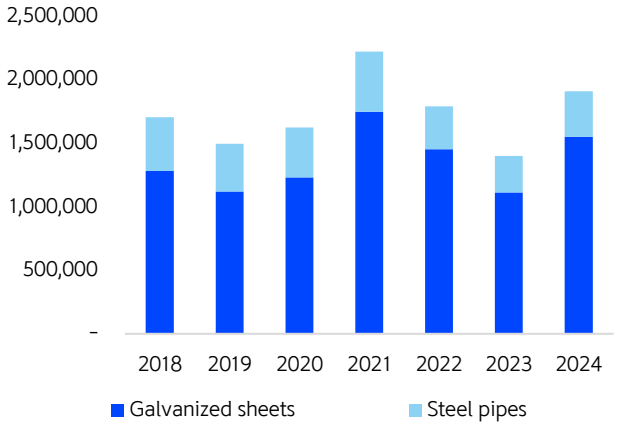
Source: Company Report, Shinhan Securities Vietnam

Hoa Sen is maintaining the average ratio of export and domestic revenue at about 50%.

Hoa Sen sales volume 2018 – 2024 (tons)



Consumption volume by product structure (tons)



Source: Company Report, Shinhan Securities Vietnam

Hoa Sen owns 10 factories across the country with a total production capacity of 2.5 million tons of galvanized steel sheets, 850 thousand tons of steel pipes, and 130 thousand tons of plastic pipes.

Table: Hoa Sen's factories

Unit: Tons

Factory Name	Area (a)	Steel pipe	Hot Dipped Galvanized Steel Pipe	Cold rolled steel	Production of corrugated iron (NOF)	Color coating	Plastic Pipe
Ong Kem Hoa Sen Yen Bai	8.70	82,800					
Hoa Sen Nghe An	35.00			700,000	800,000	240,000	
Hoa Sen Nam Cam	9.40	120,000					
Ong Kem - Ong Nhua Hoa Sen Binh Dinh	13.80	100,000					
Ton Hoa Sen - Binh Duong	2.40			980,000	150,000	45,000	
Ton Hoa Sen Phu My	16.60				1,150,000	330,000	
Ong Thep Ma Kem Hoa Sen Phu My	9.30	332,040	85,000				
Nha May Nhua Hoa Sen	10.80						129,691
Hoa Sen Nhon Hoi - Binh Dinh	21.80			350,000	430,000	195,000	
Hoa Sen Ha Nam	20.50	217,800					
Total	**148**	**852,640**	**85,000**	**2,030,000**	**2,530,000**	**810,000**	**129,691**

Source: Company Report, Shinhan Securities Vietnam

Valuation and Recommendation

Update valuation with BUY recommendation, target price VND 23,100

We update the valuation of Hoa Sen Group JSC (HSG) with a BUY recommendation and a target price of VND 23,100, equivalent to an expected return of 21.5%. For 12 months investment horizon, HSG can be considered with the following advantages:

1) Protection policy on galvanized steel industry officially extended, helping increase output
2) Steel prices increase thanks to recovering demand
3) The improvement of profitability margins

Valuation method

We apply a combination of P/E and Discounted Cash Flow (FCFF) valuation methods with weights of 50% and 50% respectively to value Hoa Sen Group Corporation (HSG).

Method	Density	Price (VND)
P/E	50%	20,700
FCFF	50%	25,500
Target price		**23,100**
Current price (28/11/2024)		19,000
Return (%)		**21.5**

The Discounted Cash Flow (DCF) method – FCFF

HSG's FCF valuation model					
Unit: billion VND	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
Net profit	1,213	1,457	2,016	2,237	2,534
Plus: Interest after tax	238	217	200	172	172
Plus: Depreciation	1,411	1,148	597	395	400
Minus: Change in working capital	448	403	363	-66	-100
Minus: Investment capital	405	-28	206	204	205
Free Cash Flow (FCFF)	**2,009**	**2,447**	**2,244**	**2,665**	**3,002**
Present value of free cash flow	1,773	1,905	1,541	1,615	1,604
Present value of long term value	12,023				
Enterprise value	20,461				
In debt	5,364				
Cash and cash equivalents	602				
Number of outstanding shares (billion units)	0.62				
Target price (VND)	**25,500**				

Source: Company data, Shinhan Securities Vietnam

Variable	Value
D/E	0.42
Beta	1.54
Risk-free rate	2.9%
Cost of equity	16.7%
Cost of debt	6.7%
WACC	13.3%

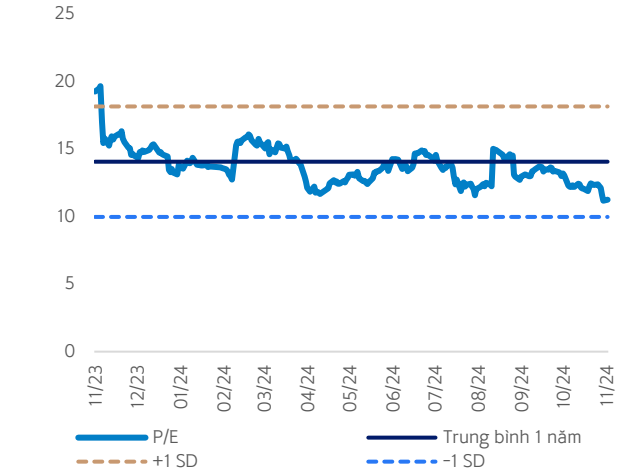
For the Weighted Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond yield of 2.9% as the risk-free rate. Beta is calculated based on the historical data of HSG and VNINDEX for the last 5 years. Based on these assumptions, HSG's FCFF target price is valued at VND 25,500.

P/E method

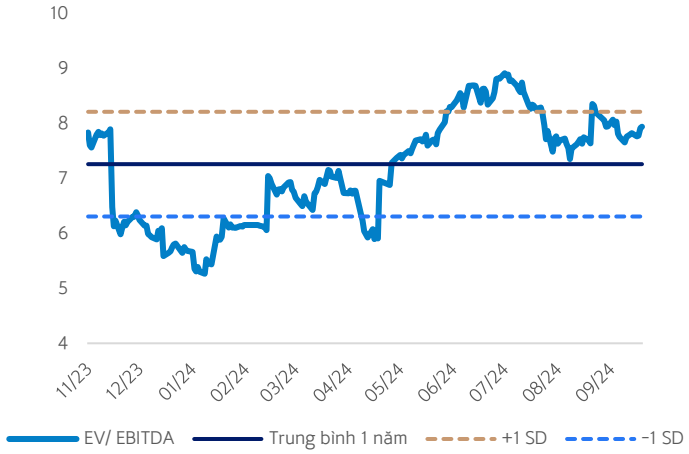
Based on the P/E method, we collect data from domestic and foreign steel companies. We estimate HSG's target P/E at 10.5x. Combined with the projected 2025 EPS of VND1,970, HSG's target price is valued at VND20,684.

Ticker	Company name	Market Cap (bn USD)	GPM (%)	ROE (%)	ROA (%)	P/E
HPG	Hoa Phat Group	6.6	13.3	11.53	5.83	11.6
NKG	Nam Kim Steel	0.2	9.04	8.03	3.49	11.5
ZEUS	Olympic Steel, Inc	0.4	22.83	4.73	2.64	17.7
TUB SM	Tubacex SA	0.4	50.6	9.54	1.89	16.6
ATMI OM	Complete Al Jazeera Steel Products	0.1	15.01	10.87	5.08	6.6
2031	Hsin Kuang Steel Company	19.7	4.75	6.04	3.13	8.4
300881	Shengtak NewMaterial Co	2.7	8.91	2.00	0.38	9.5
Average						11.6
Median						11.5
Average P/E 5 years						10.0
P/E forward						10.5x
HPG EPS Forward (VND)						1,970
Target price (VND)						**20,684**

P/E 1 year

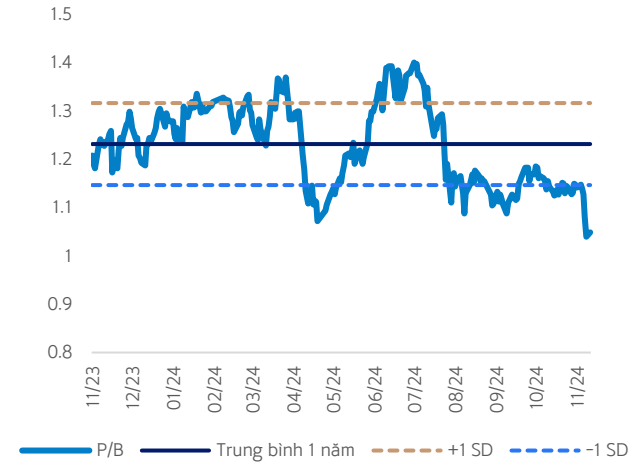


EV/EBITDA 1 year

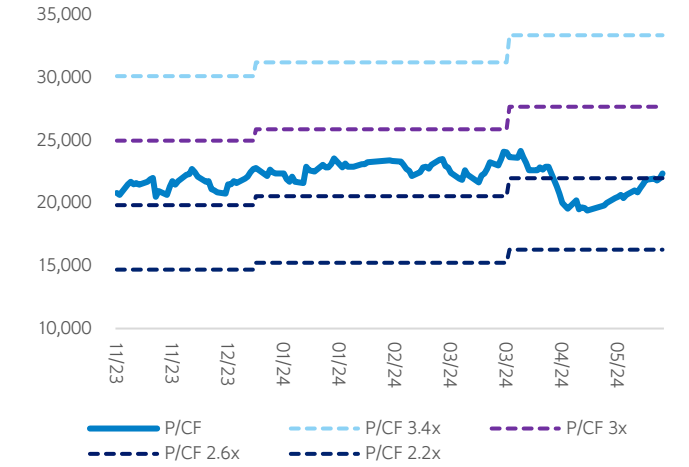


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

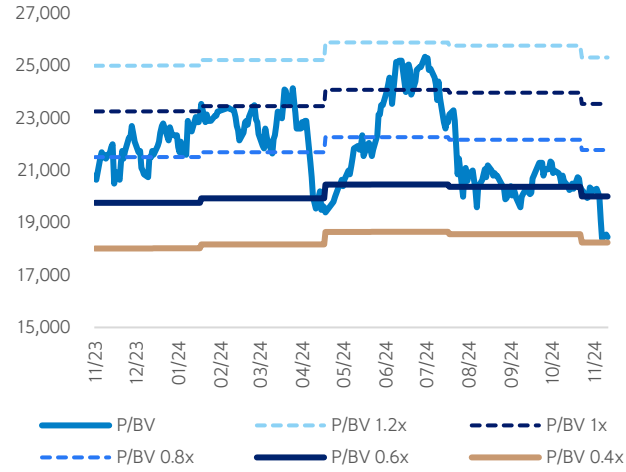


P/S 1 year

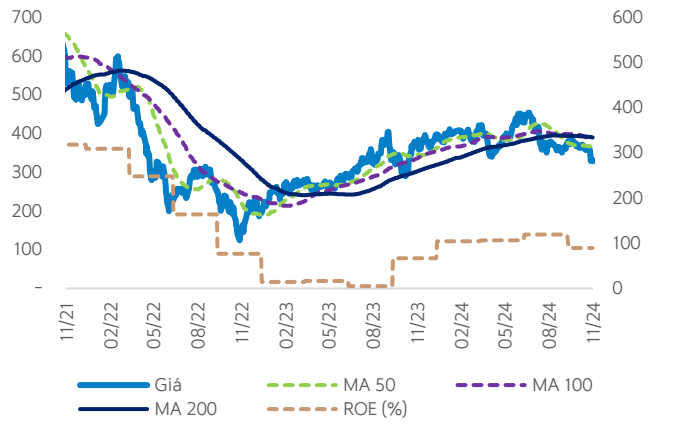


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band

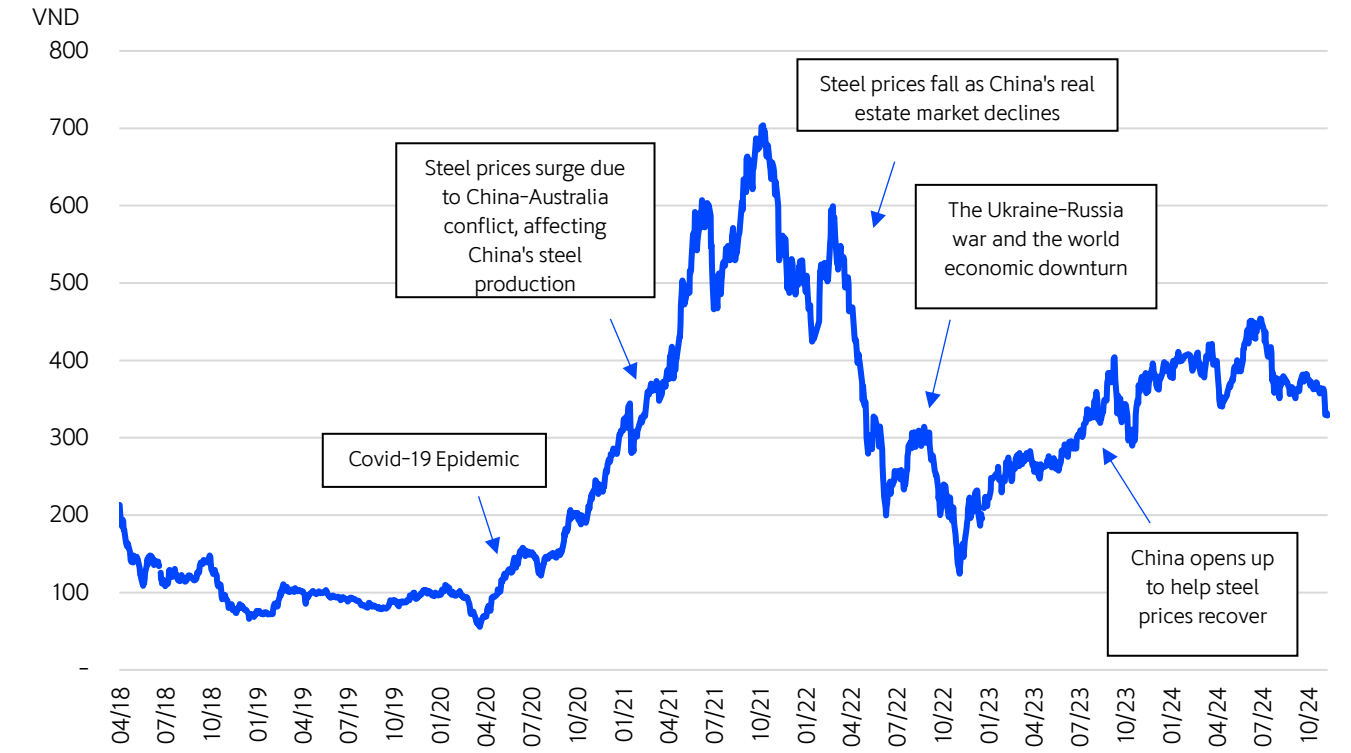


ROE and MA 1 year



Source: Bloomberg data, Shinhan Securities Vietnam

Key event chart of HSG

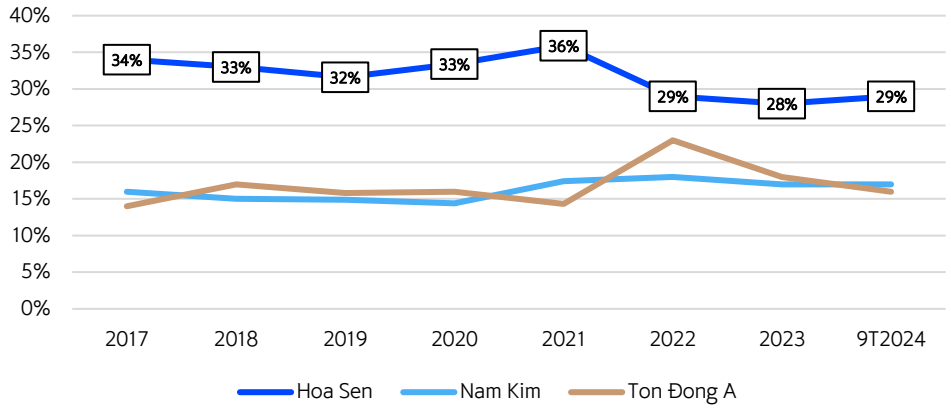


Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

Risk of market share decline

Hoa Sen market shares and competitors from 2017 to 2018 (%)



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Hoa Sen's galvanized sheet market share has decreased from 36% to 29% in 2022. Meanwhile, competitors such as Nam Kim and Ton Dong A still maintain and expand their market share. The decline in market share occurred in 2022 as Hoa Sen focused on expanding the retail segment with Hoa Sen Home furniture and construction materials supermarkets while Ton Dong A actively reduced selling prices for real estate businesses to help companies overcome difficulties.

With the strategy of focusing on the retail distribution of building materials, Hoa Sen's business segment will be less dependent on the galvanized sheet segment, thereby having a less direct competition with rivals.

Risk of fluctuations in steel price HRC

The price fluctuation of HRC steel has a great impact on Hoa Sen's selling price because HRC steel is the main raw material in Hoa Sen's galvanized steel production process and Hoa Sen's galvanized steel price is calculated as a markup from the price of HRC steel. With export revenue accounting for around 50% of total revenue, Hoa Sen's steel selling price is influenced by both domestic and international steel price movements.

Risk of unstable domestic real estate market

The real estate market directly affects the selling amount of galvanized steel sheets and steel pipes of Hoa Sen. 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 and Hoa Sen.

The risk of a decline in the world economy

The world economic situation directly affects the steel consumption demand of countries around the world. The economic decline will directly affect the investment and construction demand of countries, thereby negatively affecting the consumption and selling price of HRC around the world. With the proportion of exports accounting for around 50% of Hoa Sen's revenue structure, the economic downturn will directly affect Hoa Sen's business results.

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2022	2023	2024	2025F	2026F
Total assets	**17,025**	**17,365**	**19,562**	**20,974**	**23,133**
Current assets	9,835	11,275	14,165	16,780	20,115
Cash & equivalents	330	597	602	3,002	4,663
Short-term financial asset	9	26	31	17	20
Accounts receivable	1,452	2,322	2,986	3,021	2,870
Inventories	7,395	7,629	9,702	10,739	12,561
Non-current assets	7,190	6,090	5,397	4,194	3,018
Net fixed assets	5,755	4,833	3,915	3,016	2,239
Investment assets	17	1	1	1	1
Other long-term assets	440	396	407	407	407
Total liabilities	**6,142**	**6,585**	**8,649**	**8,112**	**8,205**
Current liabilities	6,009	6,569	8,633	8,021	8,062
Accounts payable	1,939	3,633	3,269	3,221	3,824
Short-term borrowings	4,070	2,936	5,364	4,800	4,239
Others	899	747	940	1,162	1,405
Non-current liabilities	133	16	16	91	143
Long-term borrowings	117	0	0	75	126
Other financial liabilities	16	16	16	16	16
Total shareholders' equity	**10,884**	**10,780**	**10,912**	**12,862**	**14,927**
Charter capital	5,981	6,160	6,160	6,776	7,453
Capital surplus	157	157	157	157	157
Retained earnings	4,730	4,447	4,579	5,913	7,300
Other capital	4,542	4,369	4,528	5,835	7,222
Non-controlling interest equity	16	16	16	16	16
*Total debt	4,187	2,936	5,364	4,874	4,365
*Net debt (cash)	3,848	2,313	4,731	1,855	382

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023	2024	2025F	2026F
Revenue	**49,711**	**31,651**	**39,272**	**45,933**	**53,612**
Growth (%)	2.0	(36.3)	24.1	17.0	16.7
COGS	**(44,772)**	**(28,590)**	**(35,018)**	**(40,418)**	**(47,060)**
Gross profit	**4,939**	**3,061**	**4,253**	**5,515**	**6,552**
GPM (%)	9.9	9.7	10.8	12.0	12.2
SG&A	**(4,355)**	**(2,884)**	**(3,840)**	**(3,990)**	**(4,657)**
Operating profit	**584**	**177**	**413**	**1,526**	**1,895**
Growth (%)	(0.9)	(0.7)	4.2	2.2	0.2
OPM (%)	1.2	0.6	1.1	3.3	3.5
Non-operating profit	**(204)**	**50**	**128**	**125**	**120**
Financial income	267	233	342	275	253
Financial expense	(521)	(233)	(254)	(204)	(188)
In which: interest expenses	(260)	(195)	(133)	(199)	(181)
Net other non-operating profit	50	50	41	54	54
Pre-tax profit	**380**	**227**	**541**	**1,650**	**2,015**
Income tax	(108)	(124)	(31)	(482)	(600)
Net profit	**251**	**22**	**510**	**1,213**	**1,457**
Growth (%)	(94.2)	(91.1)	2,174.3	137.9	20.1
NPM (%)	0.5	0.1	1.3	2.6	2.7
Controlling interest	251	30	510	1,213	1,457
Non-controlling interest	(0)	(8)	0	0	0
EBIT	**620**	**342**	**674**	**1,894**	**2,238**
Growth (%)	(88.3)	(44.9)	97.4	181.0	18.2
EBIT Margin (%)	1.2	1.1	1.7	4.1	4.2
EBITDA	**1,723**	**1,405**	**1,548**	**3,305**	**3,386**
Growth (%)	(73.2)	(18.5)	10.2	113.5	2.4
EBITDA margin (%)	3.5	4.4	3.9	7.2	6.3

Statement of cash flow

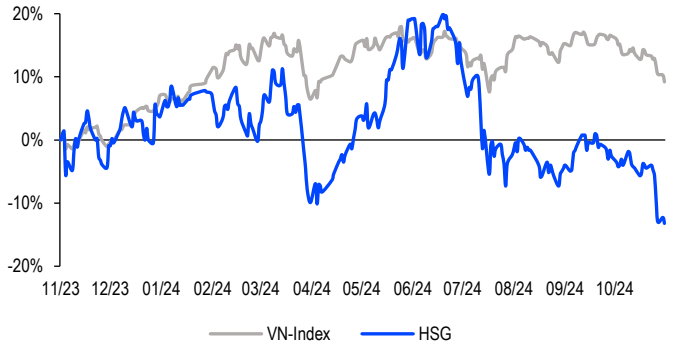
Year to Dec. (bn VND)	2022	2023	2024	2025F	2026F
Cash flow from operations	**2,845**	**1,866**	**(1,418)**	**2,575**	**1,537**
Net profit	251	22	510	1,213	1,457
Depreciation expense	1,103	1,063	874	1,411	1,148
(Gain) from investing activities	(26)	(10)	(23)	399	(664)
Change in working capital	1,656	523	(3,305)	(448)	(403)
Others	(139)	267	525	-	-
Cash flow from investments	**(408)**	**(350)**	**(721)**	**(391)**	**27**
Change in fixed assets	(415)	(141)	(18)	(511)	(370)
Change in investment assets	-	-	(4)	13	(3)
Others	7	(209)	(698)	107	400
Cash flow from financing	**(2,651)**	**(1,251)**	**2,142**	**219**	**99**
Change in equity	-	-	-	616	678
Net borrowing	(2,651)	(1,251)	2,493	(490)	(509)
Dividends	-	-	(351)	93	(70)
Change in total cash	**(215)**	**265**	**4**	**2,404**	**1,663**
Beginning cash	493	330	597	600	3,002
Change in FX rates	52	2	2	2	2
Ending cash	330	597	600	3,002	4,663

Key ratios

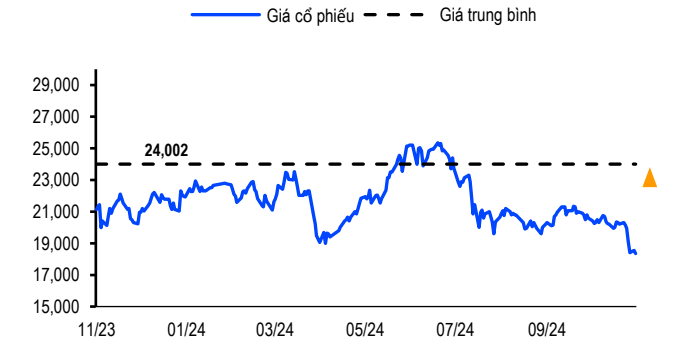
Year to Dec.	2022	2023	2024	2025F	2026F
EPS (VND)	420	49	828	1,970	2,151
BPS (VND)	18,171	17,475	17,689	18,958	20,006
PER (x)	11.0	23.8	24.5	10.3	9.4
PBR (x)	1.1	1.6	1.1	1.1	1.0
EV/EBITDA (x)	7.8	11.9	11.5	4.5	3.7
Dividend payout ratio (%)	0	0	5	0	0
Dividend yield (%)	0	0	0	0	0
Profitability					
EBITDA margin (%)	3.5	4.4	3.9	7.2	6.3
OPM (%)	1.2	0.6	1.1	3.3	3.5
NPM (%)	0.5	0.1	1.3	2.6	2.7
ROA (%)	1.5	0.1	2.6	5.8	6.3
ROE (%)	2.3	0.2	4.67	9.4	9.8
Stability					
Debt to equity ratio (%)	38.5	27.2	49.2	37.9	29.2
Net debt ratio (%)	223.4	164.7	305.6	56.1	11.3
Cash ratio (%)	5.6	9.5	7.3	37.6	58.1
Interest coverage ratio (x)	2.4	1.7	5.1	9.5	12.4
Activity (%)					
Inventory turnover (days)	19.6	22.6	24.2	17.4	15.2
Accounts receivable turnover (days)	80.5	95.9	90.3	92.3	90.4
Accounts payable turnover (days)	22.0	21.8	24.7	23.9	20.1

Hoa Sen Group (HSG)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
14/04/2023 (Initiate)	HOLD	16,100	-36	-63/134
18/11/2024 (Update)	MUA	23,700	16	-7/30

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

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

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