[Vietnam / Materials]

Hoa Phat Group JSC. (HPG VN)

Gallops of the cavalry

[Downgrade/ Target price raised]

Trading BUY

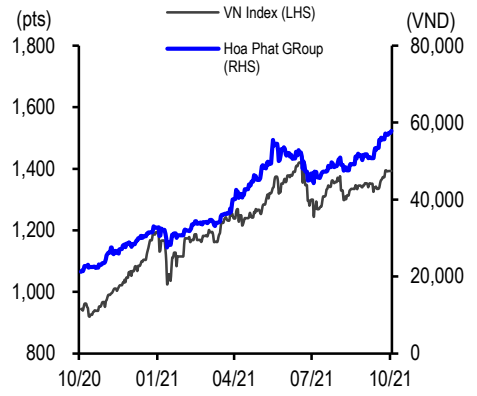
Target Price	**66,800**
Current Price (Oct. 18th)	57,900
Upside (%)	15.4

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VNINDEX	1,395.53
HNXINDEX	384.88
Market cap (bn VND)	258,534,932
Outstanding shares (1mn)	4,472.9
Free float (1mn)	2,401.6
52-week high/low	58,400/21,259
60-day avg. trading volume (mn)	18.5
60-day avg. turnover (bn VND)	1157.2

Major shareholders (%)		Tran Dinh Long	26.8
		Vu Thi Hien	7.34
Performance	3M	6M	12M
Absolute	23.6	49.2	168.1
Rel. to VNINDEX	16.4	30.5	120.5

Performance



Source: Bloomberg

Downgrade to Trading BUY rating, lift TP to VND66,800

We downgrade Hoa Phat Group (HPG VN) to a Trading BUY rating from Buy, despite raising with the target price to VND66,800. Our adjusted TP is mainly derived from: 1) increasing 2021E ASP of steel and materials by 15%; and 2) higher selling volume as high demand for usage in public facilities and billet export, barely affected by COVID-19. However, we think that the readjustment of steel price is going to be slower than expected as China is aiming for strict steel cut and in 2H21 and the recent energy crisis, causing a decent shortage in supply.

Our forecast reveals that Hoa Phat Group's net profit could reach VND36.6 tn in 2021. Our revised DCF model indicates that the fair price of HPG share is at VND66,800. Meanwhile, Hoa Phat shares are being traded at PER forward of 6.7x, which is a bit higher than its 4-year historical average. We beleive that the recent increase in share price reflects a leviation to our expected 2H21 earnings results in "The tale of a metal knight".

[2H21 outlook] Gliding through the plague land

Although social distancing policies have stagnated the construction process nationwide, Hoa Phat Group still maintains an impressive performance in July and August with nearly 1.4mn tonnes of crude steel. Crucial construction projects are in progress still. Moreover, Hoa Phat Group has been promoting sales in the North areas where the number of the infected are relatively smaller. Thus, our previous forecast for 2021 volume onward remains unchanged at 8.3 tonnes of crude steel.

China had cancelled its steel export rebate scheme in April and later added more products to the list in July, which reveals that Chinese steel mills will no longer receive any refund from steel export. Also, China plans to cut down steel production and avoid exceeding 1.053 tonnes, indicating a maximum monthly volume of only 82mn tonnes to end-2021. The supply cut of Chinese steel is going to slow down the steel price adjustment worldwide, making the process longer than expectation. We expect the steel prices are going down slowly by only 5-10% by early 2022.

Coal price, in general, has surged after production in India recovers while iron ore price drops. We expect the average prices of iron ore and met coal to be USD160 and USD130, respectively in 2021. Although the movements seem to even out, the current price level has elevated since early 2021; and it is going to deteriorate the actual gross margin of the steel business, possibly leading to a lower Hoa Phat's net profit in 2H21.

Recently, the demand for manufacturing and construction in China has started to slow down because of the recent energy crisis as well as the case of Evergrande. The serious issue of energy shortage has led to a huge demand for coking coal, driving the price drastically. We expect the trade restriction on Australian coal in China is making the cost of Chinese steel become higher than that in other counries. According to S&P Global, China is going to maintain its billet imports in Q4 to avoid the steel casting process which consumes a huge amount of coking coal. Thus, Hoa Phat Group shall have an alternative route for its output in case the demand for steel in Vietnam sluggish. In the long run, the energy crisis would end gradually, and steel makers are going to increase its volume which may cause a surge in iron ore price and lead to lower profit margin for Hoa Phat Group in 2022.

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Hoa Phat Group 1H21 earnings review

(Unit: bn VND, %, %pt)	1H20A	2H20A	1H21P	Change (YoY)	1H21 (Shinhan)	Diff. (%)
Revenue	40,145	51,134	66,899	66.6	60,919	9.8
① *Steel*	33,351	43,967	61,535	84.5	54,492	12.9
② *Agriculture*	5,105	5,583	4,659	-8.7	5,665	-17.8
③ *Real Estate*	360	375	704	95.5	360	95.6
Gross profit	7,469	11,436	19,660	163.2	13,897	41.5
Operating profit	5,717	9,573	18,007	215.0	12,685	42.0
Net profit (controlling interest)	5,060	8,446	16,751	231.0	10,390	61.2
Margin						
GPM	18.6	22.4	29.4	58.0	22.81	28.8
① *Steel*	83.1	86.0	92.0	10.7	89.45	2.8
② *Agriculture*	12.7	10.9	7.0	-45.2	9.30	-25.1
③ *Real Estate*	0.9	0.7	1.1	17.3	0.59	78.1
OPM	14.2	18.7	26.9	89.0	20.82	29.3
NPM	12.6	16.5	25.0	98.6	17.05	46.8

Source: Bloomberg, Shinhan Securities Vietnam

Hoa Phat Group – Earnings trend and outlook

(Unit: bn VND)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	3Q21F	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F	2020	2021F	2022F
Revenue	**19,451**	**20,694**	**24,969**	**26,165**	**31,459**	**35,440**	**43,274**	**46,881**	**36,456**	**38,162**	**36,766**	**43,747**	**90,119**	**157,054**	**155,130**
Gross profit	3,763	3,706	5,169	6,267	8,183	11,477	13,200	14,300	10,976	11,489	11,069	13,171	18,905	47,160	46,705
Operating profit	2,636	3,081	4,241	5,332	7,683	10,324	12,493	13,535	10,250	10,730	10,338	12,301	17,121	44,035	43,619
Net profit	**2,305**	**2,756**	**3,785**	**4,661**	**7,006**	**9,745**	**9,528**	**10,322**	**8,746**	**9,155**	**8,820**	**10,495**	**13,507**	**36,601**	**37,215**
Growth (% YoY)															
Revenue	29.0	31.0	64.0	43.0	61.7	71.3	73.3	79.2	15.9	7.7	-15.0	-6.7	21.0	74.3	-1.2
Gross profit	44.0	22.0	91.0	121.0	117.5	209.7	155.4	128.2	34.1	0.1	-16.1	-7.9	19.0	149.5	-1.0
Operating profit	45.0	24.0	102.0	135.0	191.5	235.1	194.6	153.9	33.4	3.9	-17.2	-9.1	15.0	157.2	-0.9
Net profit	27.0	34.0	111.0	142.0	204.0	253.7	151.7	121.5	24.8	-6.1	-7.4	1.7	54.4	171.0	1.7
Margin (%)															
GPM	19.3	17.9	20.7	24.0	26.0	32.4	25.8	25.8	27.5	27.5	27.5	27.5	21.0	27.4	27.5
OPM	13.6	14.9	17.0	20.4	24.4	29.1	24.2	24.2	25.5	25.5	25.5	25.5	19.0	25.4	25.5
NPM	11.8	13.3	15.2	17.8	22.3	27.5	17.8	17.8	21.6	21.6	21.6	21.6	15.0	21.0	21.6

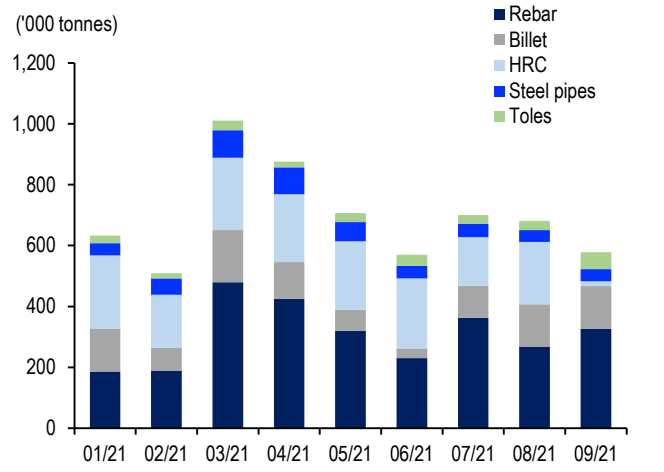
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's annual earnings trend and outlook

(Unit: bn VND)	2019	2020	2021F	2022F	2023F	2024F
Revenue	**63,658**	**91,279**	**157,054**	**155,130**	**144,770**	**141,044**
Steel	51,245	75,700	143,730	138,439	127,643	123,910
Agriculture	7,957	10,995	11,742	15,318	15,360	15,367
Real Esate	2,801	2,613	1,582	1,373	1,767	1,767
Others	1,655	811	0	0	0	0
Gross profit	11,185	18,905	47,160	46,705	44,771	44,771
OP	9,743	17,121	44,035	43,619	41,891	41,965
Net profit	7,578	13,506	36,601	37,215	37,220	38,903
Margin (%)						
GPM	17.6	20.7	30.0	30.1	30.9	31.7
OPM	15.3	18.8	28.0	28.1	28.9	29.8
NPM	11.9	14.8	23.3	24.0	25.7	27.6
Growth (%YoY)						
Revenue	14.3	41.1	74.6	-1.2	-6.7	-2.6
GP	-4.2	69.0	149.5	-1.0	-4.1	0.0
OP	-7.6	75.7	157.2	-0.9	-4.0	0.2
NP	18.8	35.7	54.3	-1.3	-7.8	-2.8

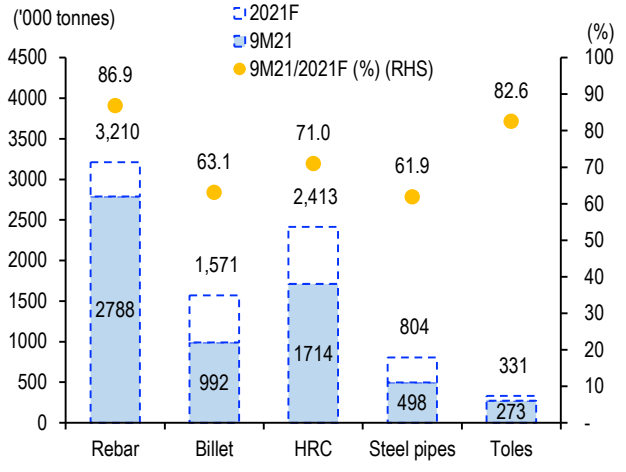
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's steel production breakdown



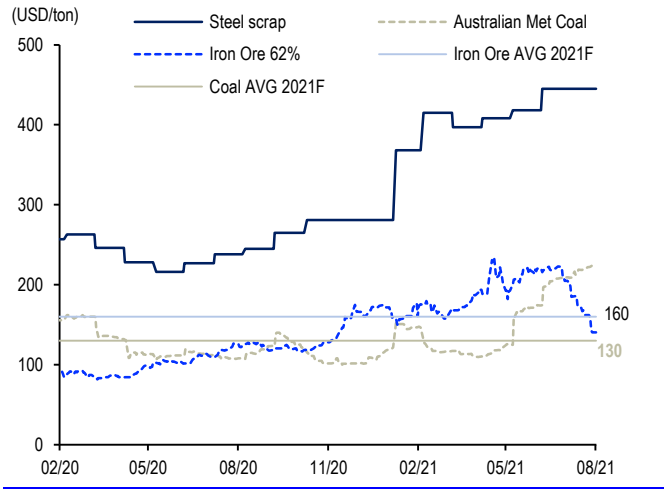
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's 8M21 volume vs 2021F volume



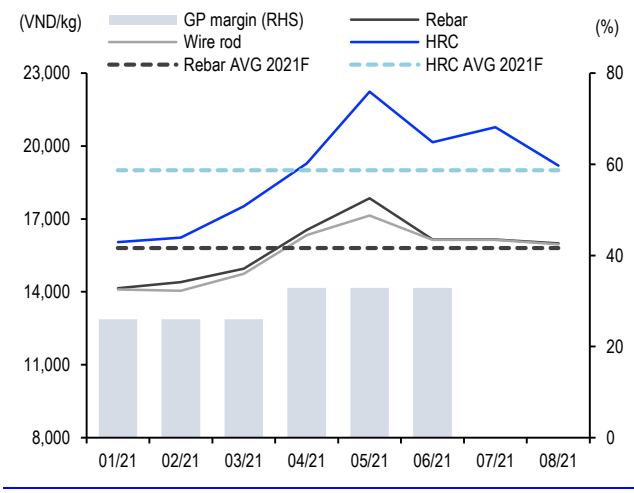
Source: Company Data, Shinhan Securities Vietnam

Prices of input materials & HRC



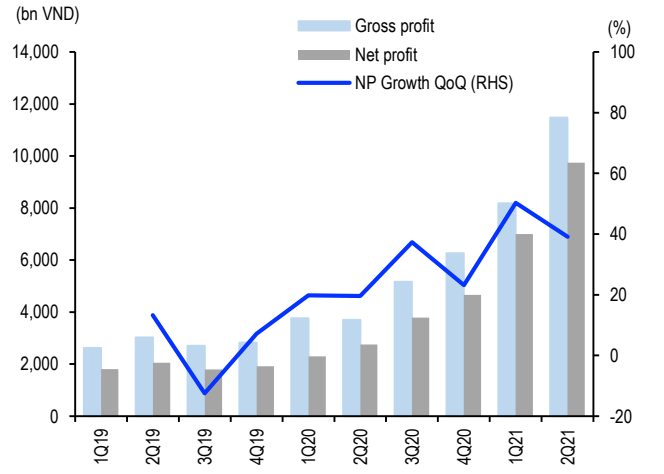
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's steel price and GPM



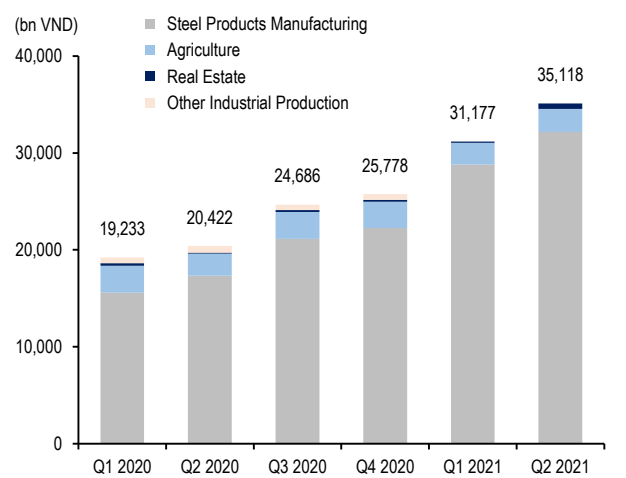
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's profits and growth



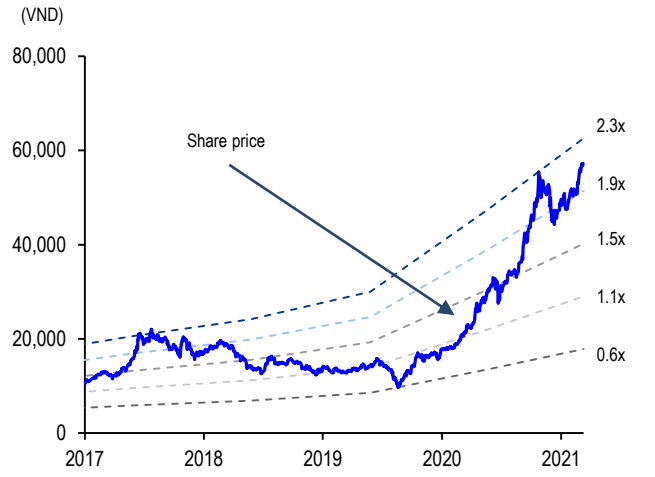
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group's revenue breakdown



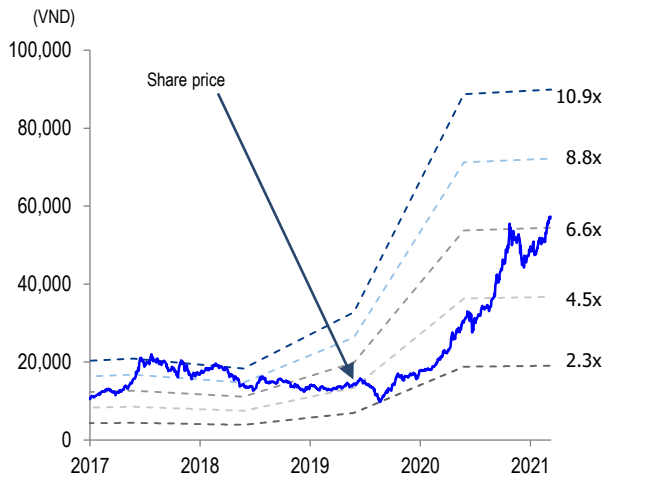
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group PBR band chart



Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group PER band chart



Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group 12 months forward PBR



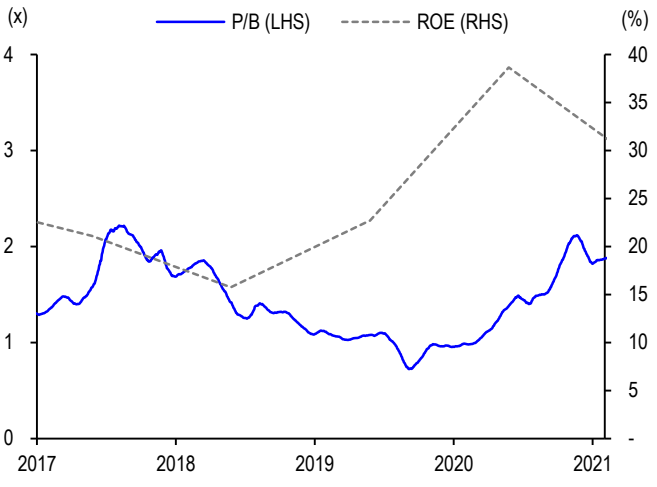
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group 12 months forward PER



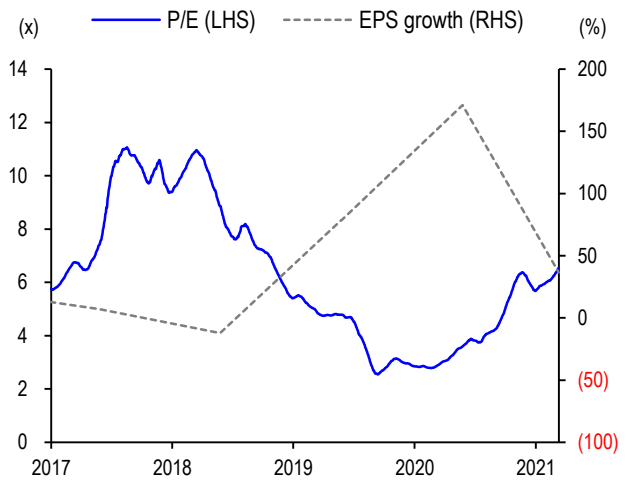
Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group trailing average PBR and ROE



Source: Company Data, Shinhan Securities Vietnam

Hoa Phat Group trailing average PER and EPS growth



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**	**164,336**	**196,590**	**227,445**
Current assets	30,437	56,800	88,308	121,058	153,069
Cash & equivalents	4,545	13,001	31,387	60,318	94,363
Short-term financial asset	2,919	11,388	12,518	12,473	12,225
Accounts receivable	3,561	6,125	8,064	9,451	9,117
Inventories	19,412	26,287	36,339	38,817	37,365
Non-current assets	71,339	74,711	76,027	75,532	74,375
Net fixed assets	69,261	72,373	73,691	73,196	72,039
Investment assets	45.8	171.1	171.1	171.1	171.1
Other non-current assets	2,032	2,167	2,165	2,165	2,165
Total liabilities	**53,989**	**72,292**	**70,114**	**65,153**	**58,787**
Current liabilities	26,984	51,975	53,459	52,697	50,284
Accounts payable	7,507	10,916	14,561	16,144	14,890
Short-term borrowings	16,838	36,799	31,107	30,736	28,428
Others	2,639	4,261	7,791	5,817	6,966
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
Others	7163.1	2973.2	2965	2959.55	2954.41
Total shareholders' equity	**47,787**	**59,220**	**94,220**	**131,435**	**168,655**
Capital stock	27,611	33,133	44,729	44,729	44,729
Capital surplus	3211.6	3211.6	3211.6	3211.6	3211.6
Other capital	924.2	934.2	945.13	956.24	967.35
Retained earnings	15,877	21,783	43,105	78,202	113,304
Non-controlling interest equity	163	158	339	524	709
*Total debt	36,680	54,142	44,797	40,232	33,976
*Net debt (cash)	30,761	32,319	4,587	(28,907)	(69,209)

Statement of comprehensive income

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Revenue	**63,658**	**90,119**	**157,054**	**155,130**	**144,770**
Growth (%)	14.3	41.1	74.6	-1.2	-6.7
COGS	52,473	71,214	109,894	108,425	99,999
Gross profit	**11,185**	**18,905**	**47,160**	**46,705**	**44,771**
GPM (%)	(4.2)	69.0	149.5	(1.0)	(4.1)
SG&A	1,442.0	1,784.0	3,125.0	3,086.0	2,880.0
Operating profit	**9,743**	**17,121**	**44,035**	**43,619**	**41,891**
Growth (%)	(7.6)	75.7	157.2	(0.9)	(4.0)
OPM (%)	15.3	19.0	28.0	28.1	28.9
Non-operating profit	(646)	(1,765)	(1,342)	(209)	1,524
Financial income	471	991	1,056	1,938	3,327
Financial expense	1,182	2,824	2,464	2,213	1,869
In which: interest expenses	937	2,207	2,464	2,213	1,869
Net other non-operating profit	65	68	66	66	66
Pre-tax profit	**9,097**	**15,356**	**42,693**	**43,410**	**43,415**
Income tax	1,518	1,849	6,092	6,195	6,195
Net profit	**7,579**	**13,507**	**36,601**	**37,215**	**37,220**
Growth (%)	(11.9)	78.2	171.0	1.7	0.0
NPM (%)	11.9	15.0	23.3	24.0	25.7
Controlling interest	7,527	13,439	36,419	37,030	37,035
Non-controlling interest	51	67	182	185	185
EBIT	**9,826**	**17,229**	**44,623**	**45,122**	**44,832**
Growth (%)	(5.4)	75.0	157.1	1.0	(0.7)
EBIT Margin (%)	15.4	19.1	28.4	29.1	31.0
EBITDA	**12,419**	**22,028**	**51,141**	**52,422**	**52,675**
Growth (%)	(1.9)	77.1	131.1	2.4	0.4
EBITDA margin (%)	19.5	24.4	32.6	33.8	36.4

Statement of cash flow

Year to Dec.(bn VND)	2019	2020	2021F	2022F	2023F
Cash flow from operations	**7,716**	**9,004**	**37,167**	**40,299**	**46,987**
Net profit	9,097	15,355	42,693	43,410	43,415
Depreciation expense	2,593	4,799	6,518	7,300	7,843
Amortization expense	-	-	-	-	-
Interest expenses	937	2,207	2,464	2,213	1,869
Change in working capital	(4,291)	(12,582)	(12,481)	(10,716)	(3,026)
Others	(620)	(775)	(2,027)	(1,908)	(3,114)
Cash flow from investments	**(18,064)**	**(16,604)**	**(7,836)**	**(6,805)**	**(6,686)**
Change in intangible assets	(20,798)	(9,334)	(7,836)	(6,805)	(6,686)
Change in investment assets	2,364	(7,663)	-	-	-
Others	370	393	-	-	-
Free cash flow	**(10,348)**	**(7,600)**	**29,331**	**33,494**	**40,301**
Cash flow from financing	**12,377**	**16,051**	**(10,945)**	**(4,564)**	**(6,256)**
Change in equity	-	3	-	-	-
Net borrowing	12,390	17,467	(9,345)	(4,564)	(6,256)
Dividends	(13)	(1,419)	(1,600)	-	-
Change in total cash	**2,029**	**8,451**	**18,386**	**28,930**	**34,045**
Beginning cash	2,516	4,545	13,001	31,387	60,318
Change in FX rates	-	6	-	-	-
Ending cash	4,545	13,002	31,387	60,317	94,363

Source: Company data, Shinhan Securities Vietnam

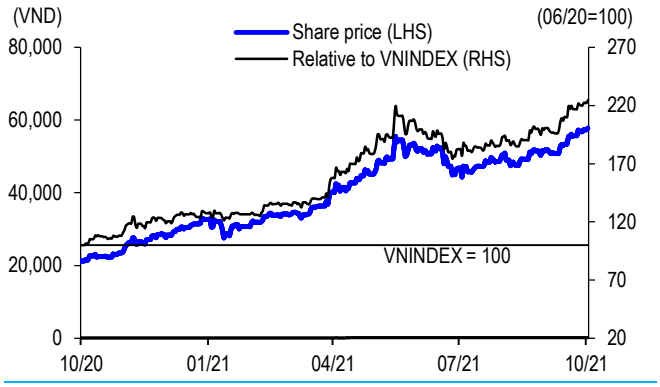
Key ratios

Year to Dec.	2019	2020	2021F	2022F	2023F
EPS (VND)	2,726	4,056	8,142	8,279	8,280
BPS (VND)	17.2	17.8	21.0	29.3	37.5
DPS (VND)	0	500	-358	0	0
PER (x)	0.00	0.00	6.98	6.86	6.86
PBR (x)	5.33	4.30	2.71	1.94	1.51
EV/EBITDA (x)	15.50	8.74	3.76	3.67	3.65
Dividend payout ratio (%)	0.0	5.0	-3.6	0.0	0.0
Dividend yield (%)	0.0	1.1	-0.8	0.0	0.0
Profitability					
EBITDA margin (%)	19.5	24.4	32.6	33.8	36.4
OPM (%)	15.3	19.0	28.0	28.1	28.9
NPM (%)	11.9	15.0	23.3	24.0	25.7
ROA (%)	7.4	10.3	22.3	18.9	16.4
ROE (%)	15.9	22.9	39.0	28.4	22.2
Stability					
Debt to equity ratio (%)	77.0	91.7	47.7	30.7	20.2
Net debt ratio (%)	247.7	146.7	9.0	-55.1	-131.4
Cash ratio (%)	44.3	66.3	141.1	236.8	374.9
Interest coverage ratio (x)	10.5	7.8	18.1	20.4	24.0
Activity					
Working capital turnover (times)	4.12	4.19	5.26	4.83	4.58
Inventory turnover (days)	2.70	2.71	3.02	2.79	2.68
Receivable turnover (days)	17.88	14.71	19.48	16.41	15.88

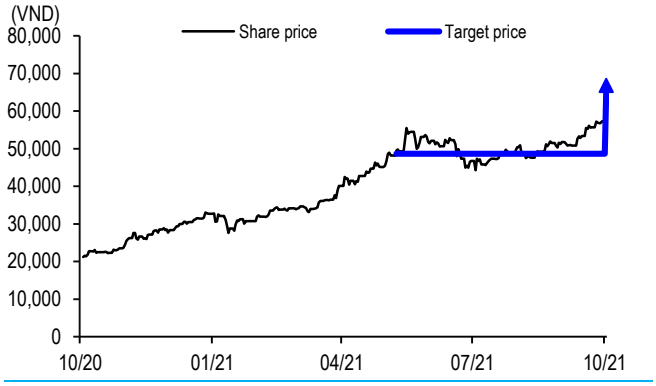
Source: Company data, Shinhan Securities Vietnam

Hoa Phat Group (HPG VN)

Share performance



Target price



Date	Rating	Target price (VND)	TP vs Real price (%)	
			Average	Max/Min
Sep 8, 2021	HOLD	66,800	5.1	12/(9.0)
Apr 16, 2021 (Initiate)	BUY	48,700 (adjusted)		

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

Shinhan Securities Vietnam Ratings

Stock

- **BUY:** Expected 12-month gain of 20% or more
- **Trading BUY:** Expected 12-month gain of 15% to 20%
- **HOLD:** Expected 12-month gain of +15% to loss of -15%
- **SELL:** Expected 12-month loss of -15% or more

Sector

- **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

Compliance & Disclosure Notice

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