Shinhan Securities



Hoa Sen Group

[Vietnam / Steel]

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

HOLD

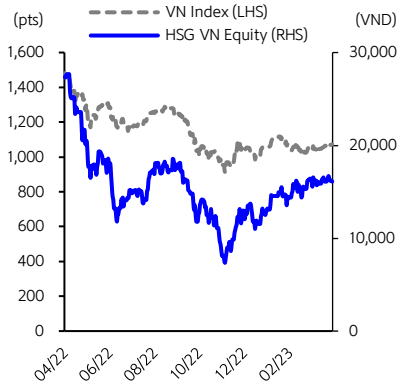
Initiation Coverage

Target price (12 months)	**16,100 VND**
Current price (14/04/23)	16,350 VND
Upside/downside (%)	4.88%

VNINDEX		1,052
HNXINDEX		207
Market Cap (bn VND)		9,629
Outstanding shares (mn)		598
Free-Floating (mn)		416
52-Wk High/Low (VND)		28,700/6,850
90-day avg trading volume (mn)		16.60
90-day avg turnover (bn VND)		263
Major shareholders (%)	Hoa Sen Investment and Tourism Co., Ltd	19.87%
	Le Phuoc Vu	17.02%

Performance	3T	6T	12T
Absolute (%)	25.3	27.8	-41.2
Relative to VN-Index (%)	23.4	24.8	-13.6

Source: Bloomberg



Overcome hardship with inner strength

Initiate coverage with HOLD call and target price of VND 16,100

Hoa Sen Group Joint Stock Company (HSG) is a leading enterprise in the field of galvanized steel sheets in Vietnam. Hoa Sen Group mainly manufactures galvanized steel sheets, steel pipes, plastic pipes, and retail construction materials. Adverse developments in the steel industry have led to a decline in the business results of Hoa Sen in 2022. However, Hoa Sen will be able to overcome obstacles thanks to its wide retail network and leading position in the galvanized steel sheet industry. Additionally, Hoa Sen's economic situation will improve as a result of the recent increase in HRC steel prices, which will also result in a minor rise in corporate profits in 2023. Moreover, the long-term prospects of Hoa Sen are still promising with the development of Hoa Sen Home. We offer an initial valuation of HSG stock at a price of VND 16,100 for a return of 4.88%. We use the DCF valuation method to value Hoa Sen.

Having largest market share in galvanized steel sheets and a wide distribution system

Hoa Sen currently holds the largest market share in galvanized steel sheet segment with 29%. Hoa Sen Group owns a system of more than 600 branches & stores, together with more than 100 Hoa Sen Home construction material supermarkets across the country. This helps Hoa Sen build the brand, and manage better quality and service. Besides, Hoa Sen also exports to more than 87 countries and territories with higher export revenue than the top 2 and top 3 competitors combined.

Profit margin prospect improves thanks to HRC steel price increase

HRC steel price has improved significantly after the information about China's opening plan and China's real estate market stimulus package was announced. As of March 2023, the price of HRC steel has increased by 57% compared to the bottom in November 2022. This will greatly contribute to the improvement of Hoa Sen's profit margin as Hoa Sen's export proportion accounts for more than 50% of revenue. We estimate that revenue in 2023 will reach VND 34,208 billion, down 32%. Profit in 2023 is expected to reach VND 283 billion, up 13%.

Long-term prospects for Hoa Sen Home

With the goal of opening 600 Hoa Sen Home stores, the Hoa Sen Home system will be a strategic move. Hoa Sen Home possesses the ability to better serve customers and applies technology in the retail segment. Hoa Sen Home will be the great growth engine of Hoa Sen Group in the future

Risks: (1) Risk of market share decline; (2) Risk of HRC price fluctuation; (3) The risk of unstable domestic real estate market; (4) Risks of world economic decline.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**50,090**	**34,208**	**44,409**	**53,218**	**58,540**
OP (bn VND)	330	512	2,778	3,444	3,856
NP (bn VND)	**251**	**451**	**2,424**	**3,005**	**3,364**
EPS (VND)	405	754	4,054	5,024	5,625
BPS (VND)	17,537	18,951	23,006	28,030	33,656
OPM (%)	1%	1%	6%	6%	7%
NPM (%)	1%	1%	5%	6%	6%
ROE (%)	**2%**	**4%**	**18%**	**18%**	**17%**
PER (x)	11.00	21.01	3.91	3.15	2.82
PBR (x)	1.09	0.84	0.69	0.57	0.47
EV/EBITDA (x)	7.79	7.44	9.88	4.09	3.47

Source: Company data, Shinhan Securities Vietnam

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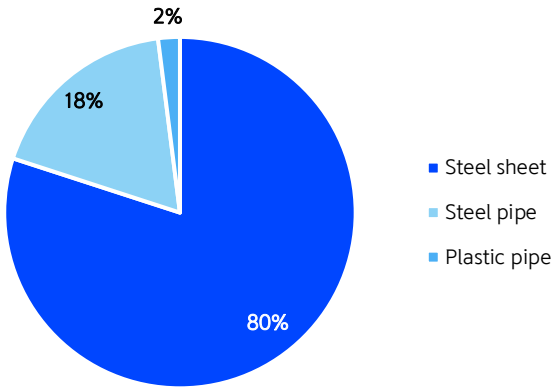
Company background

Company history

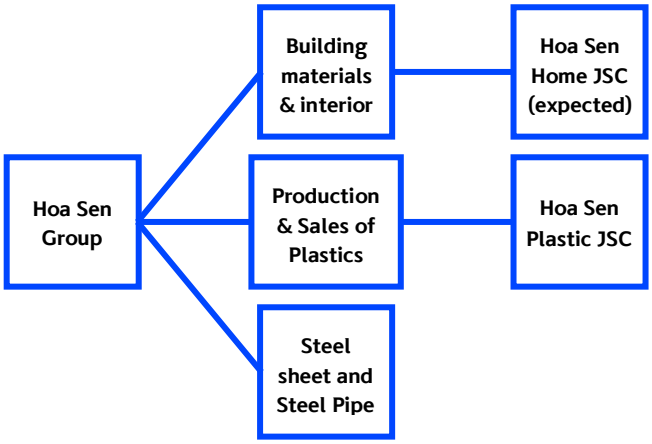
Hoa Sen Group (HSG) was established on August 8, 2001. In 2008, the Company was officially listed on HOSE with the stock ticker HSG. Over 20 years of establishment, Hoa Sen Group has become the number one enterprise in the field of galvanized steel sheets in Vietnam in both domestic and foreign markets, 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 2022



Hoa Sen's business structure

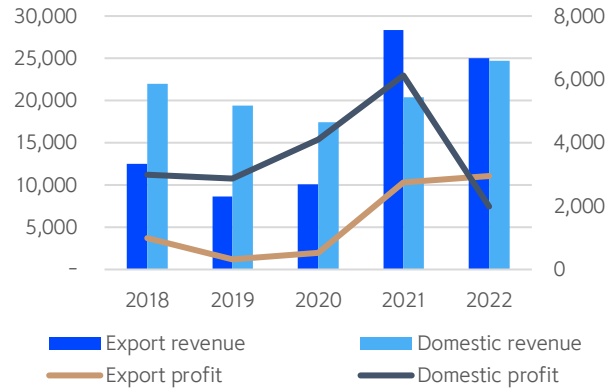


Source: Company Report, Shinhan Securities Vietnam

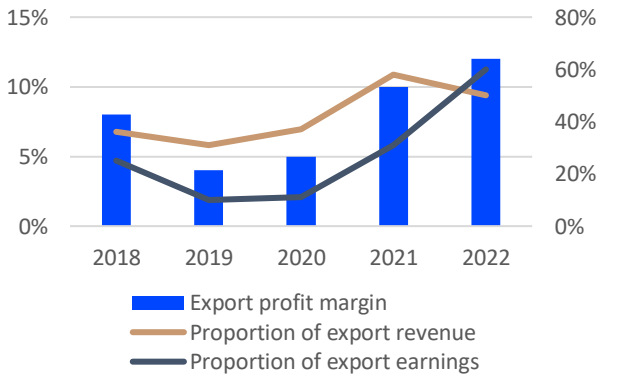
Hoa Sen Group has three main business segments including the Production and trading of steel sheets and steel pipes; the distribution of building materials and interior decoration and plastic production. Which, the plastic business segment is in charge of Hoa Sen Plastic JSC. Hoa Sen Group also plans 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 - 2022 (billion VND)



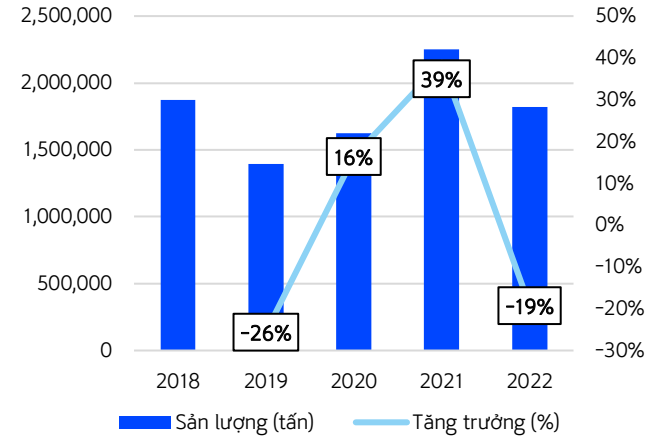
The proportion of export revenue and profit 2018 - 2022



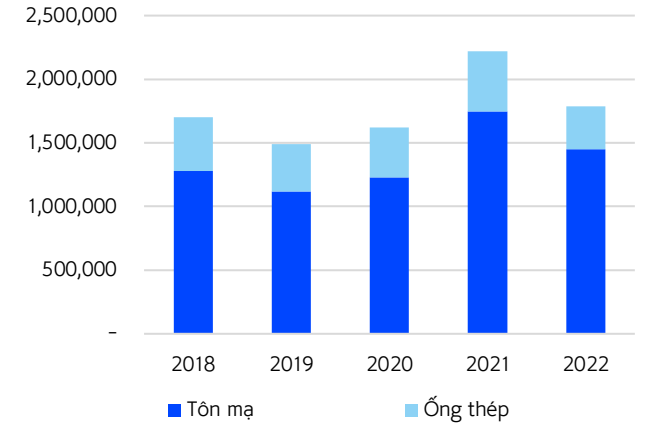
Source: Company Report, Shinhan Securities Vietnam

Hoa Sen is maintaining the ratio of export and domestic revenue at about 50%. Which, the proportion of export revenue and export profit had grown significantly over the years. In 2022, the export segment contributed 60% of the company's profits. The profit margin of the export segment also grew significantly over the years.

Hoa Sen sales volume 2018 – 2022 (tons)



Consumption volume by product structure (tons)



Source: Company Report, Shinhan Securities Vietnam

With a high proportion of exports, Hoa Sen's business results are directly influenced by the economic situation and global steel consumption demand. Hoa Sen's steel consumption volume had strong growth in 2021 when the world steel industry cycle grew and declined in 2022 when the world steel industry cycle went down.

Unit: Tons

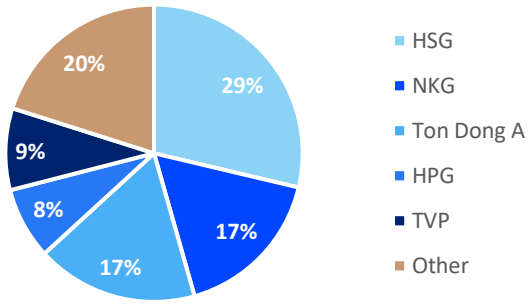
Factory Name	Area (a)	Steel pipe	Hot Dipped Galvanized Steel Pipe	Cold rolled steel	Production of corrugated iron (NOF)	Color coating	Plastic Pipe
Ong Kem Hoa Sen Yen Bai	8.70	82,800					
Hoa Sen Nghe An	35.00			700,000	800,000	240,000	
Hoa Sen Nam Cam	9.40	120,000					
Ong Kem - Ong Nhua Hoa Sen Binh 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

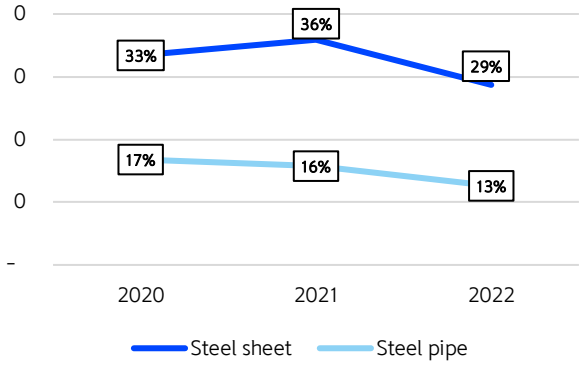
Hoa Sen owns 10 factories across the country with a total production capacity of 2.5 million tons of galvanized steel sheets, 850 thousand tons of steel pipes, and 130 thousand tons of plastic pipes.

Steel sheets market share of HSG

Galvanized steel market share in 2022



Market share of galvanized steel and steel pipes 2020 - 2022



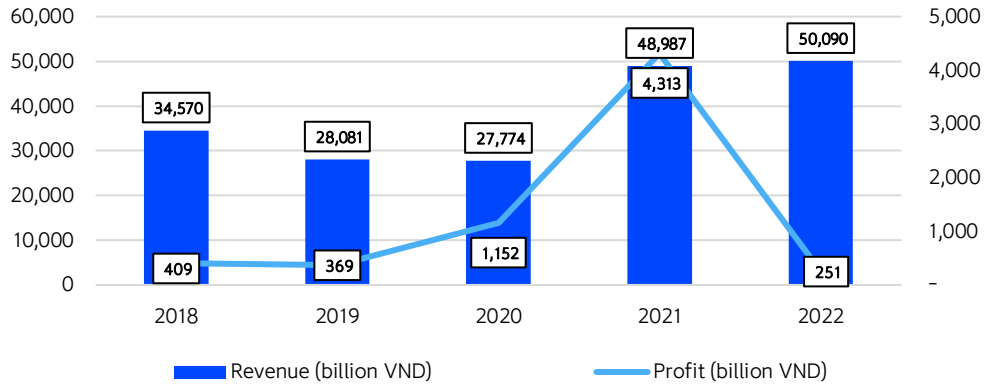
Source: Company Report, Shinhan Securities Vietnam

Hoa Sen ranked first in galvanized steel sheet with 29% market share and second in steel pipe with 13% in 2022. With the difficult situation in the steel industry in 2022, the market share of the steel sheet segment decreased from 36 % to 29%, steel pipe segment decreased from 16% to 13%.

Update business results in 2022

Hoa Sen's business results are greatly influenced by the downward cycle of the steel industry in 2022

Hoa Sen revenue and profit 2017 – 2022 (billion VND)



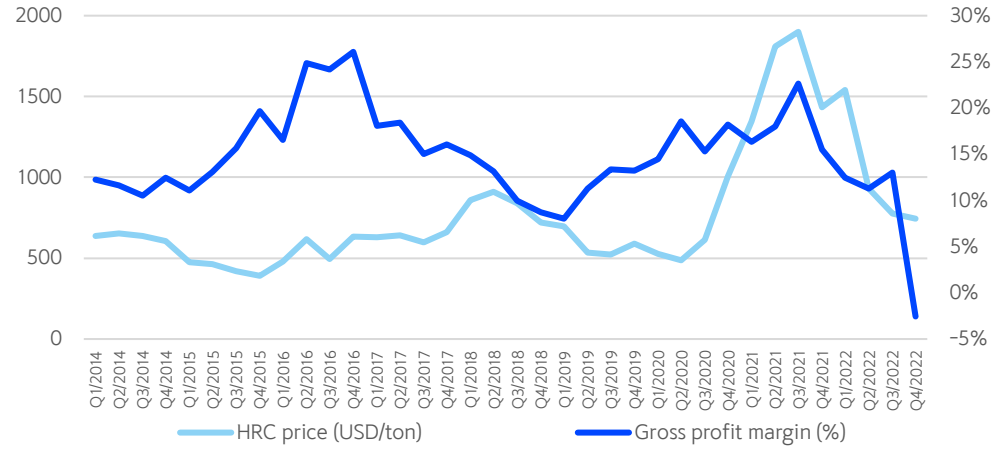
Source: Company Report, Shinhan Securities Vietnam

Hoa Sen achieved VND 50,090 billion in revenue in 2022 (+2% YoY) and recorded a profit of VND 251 billion (-94% YoY). For the whole year of 2022, Hoa Sen supplied to the market 1,819,000 tons of steel (-19% YoY), including 1,449,000 tons of galvanized steel and 339,000 tons of steel pipes.

This was explained by unfavorable factors occurring in the steel industry such as the weakening of the domestic real estate market and the negative influence of the declining world economic situation. These factors led to a decline in domestic and world steel prices.

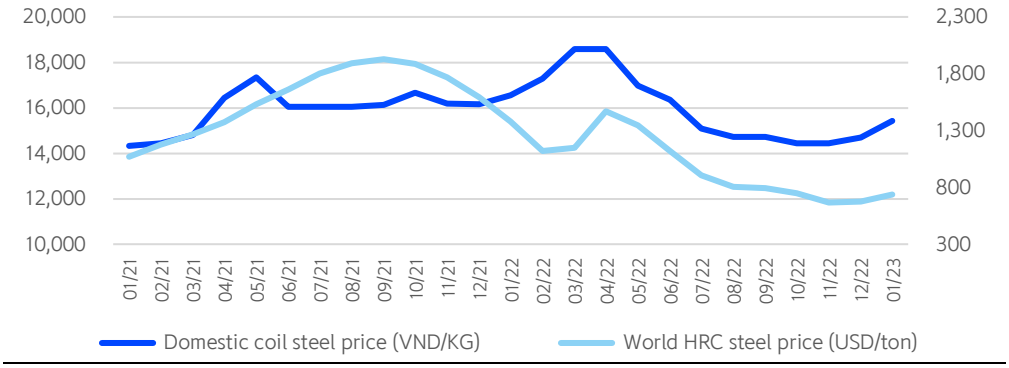
Steel price decline both in the country and the world negatively affected the steel industry

World HRC steel price and HSG's gross profit margin



Source: Bloomberg and Fiinpro

Domestic coil price and world HRC price (USD/Ton)



Source: Bloomberg and Fiinpro

Hoa Sen maintains an average gross profit margin of about 15% in the production process from HRC steel to galvanized steel sheet and steel pipe. The sharp drop in the domestic price of HRC and coil steel in 2022 forced Hoa Sen to sharply reduce the selling price and record a large amount of inventory provision in 2022.

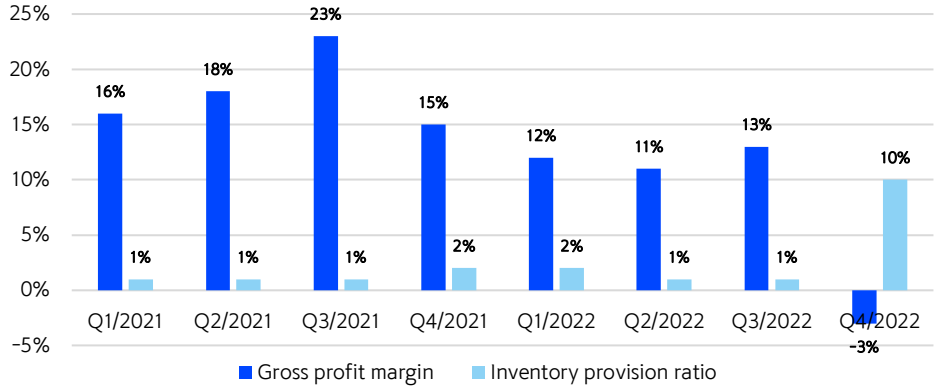
In the context of the weakening world economic situation after a prolonged Covid-19 wave, followed by the Russia - Ukraine war and China's strong measures in managing the real estate market, HRC steel price plummeted from USD 1300/ton in January 2022 to USD 670/ton by the end of December 2022, negatively affecting companies in the steel industry. Compared to 2021, the price of HRC steel 2022 decreased by about 35%.

Along with the world trend, Vietnam coil steel price also corrected after peaking at VND 18,585/kg. Unresolved difficulties in capital flow and issues related to bonds have seriously affected the real estate market and reduced the domestic demand for galvanized steel and pipes. Steel consumption of the whole Vietnamese market in general and Hoa Sen, in particular, reached the highest peak in the second quarter and decreased in the following two quarters of 2022.

The strong fluctuation of steel prices in 2022 directly affected the profit margin of the business and caused the enterprise to record a strong inventory provision in the third and fourth quarters of 2022 when steel prices plummeted.

Profit margin drops sharply in 2022

Gross profit margin and inventory provision ratio Hoa Sen 2021 - 2022 (%)



Source: Company Report, Shinhan Securities Vietnam

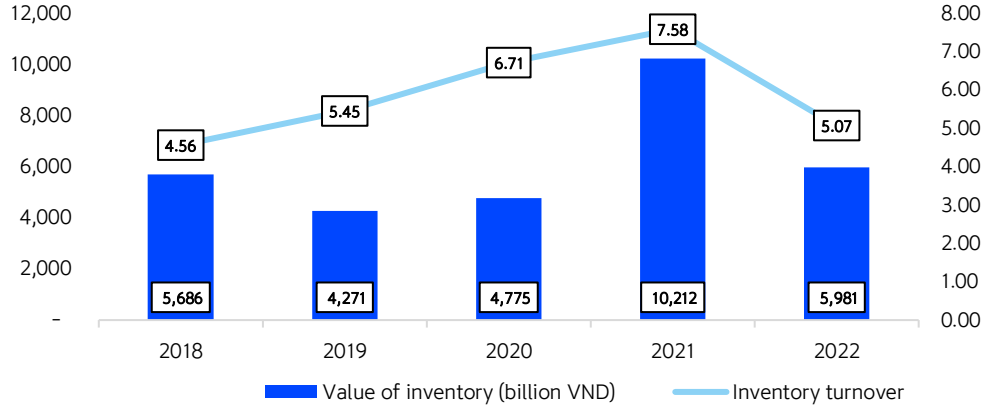
The average inventory provision ratio remains at 1-2% of the total inventory value. With the sharp drop in steel prices at the end of 2022, the inventory ratio has increased sharply to 10% due to the high price of old inventories.

Hoa Sen's gross profit margin has been hit hard by falling steel prices. This resulted in a negative gross margin and a sharp increase in inventory provisioning in the fourth quarter of 2022.

However, with a high level of provision in the fourth quarter, the company will be safer if steel prices continue to fall in the future. On the contrary, when the steel price rises again, the company can reverse the provision and add more profit.

Inventory value and inventory volume decreased significantly

Inventory value and inventory turnover 2018 – 2022

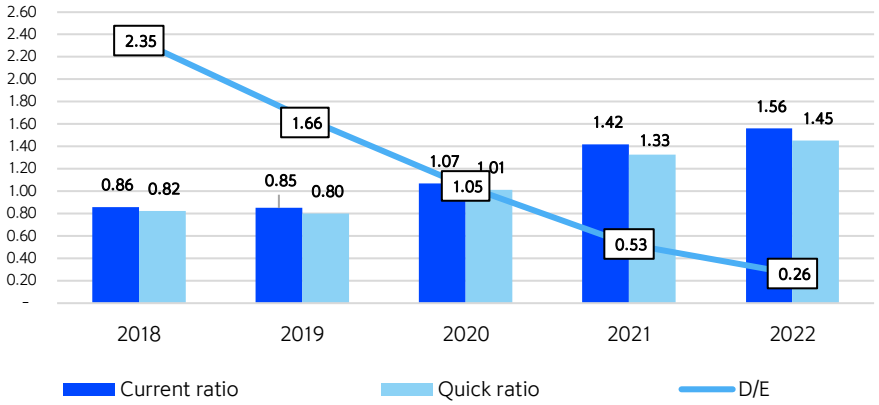


Source: Company Report, Shinhan Securities Vietnam

In the context of falling HRC steel prices and weak demand, HSG's inventory value has nearly halved compared to the end of 2021. HSG's inventory value was at a reasonable level compared to the time before 2021. HSG's inventory turnover decreased from 7.58 to 5.07 but remained higher than in 2018. This shows that the company actively reduced inventory when the market demand was weak. This helped to reduce inventory management costs for the company. Besides, the amount of inventory decreased by nearly half compared to the end of 2021, showing that the company has liquidated most of the old inventory at a high price.

The liquidity ratio improved and the leverage ratio decreased

Hoa Sen's liquidity ratio and leverage ratio2018 - 2022



Source: Company Report, Shinhan Securities Vietnam

The liquidity ratios have markedly improved in 2022 with the current ratio increasing from 1.42 to 1.56 and the quick ratio increasing from 1.33 to 1.45. The D/E debt ratio also dropped significantly with a decrease from 0.53 to 0.26 in 2022. This shows that HSG's financial position has changed significantly. With a decrease in liquidity ratio and debt ratio, HSG's business situation will be less pressured in the context of weak steel consumption in 2023.

Investment Catalysts & Theses

Having the largest market share in galvanized steel sheets with a wide distribution system

Hoa Sen currently holds the largest market share in galvanized steel sheet segment with 29%. Hoa Sen Group owns a system of more than 600 branches and retail distribution stores across the country. Besides, Hoa Sen also exports to more than 87 countries.

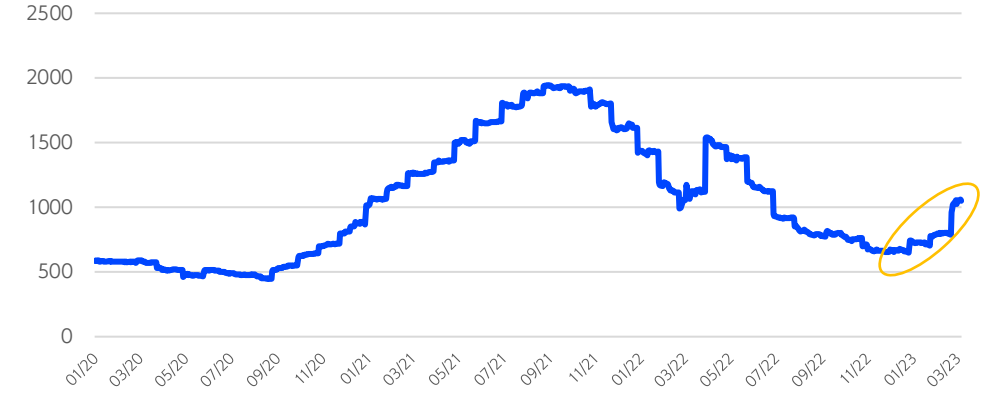
Owning a large system of branches and stores helps Hoa Sen build the brand name, and at the same time provide better quality and service. This supports the company to sell at a higher price than its competitors. According to the chairman's announcement at the 2022 – 2023 General Meeting of Shareholders, Hoa Sen's products can be sold at 10% higher prices than other competitors in the industry.

Hoa Sen's export segment is also more prominent than its competitor. Compared to the top 2 (Ton Dong A) and top 3 (Nam Kim) competitors, Hoa Sen exports to more than 87 countries while Ton Dong A and Nam Kim only export to 50 countries. Hoa Sen's export revenue in 2022 is also higher than that of Nam Kim and Ton Dong A combined.

Profit margin prospect improves thanks to HRC steel price increase

HRC steel prices recover on the prospect of China opening up and real estate recovery in China

HRC steel price 2020 - 2023 (USD/ton)



Source: Bloomberg and Fiinpro

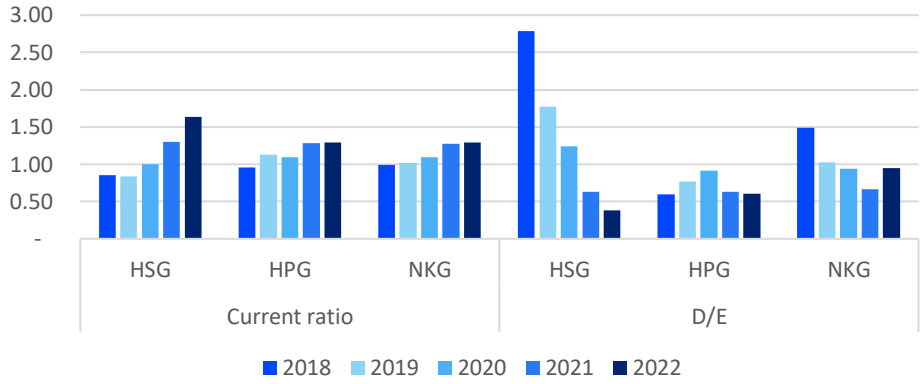
China is the world's leading steel consumer with consumption accounting for more than 50% of global consumption. The opening of China's border on January 8, 2023, is estimated to help the country's economy recover, thereby increasing steel consumption demand. Since the information on China's opening plan was announced, HRC steel price has had an impressive recovery from USD 666/ton in November 2022 to USD 1,050/ton in early March 2023 corresponding to an increase of 57%.

Besides, government measures to revive the real estate market will continue to be the driving force behind steel price growth in 2023. China's real estate industry currently accounts for 40% of Chinese steel consumption. The Chinese government has announced a series of measures to "untie" the sector, including easing regulations to make it easier for property developers to raise capital and launching a refinancing support program with a total value of up to USD 24 billion for real estate companies.

The recovery of Chinese demand will help increase domestic and world steel prices, thereby helping Hoa Sen's gross profit margin improvement. In addition, an increase in steel prices will help Hoa Sen reverse the inventory provision in the fourth quarter of 2022, contributing to boosting Hoa Sen's profit.

Good financial health helps businesses face difficulties

Current ratio and leverage ratio of Hoa Sen and competitor stores 2018 - 2022



Source: Company Report, Shinhan Securities Vietnam

Hoa Sen's debt/equity ratio has continuously decreased and the current ratio has improved over the years, showing that Hoa Sen's financial position is getting better. Compared to other companies in the same industry, Hoa Sen has the lowest debt/equity ratio, which helps the company reduce its financial burden when interest rates are high.

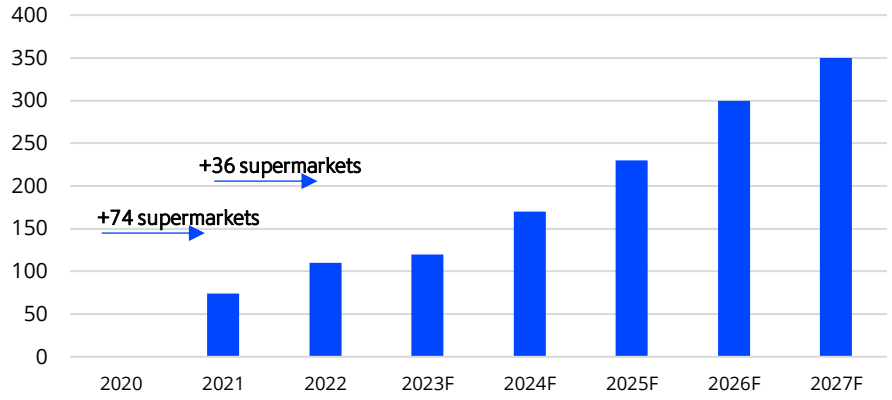
The real estate market is still negative, but it is expected to improve more in the last 6 months of the year

According to the Ministry of Construction, the whole country has 126 projects with 55,732 licensed apartments in 2022, down 47% over the same period. With problems related to the real estate situation in 2022, the real estate industry is expected to face difficulties in 2023. The state continues to maintain the move to tighten the issuance of bonds and real estate credits while keeping interest rates at a high level to control inflation will negatively affect the domestic real estate industry. The real estate industry is expected to see an improvement around the middle of the year when the real estate market problems are resolved and interest rates cool down. Recently, the real estate market has had a few positive signals from the government through actions and solutions to support the market:

- During the conference " Dismantling, promoting and developing the real estate market " with the Prime Minister, the State Bank and 4 state-owned banks also agreed on a credit package of VND 120,000 billion, with a lower interest rate of 1.5-2% for social housing. This helps to improve the real estate market thereby boosting domestic steel consumption.
- The Government has recently issued Decree No. 08/2023/ND-CP dated 5/3/2023 to amend some regulations on domestic and international corporate bond offering and trading. Some major changes of the decree include: The issuer can pay the bond principal and interest with other assets, and may extend the term up to a maximum of 2 years with the consent of the bondholder. This Decree also postpones regulations on professional securities investors, bond distribution time, and credit rating requirements for bond issuers until December 31, 2023. The new regulations under Decree No. 08/2023/ND-CP have positive values and are the basis for accelerating measures to reduce pressure on the current bond market, especially real estate bonds.

Long-term prospects for Hoa Sen Home Furniture and construction material supermarket

Forecast number of Hoa Sen Home supermarket 2023F – 2027F



Nguồn: Báo cáo công ty, Chứng khoán Shinhan Việt Nam

Since the beginning of 2021 when Hoa Sen officially implemented the Hoa Sen Home system, Hoa Sen furniture and building material supermarket chain has reached 110 stores across the country at the end of 2022

Hoa Sen Home system is considered a new move in the market of distribution of construction materials and interior equipment when the current market includes mainly small businesses, fragmented and no branded companies. The deployment of Hoa Sen Home store will better support customers in providing products including construction materials from the foundation to the finishing of the house's interior decoration. Customers will be more convenient in shopping instead of going to each store to buy different types of products.

Besides, Hoa Sen Home is considered a pioneer in innovating sales methods. Customers do not need to go directly to the store but can choose and buy goods online at Hoa Sen Home's Website and application (App).

With the target of 600 Hoa Sen Home stores nationwide, Hoa Sen Home furniture and building materials supermarket system is expected to contribute to Hoa Sen's revenue growth. Facing the weakening demand of the real estate market, Hoa Sen is expected to adjust the speed of new store openings with the market demand. Accordingly, in 2023, Hoa Sen plans to open 5-10 more Hoa Sen Home stores.

IPO plan for Hoa Sen Home and Hoa Sen Plastic JSC

Hoa Sen plans to list two subsidiaries in the field of plastic pipes (Hoa Sen Plastic JSC) and distribute furniture-building materials (Hoa Sen Home) on the stock exchange during 2024-2026 in which:

- Hoa Sen Plastic Joint Stock Company has a charter capital of VND 300 billion, owned by Hoa Sen Group with 99.95% shares. The company manufactures and trades construction materials products including uPVC pipes, uPVC pipe fittings, uPVC pipe glue, HDPE pipes, and Hoa Sen PPR pipes. HSG's plastic segment ranks third in terms of market share, after Binh Minh Plastics and Tien Phong Plastics. The average annual revenue of the company is about VND 2,000 billion. Hoa Sen Plastic Joint Stock Company is expected to achieve a profit of about VND 100 billion in 2023.
- Hoa Sen plans to establish Hoa Sen Furniture and Construction Materials Distribution Joint Stock Company (hereinafter referred to as Hoa Sen Home) to take over all business activities of the distribution, retail, and Hoa Sen Home segments.

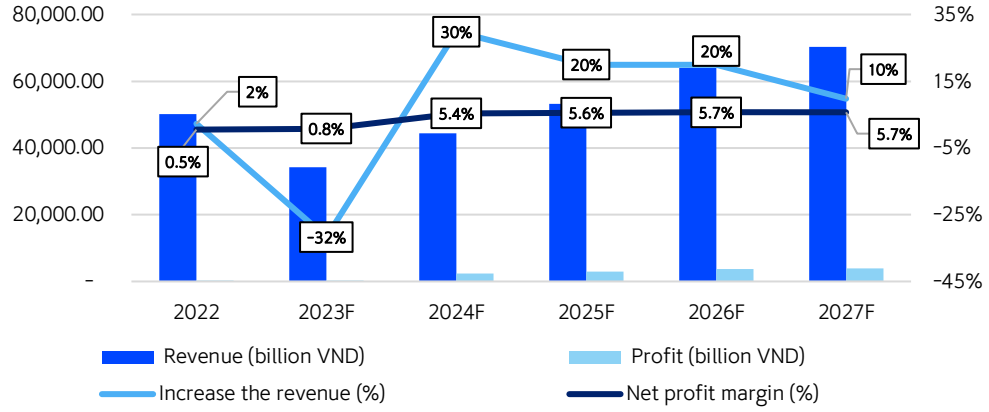
The prospect of the IPO of these two businesses will help investors see the performance of each company, thereby helping the two companies get more suitable valuations. With Hoa Sen's average P/E at 6x, separating the retail segment from the current company will help improve Hoa Sen Home's valuation (since retail usually has a P/E of 10x to 20x). Therefore, the consolidation will contribute to increasing the value of HSG.

Earnings estimates

The business situation is expected to recover after 2023

Expected revenue to decrease but profit increase in 2023

Forecast of Hoa Sen revenue and profit in 2021 - 2027F

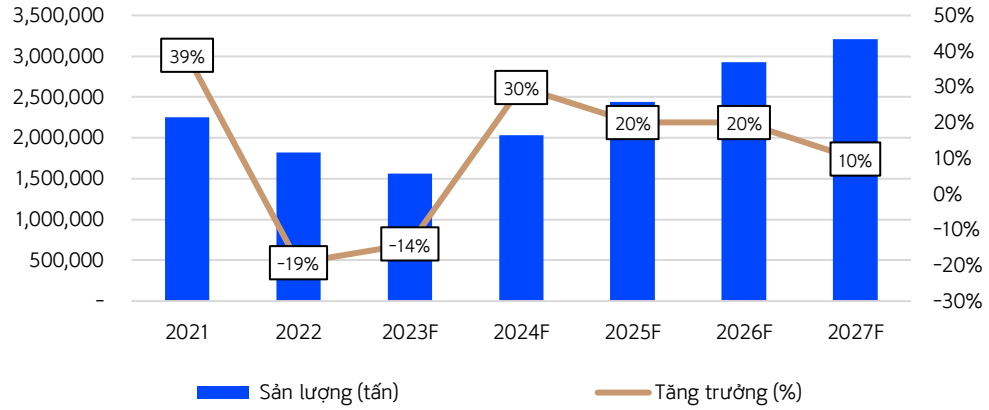


Source: Company Report, Shinhan Securities Vietnam

With uncertainties related to the steel industry in 2023, Hoa Sen's revenue is expected to decrease and recover in 2024 when real estate-related problems are resolved and the economic situation recovers. Net profit margin in 2023 is expected to increase slightly thanks to improved steel prices, which will help the company to sell at a higher price and record a reversal of inventory provision. We estimate 2023 revenue to reach VND 34,208 billion, down 32% compared to 2022. Profit in 2023 is expected to reach VND 283 billion, up 13%.

Outlook for output to increase again after 2023

Forecast of Hoa Sen production in 2021 – 2027F



Source: Company Report, Shinhan Securities Vietnam

Hoa Sen's output is expected to decrease compared to 2022 with a decrease of 14% in 2023 due to the weak domestic consumption market and reduced demand for imported galvanized steel sheets from other countries. Output is expected to rebound in 2024 as demand from the real estate industry picks up again and the world economy begins to recover.

Valuation and Recommendation

Initial valuation with HOLD recommendation, target price VND 16,100

We offer an initial valuation of Hoa Sen Group JSC (HSG) with a hold recommendation and a target price of VND16,100 for an increase of 4.88%. For long-term investment vision, HSG can be considered with the following advantages:

1) Having the largest market share in galvanized steel sheets and a wide distribution system
2) Profit margin prospect improves thanks to HRC steel price increase
3) Long-term prospect with Hoa Sen Home furniture and construction material supermarkets

Valuation method

We apply a Discounted Cash Flow (FCFF) valuation method to value Hoa Sen Steel JSC (HSG).

The Discounted Cash Flow (DCF) method – FCFF

Unit: billion VND	2023F	2024F	2025F	2026F	2027F
EBIT*(1-tax rate (%))	650	2,562	3,070	3,377	3,715
Depreciation	610	332	334	336	339
Minus: Change in working capital	782	-2,093	-2,047	-1,465	-1,697
Minus: Investment capital	-98	-79	-95	-104	-115
Free Cash Flow (FCFF)	**1,944**	**722**	**1,262**	**2,144**	**2,242**
Long-term growth rate (%)	0%	-	-	-	-
Discount rate (%)	15%	-	-	-	-
Terminal Value	-	-	-	-	22,716
Present value of free cash flow	1,694	548	835	1,236	8,987
Enterprise value	13,552				
- In debt	4,266				
+ Cash and cash equivalents	336				
Equity value	9,622				
Target price (VND)	16,100				
Current price (VND)	15,350				
Growth	4.88%				

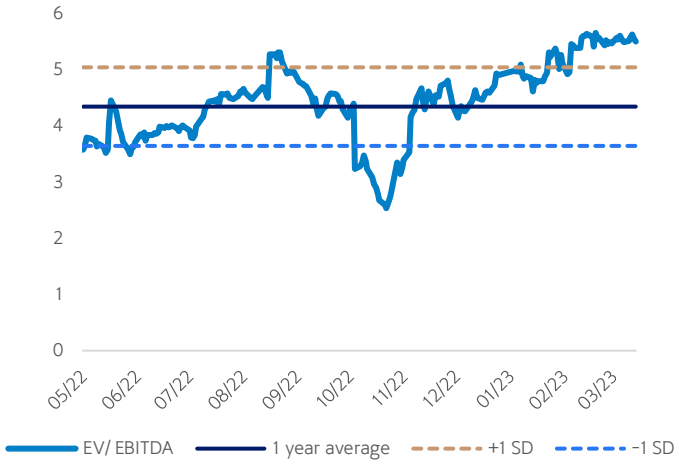
Variable	Value
D/E	0.44
Beta	1.31
Risk-free rate	3.5%
Cost of equity	18.1%
Cost of debt	4.7%
WACC	13.7%

For the Weight average cost of capital (WACC), we use the 10-year Vietnamese government bond yield at 3.5% as the risk-free rate. Beta is calculated based on historical data of the last 5 years of HSG and VNINDEX. Based on those assumptions, HSG's FCFF target price is valued at VND 16,100.

P/E 1 year



EV/EBITDA 1 year

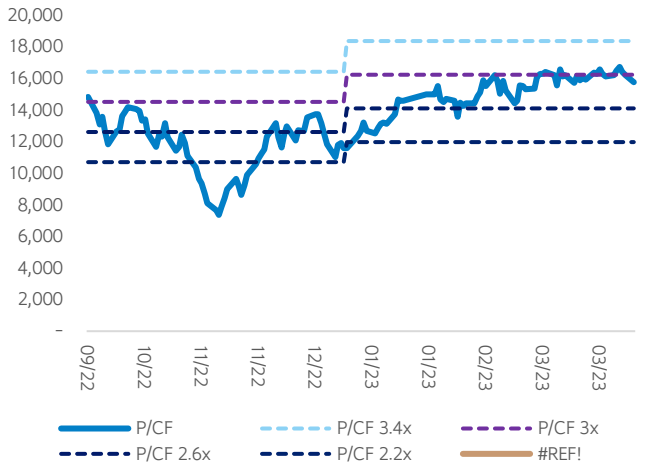


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

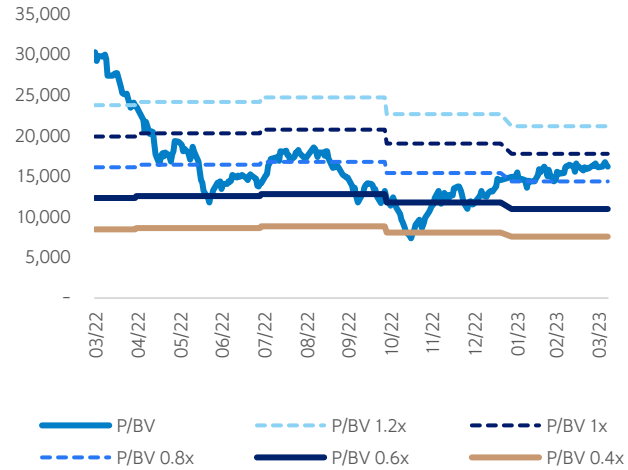


P/CF band



Source: Bloomberg data, Shinhan Securities Vietnam

P/B band

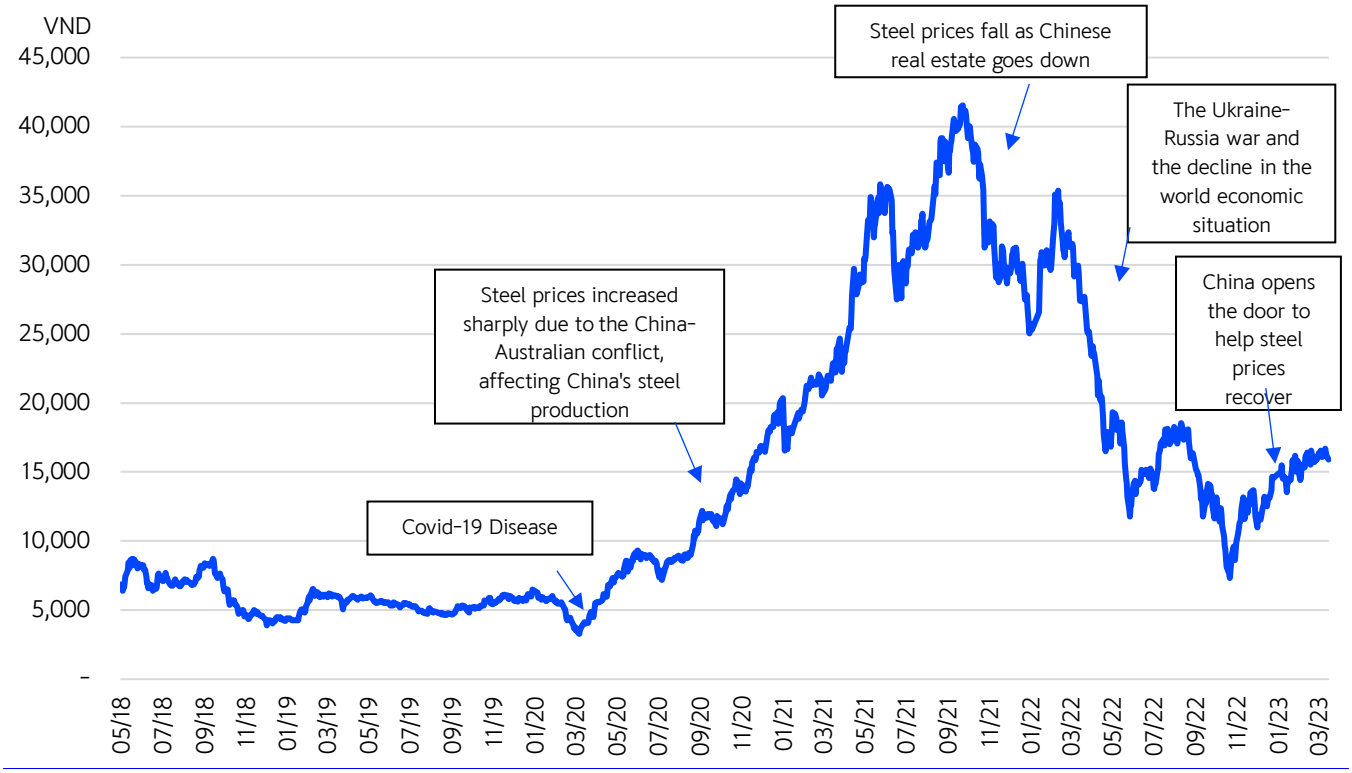


ROE and MA 1 year



Source: Bloomberg data, Shinhan Securities Vietnam

Key event chart of HSG

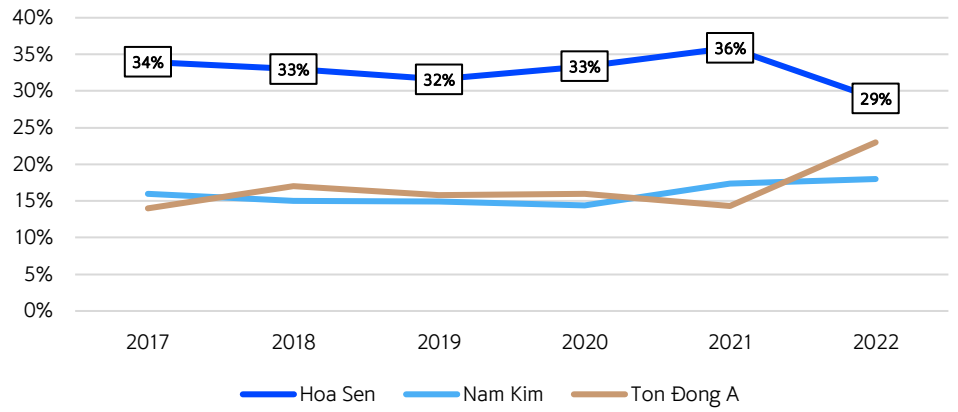


Source: Bloomberg, Company data, Shinhan Securities Vietnam

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 more than 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 nearly 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	2023F	2024F	2025F	2026F
Total assets	**17,025**	**17,213**	**18,870**	**20,901**	**24,117**
Current assets	9,835	10,518	12,409	14,659	18,083
Cash & equivalents	330	1,021	394	152	1,841
Short-term financial asset	9	9	9	9	9
Accounts receivable	2,101	3,004	3,901	4,786	5,550
Inventories	7,395	6,484	8,105	9,712	10,683
Non-current assets	7,190	6,695	6,461	6,243	6,034
Net fixed assets	5,959	5,447	5,194	4,955	4,723
Investment assets	-	-	-	-	-
Other long-term assets	1,232	1,248	1,267	1,288	1,311
Total liabilities	**6,142**	**5,878**	**5,110**	**4,136**	**3,986**
Current liabilities	6,009	5,850	5,064	4,058	3,853
Accounts payable	1,040	1,812	2,235	2,678	2,946
Short-term borrowings	4,070	3,137	1,926	475	-
Others	899	901	903	904	907
Non-current liabilities	133	27	46	78	133
Long-term borrowings	117	-	-	-	-
Other financial liabilities	16	27	46	78	133
Total shareholders' equity	**10,884**	**11,335**	**13,760**	**16,766**	**20,131**
Charter capital	5,981	5,981	5,981	5,981	5,981
Capital surplus	157	157	157	157	157
Retained earnings	4,542	4,994	7,419	10,424	13,789
Other capital	187	187	187	187	187
Non-controlling interest equity	16	16	16	16	16
*Total debt	4,187	3,137	1,926	475	-
*Net debt (cash)	3,857	2,117	1,532	323	(1,841)

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Revenue	**50,090**	**34,208**	**44,409**	**53,218**	**58,540**
Growth (%)	2%	-32%	30%	20%	10%
COGS	**44,772**	**30,424**	**37,523**	**44,965**	**49,462**
Gross profit	**4,939**	**3,784**	**6,887**	**8,253**	**9,078**
GPM (%)	10%	11%	16%	16%	16%
SG&A	**4,355**	**3,225**	**4,187**	**5,018**	**5,520**
Operating profit	**584**	**558**	**2,700**	**3,235**	**3,559**
Growth (%)	-89%	-4%	384%	20%	10%
OPM (%)	1%	2%	6%	6%	6%
Non-operating profit	**(203)**	**(40)**	**87**	**219**	**308**
Financial income	267	182	237	283	312
Financial expense	(521)	(228)	(158)	(75)	(15)
In which: interest expenses	(260)	(228)	(158)	(75)	(15)
Net other non-operating profit	51	7	8	10	11
Pre-tax profit	**381**	**519**	**2,787**	**3,454**	**3,867**
Income tax	(130)	(67)	(362)	(449)	(503)
Net profit	**251**	**451**	**2,424**	**3,005**	**3,364**
Growth (%)	-94%	80%	437%	24%	12%
NPM (%)	1%	1%	5%	6%	6%
Controlling interest	251	451	2,425	3,005	3,364
Non-controlling interest	(0)	(0)	(0)	(0)	(0)
EBIT	**641**	**747**	**2,945**	**3,529**	**3,882**
Growth (%)	-88%	16%	294%	20%	10%
EBIT Margin (%)	1%	2%	7%	7%	7%
EBITDA	**1,801**	**1,357**	**3,276**	**3,863**	**4,218**
Growth (%)	-72%	-25%	141%	18%	9%
EBITDA margin (%)	4%	4%	7%	7%	7%

Statement of cash flow

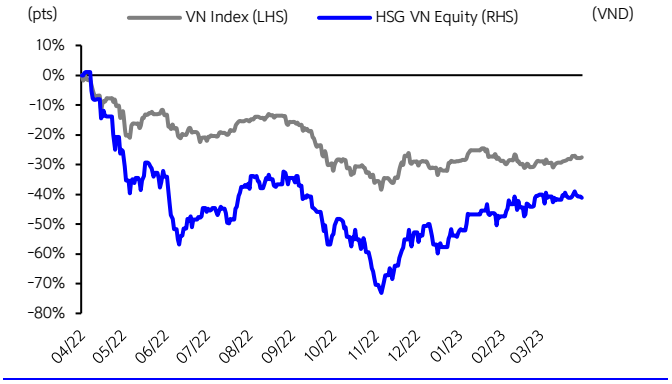
Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Cash flow from operations	**2,845**	**1,838**	**663**	**1,303**	**2,268**
Net profit	381	519	2,787	3,454	3,867
Depreciation expense	1,160	610	332	334	336
(Gain) from investing activities	(26)	-	-	-	-
Interest expense/ income	(7)	-	-	-	-
Change in working capital	1,336	971	(1,840)	(1,707)	(1,005)
Others	1	(262)	(615)	(778)	(930)
Cash flow from investments	**(408)**	**(98)**	**(79)**	**(95)**	**(104)**
Change in fixed assets	(463)	(98)	(79)	(95)	(104)
Change in investment assets	28	-	-	-	-
Others	27	-	-	-	-
Cash flow from financing	**(2,651)**	**(1,049)**	**(1,211)**	**(1,451)**	**(474)**
Change in equity	49	-	-	-	-
Net borrowing	(2,699)	(1,050)	(1,211)	(1,452)	(475)
Dividends	(0)	0	0	0	0
Change in total cash	**(215)**	**691**	**(627)**	**(243)**	**1,689**
Beginning cash	493	330	1,021	394	152
Change in FX rates	52	-	-	-	-
Ending cash	330	1,021	394	152	1,841

Key ratios

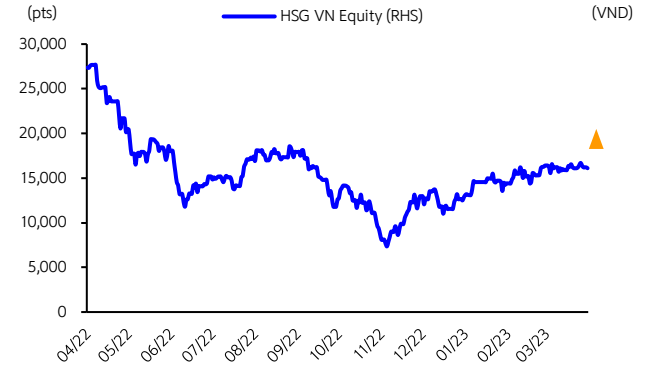
Year to Dec.	2022	2023F	2024F	2025F	2026F
EPS (VND)	405	754	4,054	5,024	5,625
BPS (VND)	17,537	18,951	23,006	28,030	33,656
DPS (VND)	1	1	1	1	1
PER (x)	11.00	21.01	3.91	3.15	2.82
PBR (x)	1.09	0.84	0.69	0.57	0.47
EV/EBITDA (x)	7.79	7.44	9.88	4.09	3.47
Dividend payout ratio (%)	0%	0%	0%	0%	0%
Dividend yield (%)	0%	0%	0%	0%	0%
Profitability					
EBITDA margin (%)	4%	4%	7%	7%	7%
OPM (%)	1%	2%	6%	6%	6%
NPM (%)	1%	1%	5%	6%	6%
ROA (%)	1%	3%	13%	15%	15%
ROE (%)	2%	4%	19%	20%	18%
Stability					
Debt to equity ratio (%)	38%	28%	14%	3%	0%
Net debt ratio (%)	214%	156%	47%	8%	-44%
Cash ratio (%)	5%	17%	8%	4%	48%
Interest coverage ratio (x)	2.46	3.27	18.65	47.13	262.22
Activity (%)					
Inventory turnover (days)	71.96	74.05	59.95	61.10	63.58
Accounts receivable turnover (days)	21.81	19.27	20.40	21.14	22.00
Accounts payable turnover (days)	21.74	17.11	19.68	19.94	20.75

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%

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

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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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