Nam Kim Steel JSC

[Vietnam / Steel]

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

BUY

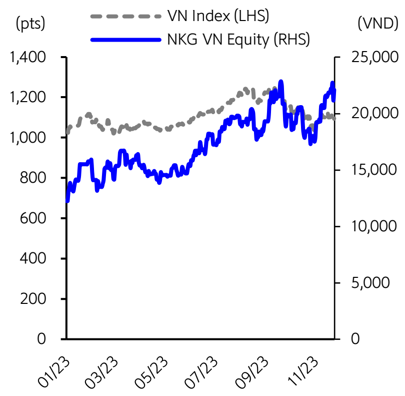
Update report

Target price (12 months)	**26,700 VND**
Current price (28/11/23)	22,800 VND
Upside/downside (%)	17%

VNINDEX			1,088
HNXINDEX			223
Market Cap (bn VND)			5,739
Outstanding shares (mn)			263
Free-Floating (mn)			170
52-Wk High/Low (VND)			23,650/8,420
90-day avg. trading volume (mn)			10.26
90-day avg. turnover (bn VND)			214
Major shareholders (%)	Ho Minh Quang		11.84%
	Unicoh Specialty Chemicals		5.85%

Performance	3T	6T	12T
Absolute (%)	20.1	49.3	137.9
Relative to VN-Index (%)	28.0	46.1	122.3

Source: Bloomberg



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The situation becomes brighter

Update with BUY call and target price of VND 26,700

Nam Kim Steel JSC (NKG) is the top 3 largest enterprises in the field of galvanized steel with export markets to more than 50 countries globally. Due to adverse situation in the steel industry, Nam Kim's business results were affected, however, the situation has gradually improved and Nam Kim started to have profit since Q2/2023. With the recent increase in the price of HRC steel and the decrease in freight rates, we assess that Nam Kim's business situation will turn around and improve strongly in 2024. Along with that, Nam Kim Phu My project contributes to doubling capacity and will help Nam Kim grow strongly when the steel industry recovers. We update target price for NKG shares at 26,700 VND, corresponding to a upside of 17%. We use DCF and P/E valuation methods with weights of 70% and 30%, respectively.

Updated Q3/2023 business results

Nam Kim recorded Q3/2023 revenue reaching VND 4,268 billion, (-4% YoY), profit after tax reaching VND 24 billion. Gross profit margin in Q3/2023 reached 4.81%, improved compared to 3.15% in Q1/2023, but lower than 9.02% in Q2/2023 because steel prices have decreased by about -6% compared to Q2/2023. Accumulated 9M/2023 revenue reached VND 14,155 billion (-25% YoY), profit after tax reached VND 109 billion (-62% YoY). Sales volume reached 638,277 tons (-7.8% YoY).

Steel prices are expected to recover thanks to China's support package and production restrictions

China has just issued 1,000 billion yuan of government bonds to promote production and infrastructure development. This will positively support steel demand in the Chinese market, which accounts for more than 50% of global demand. Chinese steel manufacturers also cut production output in Q4/2023 in the context of steel prices remaining at a low level in 2023. As a result, HRC steel prices have increased by 4% since the bottom in October 2023 thereby contributing to improving revenue and gross profit margin for Nam Kim.

Strong growth prospects in 2024

With HRC steel prices returning to recovery and steel consumption gradually improving. We expect Nam Kim's revenue in 2024 to reach VND 23,404 billion, and profit after tax to reach VND 945 billion. This is because of the fact that Nam Kim's gross profit margin gradually stabilizing when steel demand recovers and HRC steel prices increase again.

Risks: (1) Risk of fluctuations in steel and coke prices; (2) Risk of unstable domestic real estate market; (3) Risk of the world economic situation downturn.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**23,128**	**19,311**	**23,404**	**28,085**	**33,702**
OP (bn VND)	(46)	205	1,081	1,290	1,541
NP (bn VND)	**(67)**	**182**	**945**	**1,127**	**1,346**
EPS (VND)	-	691	3,588	4,282	5,114
BPS (VND)	20,426	20,273	23,018	26,456	30,726
OPM (%)	0%	1%	5%	5%	5%
NPM (%)	0%	1%	4%	4%	4%
ROE (%)	**0%**	**3%**	**16%**	**16%**	**17%**
PER (x)		31.96	6.16	5.16	4.32
PBR (x)	0.60	1.09	0.96	0.84	0.72
EV/EBITDA (x)	33.89	17.45	9.69	4.85	4.06

Source: Company data, Shinhan Securities Vietnam

Valuation and Recommendation

Recommend with BUY at a target price of VND 26,700

We offer an update valuation of Nam Kim Steel JSC (NKG) with a buy recommendation and a target price of VND 26,700 for an increase of 17%. For long-term investment vision, NKG can be considered with the following advantages:

1) Profit margins improved thanks to the recovery of HRC steel prices and lower transportation costs
2) Healthy financial situation
3) The prospect of Nam Kim Phu My project is ready to expand capacity when the steel industry recovers

Valuation method

We apply a combination of P/E and Discounted Cash Flow (FCFF) valuation methods with the weights of 30% and 70% respectively to value Nam Kim Steel JSC (NKG).

Method	Proportion	Price
FCFF	70%	27,000
P/E	30%	25,900
The target price (VND)		26,700
Current price (VND)		22,800
Upside (%)		17%

The Discounted Cash Flow (DCF) method – FCFF

Unit: billion VND	2024F	2025F	2026F	2027F	2028F
EBIT*(1-tax rate (%))	1,351	1,622	1,946	2,141	2,355
Depreciation	584	691	799	863	886
- Change in working capital	-714	864	1,070	937	1,141
- Investment capital	1,283	1,285	1,288	269	295
Free Cash Flow (FCFF)	**1,366**	**163**	**387**	**1,798**	**1,805**
Long-term growth rate (%)	0%				
Discount rate (%)	12%				
Terminal Value					21,454
Present value of free cash flow	**1,220**	**130**	**276**	**1,145**	**8,891**
Enterprise value	11,661				
- In debt	5,658				
+ Cash and cash equivalents	1,112				
Equity value	7,116				
Target price (VND)	27,000				

Variable	Value
D/E	87%
Beta	1.51
Risk-free rate	3%
Cost of equity	17%
Cost of debt	7%
WACC	12%

For the Weight average cost of capital (WACC), we use the 10-year Vietnamese government bond yield at 3% as the risk-free rate. Beta is calculated based on historical data of the last 5 years of NKG and VNINDEX. Based on those assumptions, NKG's FCFF target price is valued at VND 27,000.

P/E method

Based on the P/E method, we collect an average P/E of the industry at 7.21, we estimate NKG's target P/E will be the same as the industry. Combined with a forward EPS of 2024 at VND 3,588, NKG's target price is valued at VND 25,900.

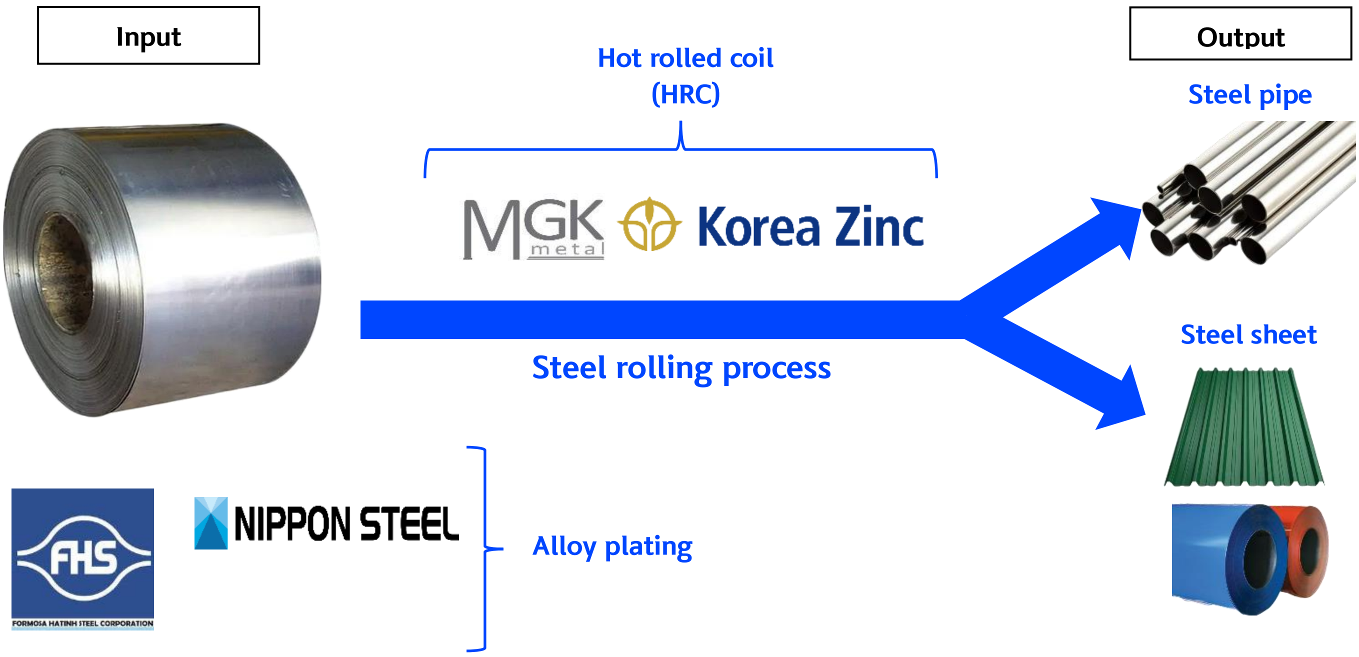
Company background

Company history

Nam Kim Steel Joint Stock Company (NKG) was established on December 23, 2002, until 2011, the company was listed on HOSE with the stock code NKG. Nam Kim Steel Joint Stock Company is a leading enterprise specializing in manufacturing galvanized steel sheets in Vietnam. The company is always a pioneer in providing products with quality standards to domestic and international customers. Currently, Nam Kim's products are trusted nationwide and exported to more than 50 countries around the globe.

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

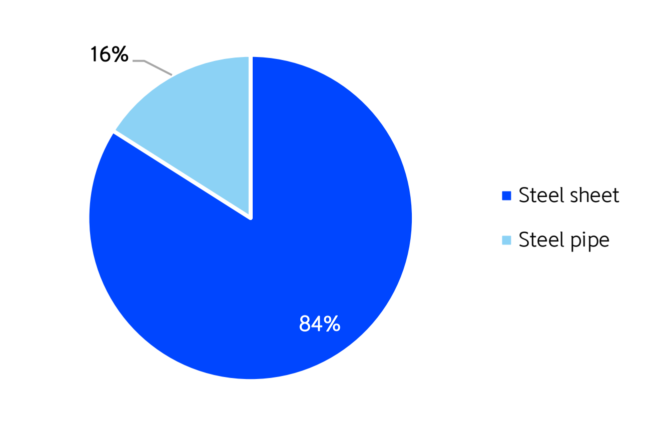
Value chain of NKG



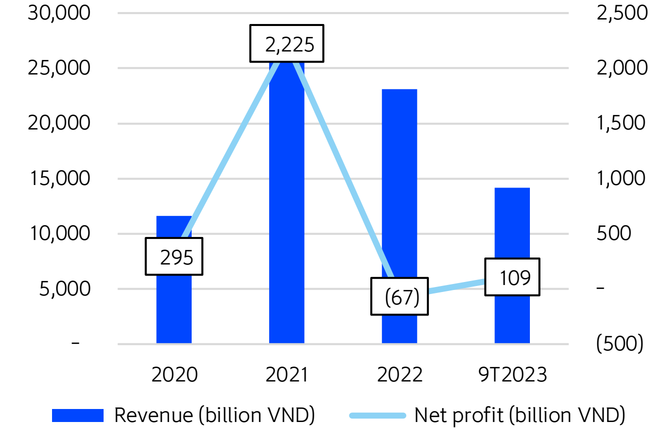
Nam Kim's input is mainly hot rolled coil (HRC), after undergoing the process of steel rolling and alloy plating, the hot rolled coil will be produced into galvanized sheets and steel pipes. The hot rolled steel coil of Nam Kim is mainly produced domestically, sourced from Formosa Ha Tinh company. Besides, other materials of Nam Kim are also imported from abroad through companies from Japan and Korea.

Update business results in Q3/2023

Nam Kim output breakdown in 9M2023



Nam Kim revenue and profit 2020 – 9M2023



Source: Company report, Shinhan Vietnam Securities

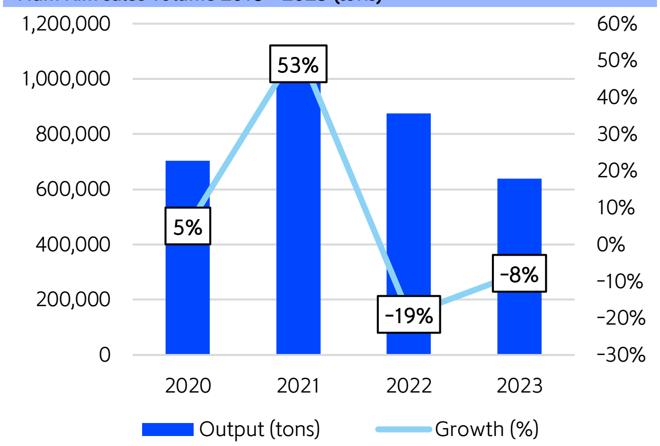
At the end of the third quarter of 2023, Nam Kim Steel Joint Stock Company recorded net revenue of VND 4,268 billion (-4% YoY). Profit after tax reached VND 24 billion in Q3/2023, while the same Q3/2022 recorded a loss of VND -419 billion.

Accumulated for the first 9 months of 2023, Nam Kim Steel Joint Stock Company recorded revenue of VND 14,155 billion (-25% YoY), profit after tax reached VND 109 billion (-62% YoY). Sales output reached 638,277 tons (-7.8% YoY) in the context of the domestic and world steel industry facing many difficulties due to reduced demand.

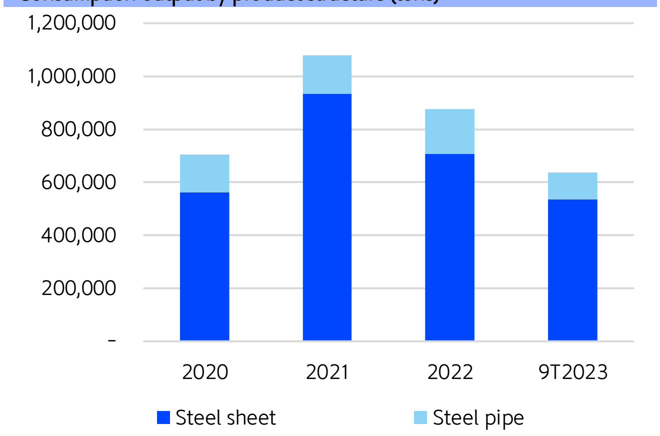
Compared to Q3/2022, Nam Kim Steel Joint Stock Company has returned to profit after liquidating all old inventory at high prices. Gross profit margin in Q3/2023 reached 4.81%, improved compared to 3.15% in Q1/2023, but lower than 9.02% in Q2/2023 because steel prices have decreased by about -6% compared to Q2. /2023.

Nam Kim Steel Joint Stock Company also recorded sales and administrative expenses in Q3/2023 reaching VND 170 billion, down -37% YoY and down -33% QoQ. This comes from: (1) Transportation costs decreased sharply due to reduced ocean freight rates, reducing sales costs, (2) The company also made efforts to cut business management costs. .

Nam Kim sales volume 2018 - 2023 (tons)



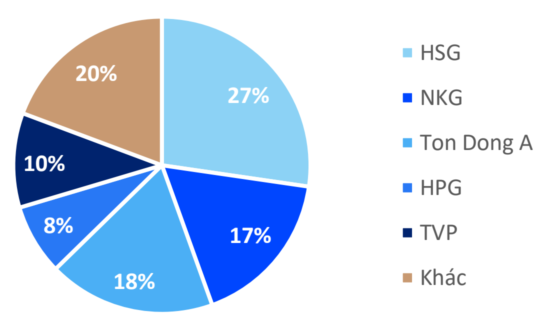
Consumption output by product structure (tons)



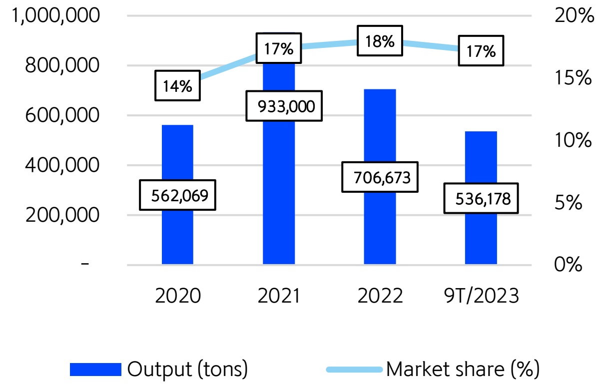
Source: Company report, Shinhan Vietnam Securities

Accumulated in the first 9 months of 2023, Nam Kim's galvanized steel consumption output reached 638,277 tons of steel, of which galvanized steel products reached 536,178 tons, steel pipe products reached 102,099 tons. Nam Kim's market share of galvanized steel sheet segment decreased from 18% in 2022 to 17% in 9M/2023.

Galvanized steel sheet market share in 9M/2023 (%)

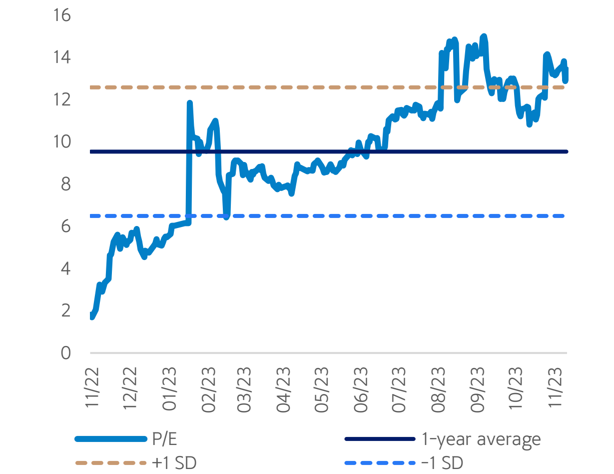


Galvanized steel output and market share 2020 – 9M/2023



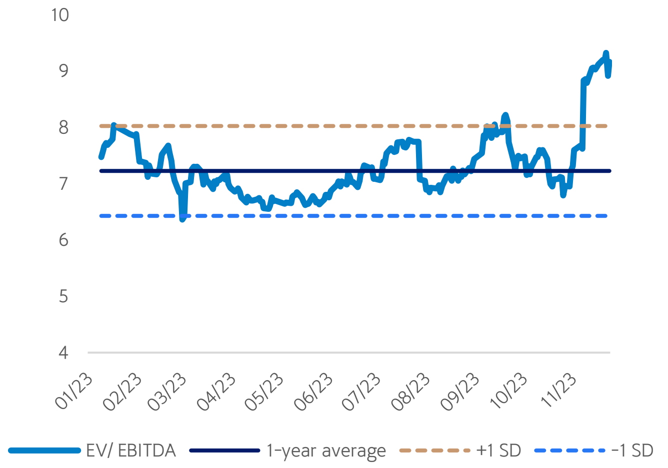
Source: Company report, Shinhan Vietnam Securities

P/E 1 year

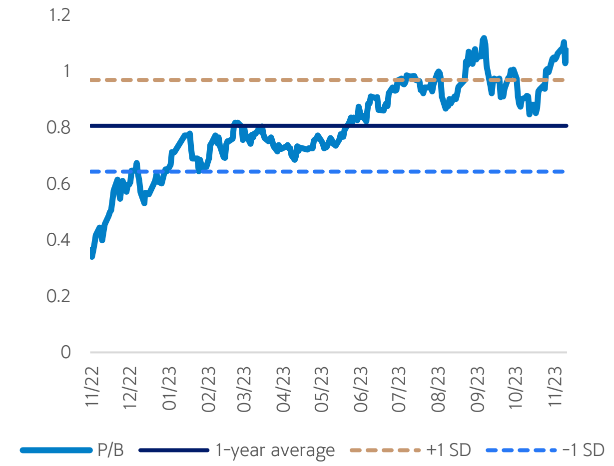


Source: Bloomberg data, Shinhan Securities Vietnam

EV/EBITDA 1 year

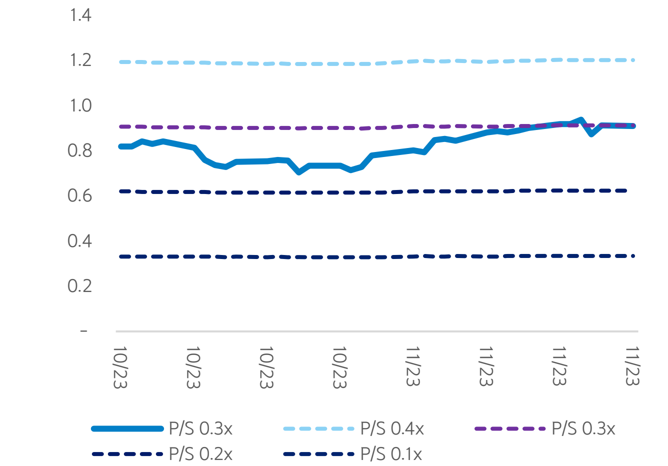


P/B 1 year

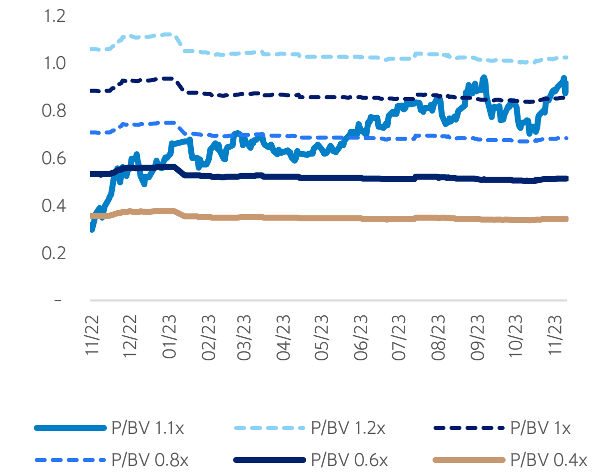


Source: Bloomberg data, Shinhan Securities Vietnam

P/S band

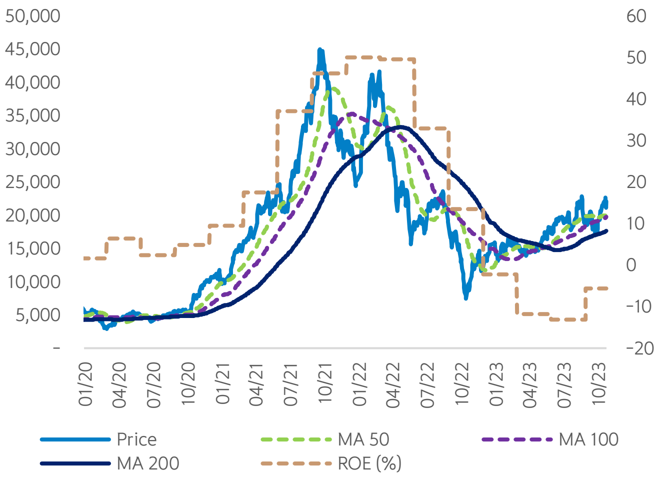


P/B band



Source: Bloomberg data, Shinhan Securities Vietnam

ROE and MA 1 year



Key event chart of NKG

Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Total assets	**13,522**	**15,176**	**17,844**	**21,117**	**25,083**
Current assets	10,476	11,325	13,293	15,972	19,449
Cash & equivalents	1,005	3,453	5,544	6,615	8,130
Short-term financial asset	252	252	252	252	252
Accounts receivable	2,158	2,102	2,621	3,254	4,046
Inventories	7,061	5,517	4,876	5,851	7,021
Non-current assets	3,046	3,851	4,551	5,145	5,634
Net fixed assets	2,588	3,393	4,093	4,687	5,175
Investment assets	-	-	-	-	-
Other long-term assets	458	458	458	458	459
Total liabilities	**8,144**	**9,838**	**11,784**	**14,152**	**16,994**
Current liabilities	8,109	9,806	11,751	14,120	16,962
Accounts payable	2,544	3,124	3,715	4,458	5,350
Short-term borrowings	5,111	6,229	7,583	9,208	11,158
Others	453	453	454	454	454
Non-current liabilities	35	32	32	32	32
Long-term borrowings	3	-	-	-	-
Other financial liabilities	32	32	32	32	32
Total shareholders' equity	**5,378**	**5,338**	**6,060**	**6,965**	**8,090**
Capital stock	2,633	2,633	2,633	2,633	2,633
Capital surplus	786	786	786	786	786
Other capital	1,686	1,646	2,369	3,274	4,398
Retained earnings	273	273	273	273	273
Non-controlling interest equity	-	-	-	-	-
*Total debt	5,114	6,229	7,583	9,208	11,158
*Net debt (cash)	4,109	2,775	2,039	2,592	3,027

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Revenue	**23,128**	**19,311**	**23,404**	**28,085**	**33,702**
Growth (%)	-18%	-17%	21%	20%	20%
COGS	**(21,529)**	**(18,120)**	**(21,548)**	**(25,858)**	**(31,029)**
Gross profit	**1,542**	**1,191**	**1,856**	**2,228**	**2,673**
GPM (%)	7%	6%	8%	8%	8%
SG&A	**(1,388)**	**(854)**	**(614)**	**(737)**	**(884)**
Operating profit	**154**	**336**	**1,242**	**1,491**	**1,789**
Growth (%)	-94%	118%	269%	20%	20%
OPM (%)	1%	2%	5%	5%	5%
Non-operating profit	**(200)**	**(127)**	**(156)**	**(195)**	**(241)**
Financial income	303	253	306	368	441
Financial expense	(503)	(384)	(468)	(568)	(689)
In which: interest expenses	(262)	(384)	(468)	(568)	(689)
Net other non-operating profit	(0)	4	5	6	7
Pre-tax profit	**(46)**	**209**	**1,086**	**1,296**	**1,547**
Income tax	(21)	(27)	(141)	(168)	(201)
Net profit	**(67)**	**182**	**945**	**1,127**	**1,346**
Growth (%)	-103%	-373%	419%	19%	19%
NPM (%)	0%	1%	4%	4%	4%
Controlling interest	(67)	182	945	1,127	1,346
Non-controlling interest	-	-	-	-	-
EBIT	**216**	**593**	**1,553**	**1,864**	**2,237**
Growth (%)	-92%	174%	162%	20%	20%
EBIT Margin (%)	1%	3%	7%	7%	7%
EBITDA	**594**	**1,070**	**2,137**	**2,555**	**3,036**
Growth (%)	-81%	80%	100%	20%	19%
EBITDA margin (%)	3%	6%	9%	9%	9%

Statement of cash flow

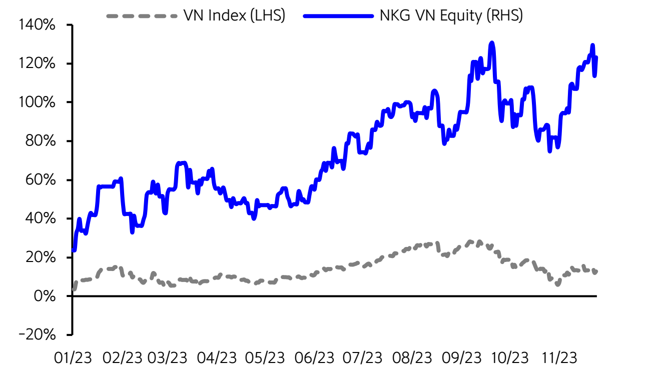
Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Cash flow from operations	**(827)**	**2,837**	**2,242**	**954**	**1,075**
Net profit	(67)	182	945	1,127	1,346
Depreciation expense	377	476	584	691	799
(Gain) from investing activities	(28)	-	-	-	-
Interest expense/ income	(13)	-	-	-	-
Change in working capital	(868)	2,371	963	(540)	(648)
Others	(229)	(192)	(250)	(325)	(422)
Cash flow from investments	**33**	**(1,281)**	**(1,283)**	**(1,285)**	**(1,288)**
Change in fixed assets	(210)	(1,281)	(1,283)	(1,285)	(1,288)
Change in investment assets	13	-	-	-	-
Others	231	-	-	-	-
Cash flow from financing	**1,048**	**892**	**1,132**	**1,403**	**1,728**
Change in equity	10	-	-	-	-
Net borrowing	1,260	1,114	1,354	1,625	1,950
Dividends	(222)	(222)	(222)	(222)	(222)
Change in total cash	**254**	**2,448**	**2,091**	**1,071**	**1,515**
Beginning cash	751	1,005	3,453	5,544	6,615
Change in FX rates	(0)	-	-	-	-
Ending cash	1,005	3,453	5,544	6,615	8,130

Key ratios

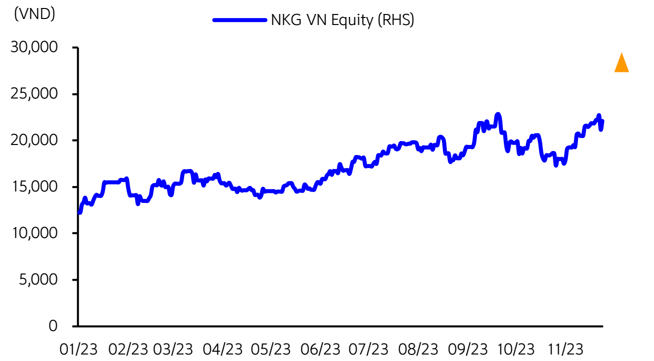
Year to Dec.	2022	2023F	2024F	2025F	2026F
EPS (VND)	-	691	3,588	4,282	5,114
BPS (VND)	20,426	20,273	23,018	26,456	30,726
DPS (VND)	844	844	844	844	844
PER (x)	-	31.96	6.16	5.16	4.32
PBR (x)	0.60	1.09	0.96	0.84	0.72
EV/EBITDA (x)	33.89	17.45	9.69	4.85	4.06
Dividend payout ratio (%)	4%	4%	4%	3%	3%
Dividend yield (%)	0%	4%	4%	4%	4%
Profitability					
EBITDA margin (%)	3%	6%	9%	9%	9%
OPM (%)	1%	2%	5%	5%	5%
NPM (%)	0%	1%	4%	4%	4%
ROA (%)	0%	1%	6%	6%	6%
ROE (%)	-1%	3%	17%	17%	18%
Stability					
Debt to equity ratio (%)	95%	117%	125%	132%	138%
Net debt ratio (%)	692%	259%	95%	101%	100%
Cash ratio (%)	12%	35%	47%	47%	48%
Interest coverage ratio (x)	0.82	1.54	3.32	3.28	3.24
Activity (%)					
Inventory turnover (days)	121.06	118.88	81.04	69.70	69.70
Accounts receivable turnover (days)	26.97	26.33	21.89	21.99	21.99
Accounts payable turnover (days)	62.93	57.09	57.92	57.68	57.68

Nam Kim Steel JSC (NKG)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) Max/Min
17/03/2023 (Initiate)	BUY	19,100	-24	-56/177
28/11/2023 (Update)	BUY	26,700	66	13/217

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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