NAM KIM STEEL JSC (NKG – HSX)

Seize the opportunity

Particulars (VND bn)	Q3-FY16	Q2-FY16	+/- qoq	Q3-FY15	+/- yoy
Net revenue	2,504.9	2,174.7	15%	1,426.0	76%
PAT	147.2	236.7	-38%	37.3	294%
EBIT	200.8	310.4	-35%	62.8	220%
EBIT margin	8.0%	14.3%	-626bps	4.4%	361bps

Sources: NKG, RongViet Research

Q3/2016 performance: remarkable growth

- 3Q2016 sales volume exceeded 350,000 tons, +47% yoy
- The first line at the new plant started operation
- VND 370bn worth of 5-year bonds and VND 130bn private placements were successfully issued.

Q4/2016 and 2017 potential: Various opportunities

Anti-dumping duties on imported coated steel products, along with growing demand are expected to maintain NKG's ASP and to stabilise its market share of around 14%, the second highest in the domestic industry.

NKG is now capable of boosting the progress at its new plant after reforming its financial structure. In particular, two new cold-rolling lines operating in late-2016 and early-2017 respectively, followed by the second GI/GL line have shown that NKG is focusing on developing its production process instead of sole mass capacity expansion. Therefore, NKG can minimise its dependence on CRC purchase and keep its gross margin at a two-digit percentage until the new plant is completely set up.

International market conditions are in favour of NKG's exports, especially countries that put AD duties on Chinese products. Recently, the US has become NKG's second largest export market, continuously brings about large orders of high quality products with attractive prices. Being one of the few Vietnamese steel makers equipped with the required machinery, NKG is able to take advantage of the current market circumstance.

Valuation and Recommendation: *NKG has been delivering radical changes in its internal business performance, regarding production, sales and financial strength, as well as taking advantage of the industry conditions such as domestic demand growth, countervailing measures against Chinese steel in both Vietnam and other export markets. Concentrating in the only core business, NKG is considered as one of the companies with highest potential in term of profitability improvements in Q4/2016 and 2017.*

Using FCFE and P/E, we determine NKG's target price to be around ***VND 45,700*** *per share,* ***26.2%*** *higher than the closing price on October 31st 2016. The new target price is revised from VND 15,300 in our Company report on November 6th 2015 based on the company's performance during the year and its 2017 potential. Thus, we recommend to* ***BUY*** *in* ***INTERMEDIATE TERM***.

** EPS based on 2016's weighted average OS.*

BUY

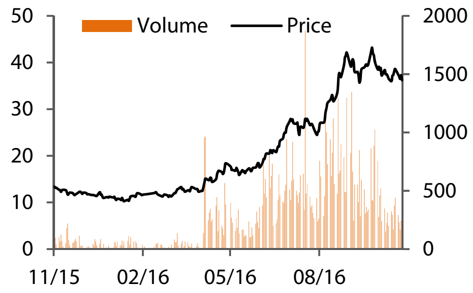
CMP (VND)	36,200
Target Price (VND)	45,700
Investment Period	**Intermediate term**

Stock Info

Sector	Basic materials
Market Cap (VND bn)	1,841.25
Current Shares O/S	50,034,000
Beta	1.15
Free float (%)	33.4
52 weeks High	43,200
52 weeks Low	10,263
Avg. Daily Volume (in 20 sessions)	275,750

	FY15	Current
EPS*	2,661	9,540
EPS Growth	48.49%	287.28%
Diluted EPS	2,318	9,540
P/E	4.15	3.86
P/B	0.86	1.69
EV/EBITDA	5.73	5.99
Cash dividend (on par)	0%	0%
ROE	22%	56%

Price performance



Major Shareholders (%)

P & Q Service & Transport Ltd	24.61
Ho Minh Quang	17.91
Tran Uyen Nhan	15.77
Foreign ownership room (%)	44.94

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Exhibit 1: 3QFY2016

Particulars (VND bn)	Q3-FY16	Q2-FY16	+/- (qoq)	Q3-FY15	+/- (yoy)
Net Revenues	2,504.9	2,174.7	15.2%	1,426.0	75.7%
Gross profits	273.7	356.4	-23.2%	137.3	99.3%
SG&AC	61.4	43.0	42.8%	39.2	56.6%
Operating Income	173.1	281.9	-38.6%	43.5	298.0%
EBITDA	242.1	347.7	-30.4%	148.1	63.4%
EBIT	200.8	310.4	-35.3%	62.8	219.7%
Financial expenses	60.8	59.7	1.9%	64.6	-5.8%
- Interest Expenses	27.2	29.2	-7.1%	18.0	50.8%
Dep. and amortization	-41.3	-37.3	10.6%	-85.3	-51.6%
Non-recurring Items (*)					
Extraordinary Items (*)	0.5	0.8	-32.1%	1.3	-58.9%
PBT	173.6	281.1	-38.2%	44.8	287.6%
PAT	147.2	236.7	-37.8%	37.3	294.4%
(*) Adjusted PAT	146.8	236.1	-37.8%	36.2	305.0%

Sources: NKG, RongViet Research

Exhibit 2: 1QFY2016 performance analysis

Particulars	Q3-FY16	Q2-FY16	+/- (qoq)	Q3-FY15	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	10.9%	16.4%	-546bps	9.6%	130bps
EBITDA Margin	9.7%	16.0%	-632bps	10.4%	-73bps
EBIT Margin	8.0%	14.3%	-626bps	4.4%	361bps
Net Margin	5.9%	10.9%	-501bps	2.6%	326bps
Adjusted Net Margin	5.9%	10.9%	-500bps	2.5%	332bps
Turnover *(x)					
-Inventories	7.6	7.4	0.2	5.2	2.3
-Receivables	16.4	14.8	1.6	11.3	5.1
-Payables	30.8	18.8	12.1	4.8	26.0
Leverage (%)					
Total Debt/ Equity	3.9	3.6	0.3	4.6	-0.7

Sources: NKG, (*) Annualized turnover

Exhibit 3: 4QFY2016 performance forecast

Particulars (VND bn)	Q4-FY16	+/- (qoq)	+/- (yoy)
Revenue	2,238	-11%	22%
Gross profit	250	-9%	122%
EBIT	201	0%	280%
NPAT	122	-17%	424%

Sources: NKG, RongViet Research

Updates:

The new GI/GL line of 300,000 ton-per-year capacity at Nam Kim 3 plant has started operation in September 2016. Thus, NKG is running 8 GI/GL/Prepainting lines of the total capacity of 800,000 tons per year. The company remains its second position in term of capacity, after Hoa Sen (HSG-HSX) whose capacity is going to exceed 2 million tons per year. Considering the current domestic and oversea market, NKG's sales growth is forecasted to match its capacity increase.

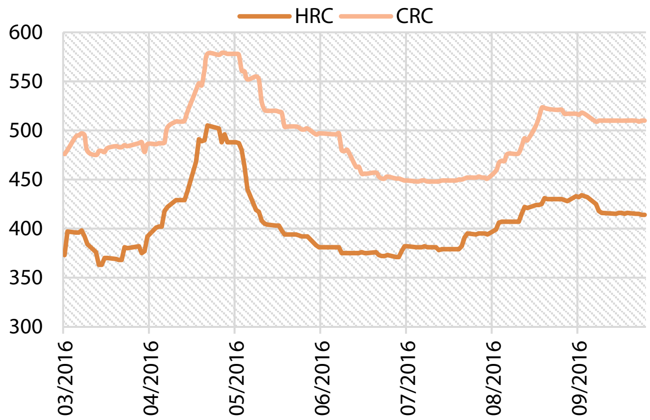
Financial weaknesses are being tackled by debt restructuring and private placements. In the last quarter, NKG has successfully issued VND 370 bn worth of 5-year bonds at the rate of 7% p.a. to BIDV, which is supposed to pay off debts at Dong A bank which offered disadvantageous rates during Nam Kim 2 plant construction. Proceeds from the issuance may help NKG boost the progress of setting up 3 new lines at Nam Kim 3 as well as providing extra working capital to the new plant. During August, the company has also concluded the private placement of 6 million shares to a Korean strategic partner at VND 22,300 per share, around NKG's market price at the time, bringing about over VND 134bn. 20 million of new share issuance has been planned since 2015, a part of which has just been successful implying that NKG has been making an effort to ease its burden of debts, which is normally seen among mass production businesses.

AD measures are supporting the domestic producers. In September, MoET has announced a temporary AD duty against coated steel sheets originated from China, Hong Kong and Korea in order to restore balance in the domestic competition. The highest duty is 38.34% (see Appendix) is expected to stabilise the domestic prices of coated steel as well as to minimise the price fluctuation in case the Chinese' further dumping. Therefore, NKG may benefit from a higher ASP and a larger demand caused by a shortage in the domestic market. The policy is likely to put advantageous influence on both of NKG's revenue and NPAT.

Risks when buying NKG shares include dilution due to its aggressive capital raising plan. As mentioned, NKG has just issued 6 million shares out of 20 million shares in the plan. Should the company complete its target, EPS is going to be diluted by 25%. The proceeds are essential for the new plant, thus investors are strongly recommended to prudently consider the dilution risk while the current market price is still in favour of more private placements.

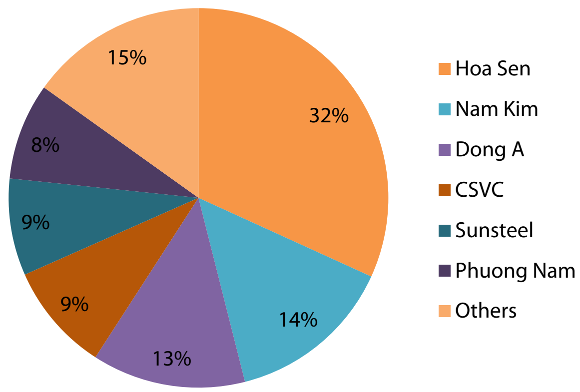
Global material price is also a matter of importance to NKG's gross margin. RongViet Research forecasts that in a pessimistic case scenario that HRC rises 10% while ASP remains, NKG's gross margin might slide to under 9%. However, as current HRC price has gone up by 25% since October 2015 and is hovering around USD 400 per ton, which implies an unlikely chance of another sharp increase. Furthermore, input price surge is likely passed through to its buyers, which has been common in the domestic industry. Therefore, it is predicted that a material price hike may not negatively affect NKG's NPAT growth.

HRC and CRC price (USD per ton)



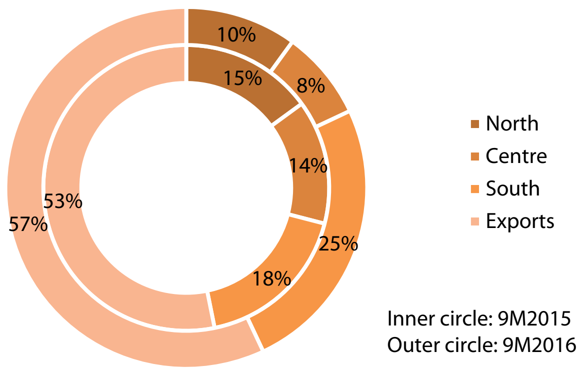
Sources: Bloomberg, RongViet Research

9M2016 domestic coated steel market share



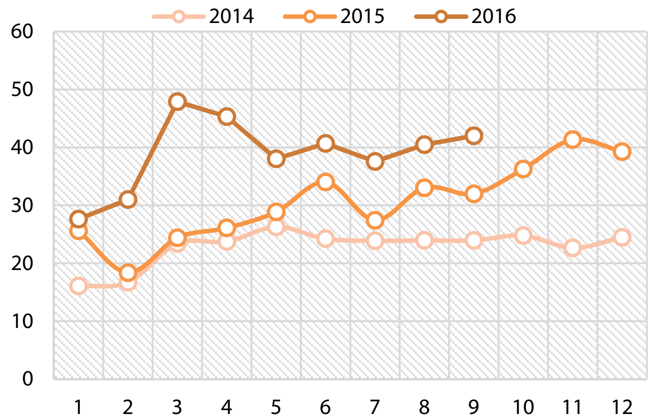
Sources: NKG, VSA, RongViet Research

NKG's sales volume breakdown



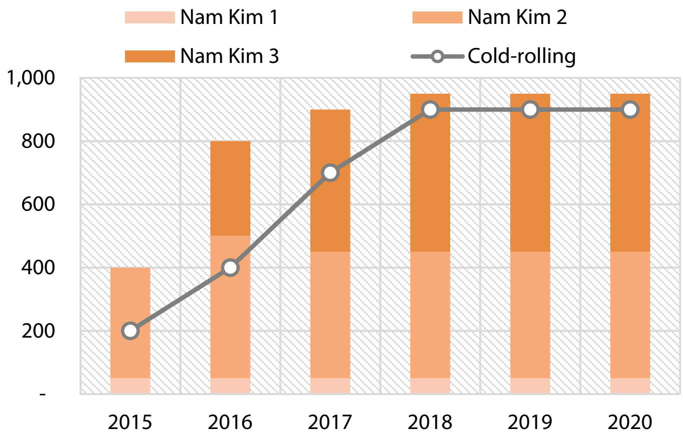
Sources: NKG, RongViet Research

NKG's monthly sales volume (thousand tons)



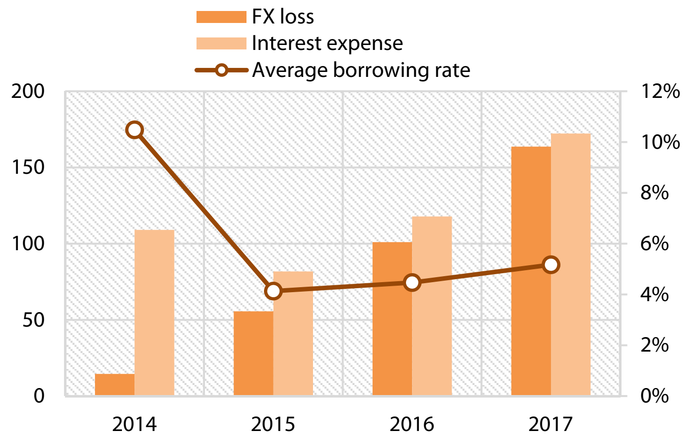
Sources: NKG, VSA, RongViet Research

NKG's capacity forecast (thousand tons per year)



Sources: NKG, VSA, RongViet Research

Financial expense forecast (VND bn)



Sources: NKG, RongViet Research

Appendix: Preliminary Anti-dumping duties on coated steel imports (from 16/09/2016 to 13/01/2017)

Country/ Region	No	Company name	Trading companies	Preliminary AD duty
China (including Hong Kong)	1	Yieh Phui (China) Technomaterial Co., Ltd.	Chin Fong Metal Pte., Ltd.	4.02%
	2	Bazhou Sanquiang Metal Products Co., Ltd.	Sumec International Technology Co., Ltd.	7.20%
	3	BX Steel POSCO Cold Rolled Sheet Co., Ltd.	Benxi Iron and Steel International Economic and Trading Co., Ltd.	38.34%
	4	Bengang Steel Plates Co., Ltd.	Benxi Iron and Steel International Economic and Trading Co., Ltd.	34.77%
	5	Tianjin Haigang Steel Sheet	Tianjin Hajinde Co., Ltd.	11.87%
	6	Hebei Iron & Steel Co., Ltd., Tangshan Branch	Tangshan Iron & Steel Group Co., Ltd.	20.76%
	7	Wuhan Iron and Steel Company Limited	1. International Economic and Trading Corporation WISCO 2. Wugang Trading Company Limited 3. Ye-Steel Trading Co., Limited 4. Steelco Pacific Trading Limited	25.63%
	8	Other Chinese exporters		38.34%
Korea	**1**	POSCO	1. Daewoo International Corporation 2. POSCO Asia 3. POSCO Processing & Service Co., Ltd	12.40%
	2	Other Korean exporters		19.00%

Source: VCA, RongViet Research compiled

VND billion

INCOME STATEMENT	2014A	2015A	2016E	2017F
Revenue	5,835.4	5,750.8	8,715.9	12,555.8
COGS	5,518.0	5,304.2	7,696.2	11,106.7
Gross profit	**317.4**	**446.5**	**1,019.7**	**1,449.1**
Selling Expense	75.6	95.1	144.2	251.1
G&A Expense	53.1	41.7	63.1	90.9
Finance Income	11.0	41.7	104.7	134.1
Finance Expense	138.6	195.4	243.2	373.3
Other profits	22.7	0.4	3.5	1.9
PBT	**83.8**	**156.4**	**677.3**	**869.8**
Prov. of Tax	7.4	30.4	105.6	139.2
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**76.5**	**126.1**	**571.7**	**730.7**
EBIT	**192.9**	**238.2**	**795.2**	**1,042.1**
EBITDA	98.1	143.4	1,226.3	1,607.6

%

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth				
Revenue	25.1	-1.5	51.6	44.1
Operating Income	-1.7	64.1	162.3	36.3
EBITDA	-24.9	46.1	755.1	31.1
PAT	47.5	64.9	353.5	27.8
Total Assets	19.1	29.1	78.2	22.3
Equity	52.2	27.4	163.5	43.3
Internal growth rate	18.4	22.1	49.2	35.6
Profitability				
Gross profit/Revenue	5.4	7.8	11.7	11.5
Operating profit/ Revenue	3.2	5.4	9.3	8.8
EBITDA/ Revenue	1.7	2.5	14.1	12.8
Net margin	1.3	2.2	6.6	5.8
ROAA	3.0	4.0	11.5	10.3
ROAE	18.4	22.1	49.2	35.6
Efficiency				
Receivable Turnover	11.9	10.1	11.7	11.3
Inventory Turnover	6.1	5.1	5.5	5.4
Payable Turnover	5.0	4.5	6.6	6.6
Liquidity				
Current	1.0	0.9	1.0	1.0
Solvency				
Total Debt/Equity	484.2	458.4	277.6	222.3
Current Debt/Equity	86.8	182.3	103.4	79.5
Long-term Debt/ Equity	120.5	126.9	92.0	60.0

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	32	51	174	178
Receivables	604	533	959	1,256
Inventories	972	1,098	1,716	2,388
Other current assets	190	147	147	147
Total Current Asset	**1,799**	**1,830**	**2,996**	**3,969**
Fixed Assets	895	1,414	2,577	2,820
Construction in Progress	0	244	709	917
Long-term Investment	0	0	0	0
Other long-term assets	11	25	25	25
Long-term Asset	**967**	**1,742**	**3,369**	**3,818**
Total Asset	**2,766**	**3,572**	**6,365**	**7,787**
Payables	1,359	942	1,366	1,972
Current Debt	436	1,166	1,743	1,921
Long-term Debt	605	812	1,551	1,451
Other long-term liabilities	0	1	1	1
Total Liability	**2,430**	**2,933**	**4,679**	**5,371**
Owner's Equity	**502**	**640**	**1,686**	**2,416**
Capital	399	439	700	700
Retained Earnings	37	129	700	1,431
Funds & Reverses	3	10	9	9
Others	**0**	**0**	**0**	**0**
Total Equity	**502**	**640**	**1,686**	**2,416**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**2,932**	**3,572**	**6,365**	**7,787**

VALUATION RATIO	2014A	2015A	2016E	2017F
EPS (dong)	732	3,033	10,398	13,289
P/E (x)	3.69	4.09	3.49	3.93
BV (dong)	12,581	14,576	24,068	34,501
P/B (x)	0.65	0.85	1.55	1.08
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	0.00	0.00	0.00	0.00

VALUATION MODEL	Price	Weight	Average
FCFE	39,459	50%	19,730
P/E	51,990	50%	25,995
Target price (dong/share)			45,700

VALUATION HISTORY	Price	Recommendation	Period
06/11/2015	15,300	Neutral	Intermediate

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Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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