NAM KIM STEEL JSC (HSX: NKG)

Lacking drivers for substantial recovery

(VND bn)	Q1-FY23	Q4-FY22	+/- qoq	Q1-FY22	+/- yoy
Net revenue	4,375	4,300	2%	7,151	-39%
NPAT-MI	-49	-356	N/A	507	N/A
EBIT	21	-346	N/A	641	-97%
EBIT margin	0.5%	-8.1%	852bps	9.0%	-849bps

Source: NKG, RongViet Securities

Q1/ 2023 – Demand recovered slowly, business performance improved by little

- Total sales volume in Q1/2023 was below 200,000 tons, down 24% yoy. GI/GL sales decreased more than that of steel pipes (-28% vs -8%), mainly because GI/GL exports decreased by 33% yoy.
- HRC price increase throughout Q1 helped stabilising ASP, which was down by 5% compared to Q4/2022 ASP. In addition, provisions for inventory loss made in Q4 improved gross margin from -2.8% in Q4/2022 to +3.1% in Q1/2023.
- Profit continued to be eroded by financial, admin and selling expenses, causing NKG to have a net loss for the third consecutive quarter, but less severe than the first two.

Q2/2023 and whole year outlook – Pressure prolongs in the intermediate term

- Based on the first four months of 2023, Q2 is predicted to continue the recovery trajectory, but at a slow pace. Q2 sales volume is estimated at 217,000 tons with improvement in both domestic and overseas sales and both GI/GL and steel pipe markets. However, yoy growth will remain negative because of high base.
- HRC price's complicated fluctuations quarter-to-date can cause ASP to continue its downtrend. However, NKG's cost of production can go down more strongly because of low purchase prices and past provisions for inventory loss. In short, NKG's earnings can be positive in Q2/2023.
- For the whole year, revenue is forecasted at VND 18,667 billion, -19% yoy. We expect sales volume to be flat (876,000 tons), less than the company's target approved at its AGM. Assuming HRC price to average 680 USD per ton for the year, NPAT is forecasted at VND 246 billion, equivalent to an EPS of VND 756, considerably below NKG's target, which is approved at its AGM at VND 400 billion profit before tax.

Valuation and recommendation

Sluggish demand in both local and global GI/GL and steel pipe markets is going to continue its pressure on NKG's business performance in the intermediate and long term as HRC price could move unfavourably for the company, even though Q2/2023 earnings could be a relief because of low-cost inventory. Toward the end of the year, NKG is going to face up with slow recovery in steel demand, large inventory holding and HRC's short-term downtrend. As NKG's business performance has become unstable and difficult to estimate, we presume that the fair value of NKG share revolves around its book value, equivalent to ***VND 16,900*** *per share (P/B at 1,0x),* ***+6.6%*** *from its closing price on June 02nd, 2023. The upside represents a temporary turnaround in NKG's earnings in Q2 due to low-cost inventory. NKG is not paying out cash dividends in 2023, so the total return for the stock offers a* ***NEUTRAL*** *recommendation. Regarding any possible buy-and-hold opportunity, we suggest investors monitor GI/GL and steel price sales volume closely, particularly GI/GL export activities to anticipate an investment opportunity, if any, to accumulate NKG and other steel stocks in the medium and long-term.*

NEUTRAL +6.6%

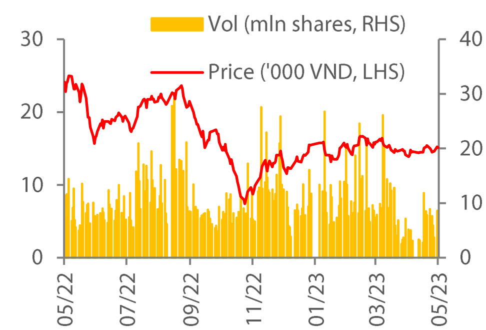
Current market price (VND)	15,850
Target price (VND)	16,900
Cash dividend (VND)	0

Stock Info

Sector	Basic materials
Market Cap (VND billion)	4,054
Current Shares O/S	263,277,806
Avg. Daily Volume (in 20 sessions)	5,295,340
Free float (%)	75
52 weeks High	27,630
52 weeks Low	6,890
Beta	0.3

	2022	TTM
EPS	-181	-2,295
EPS Growth (%)	n/a	n/a
Diluted EPS	-181	-2,295
P/E	n/a	n/a
P/B	0.6	0.8
EV/EBITDA	13.3	n/a
Cash dividend yield (%)	8.2	0.0
ROE (%)	-1.2	-10.8

Price performance



Major Shareholders (%)

Hồ Minh Quang	11.84
Unicoh Specialty Chemicals	5.85
SMC Trading & Inv. JSC (HSX: SMC)	4.98
Foreign ownership room (%)	37.99

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Exhibit 1: Q1/2023 Results

(VND Bn)	Q1-FY23	Q4-FY22	+/- (qoq)	Q1-FY22	+/- (yoy)
Net revenue	4,375	4,300	1,7%	7,151	-38.8%
Gross profit	138	-149	n/a	957	-85.6%
SG&A	117	197	-40,6%	316	-63.0%
Operating income	21	-346	n/a	641	-96.8%
EBITDA	114	-253	n/a	735	-84.4%
EBIT	21	-346	n/a	641	-96.8%
Financial expenses	128	101	26,6%	123	3.6%
- Interest Expenses	93	84	11,5%	74	26.8%
Dep. and amortization	94	93	1,2%	95	-0.7%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	-49	-400	- n/a	591	n/a
NPAT-MI	-49	-356	n/a	507	n/a
Adjusted NPAT-MI for (*)	-49	-356	n/a	507	n/a

Source: NKG, RongViet Securities

Exhibit 2: Q1/2023 Performance Analysis

Particulars	Q1-FY23	Q4-FY22	+/- (qoq)	Q1-FY22	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	3.1%	-3.5%	662bps	13.4%	-1,023bps
EBITDA Margin	2.6%	-5.9%	851bps	10.3%	-766bps
EBIT Margin	0.5%	-8.1%	852bps	9.0%	-849bps
Net Margin	-1.1%	-8.3%	716bps	7.1%	-821bps
Adjusted Net Margin	-1.1%	-8.3%	716bps	7.1%	-821bps
Turnover*(x)					
-Inventories	2.5	2.2	0.3	3.0	-0.4
-Receivables	11.1	10.4	0.7	12.3	-1.2
-Payables	7.3	5.0	2.3	4.7	2.7
Leverage (%)					
Total Liabilities/Equity	141.8%	150.8%	-896bps	162.7%	-2,086bps

*Source: RongViet Securities, * Annualized*

Exhibit 3: Q2/2023 Performance Forecast

Particulars (VND Bn)	Q2/2023	+/- qoq	+/- yoy
Revenue	4,566	4.4%	-36.5%
Gross profit	454	229.3%	-49.2%
EBIT	223	984.1%	-22.6%
NPAT-MI	178	n/a	-11.7%

Source: RongViet Securities

Q2/2023 assumptions:

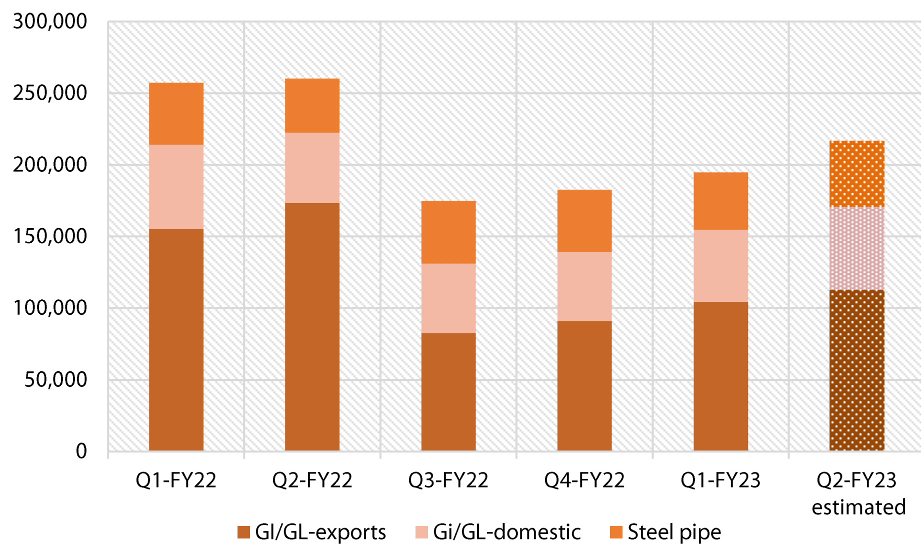
- Estimated sales volumes of 171,000 tons of GI/GL sheets, 46,000 tons of steel pipe. Total sales volume went down by 17% yoy.
- HRC price averages 637 USD per ton in Q2, -4% qoq. Gross margin improves to 9.9% because of low-cost inventory and higher ASP in the domestic market.
- NPAT is revamped to positive level.

Q1/2023: Demand continues to recover but at a slow pace, results have the opportunity to improve compared to previous quarters

Output recovers slowly, especially the GI/GL sheet export market

The demand for coated steel sheet from overseas market went down rapidly since Q3 last year and recovered slowly, which was the main reason for the decrease in NKG's sales volume (Figure 1). Due to the large proportion of exports, NKG's results are highly dependent on the world demand for GI/GL sheets. In contrast, the domestic demand for steel pipes is relatively stable, which can help NKG consume about 40,000-45,000 tons per quarter. However, the growth potential is very low because the demand for construction and industrial production in the country are affected by weak macroeconomic conditions. Similarly, domestic absorption of GI/GL sheets can only bring stable consumption of about 50,000 tons per quarter with limited growth potential in the medium term.

Figure 1: NKG sales volume (tons)

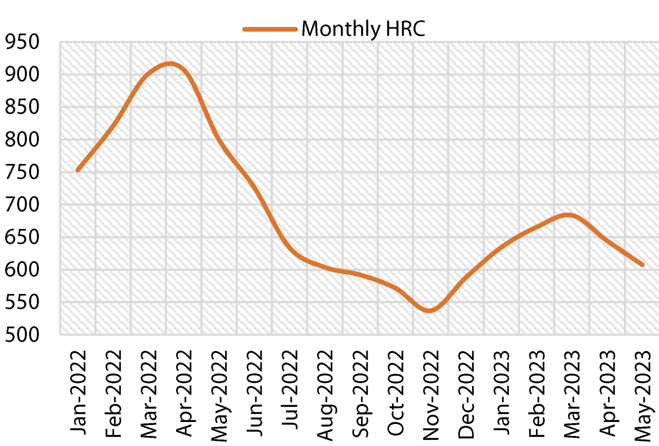


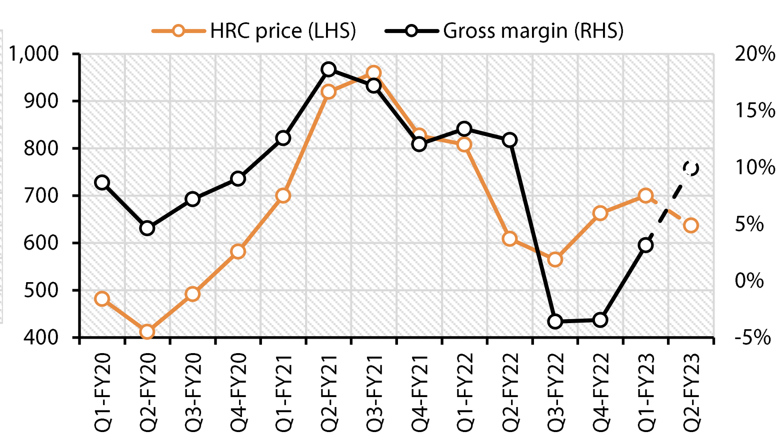
Source: VSA, NKG, RongViet Securities

HRC price continued to dip in the last months of 2022, savaging Q1/2023 results

The increase in the world HRC price in the first quarter of the year is the basis for NKG to recover its gross profit margin from negative to positive, and to stock up a large hoard at low prices, nearly VND 6,500 billion, equivalent to 5 months of production. We believe that the advantage of low-priced inventory and the provision for inventory loss made in the previous quarters will support profit margin in Q2/2023.

Figure 2: Average HRC price (USD per ton) and NKG's gross margin

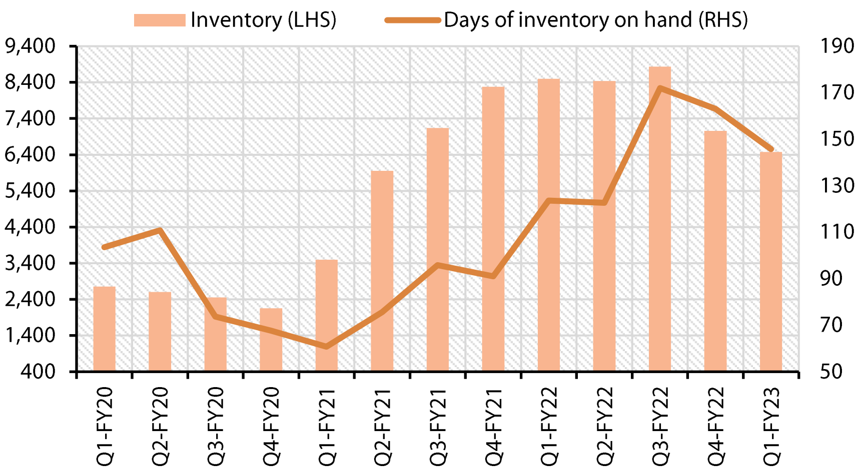




Source: Bloomberg, RongViet Securities

However, the fact that HRC price peaked in March 2023 and cooled down since the beginning of Q2 could be a worrying sign for results in the coming quarters, especially when the rainy season begins in the South, weak demand in the Ghost month (Aug & Sep 2023). Moreover, demand for construction and industrial production has not shown clear turnaround signals. According to our observations, NKG is holding a large amount of inventory compared to the size of the business and compared to other companies in the same industry. In the complicated HRC price conditions, NKG's results in the following quarters may be affected by a loss in inventory price, if the company does not actively reduce its hoarding of raw materials.

Figure 3: NKG's inventory (VND billion) and days of inventory on hand



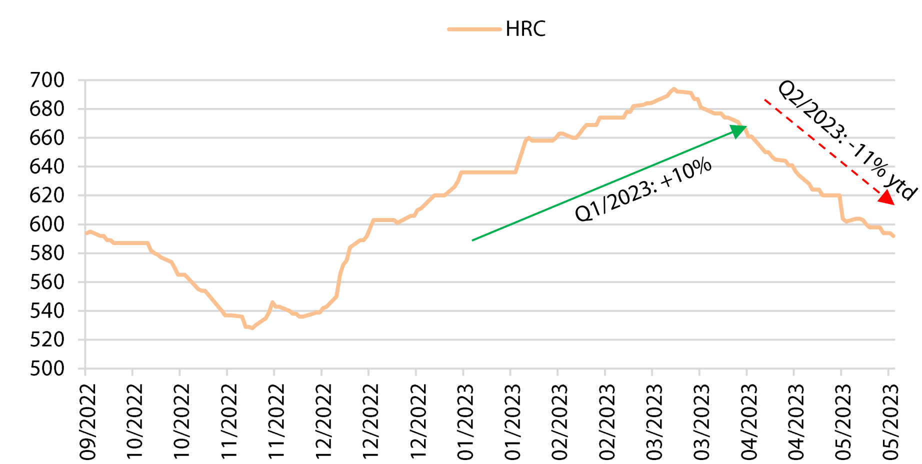
Source: NKG, RongViet Securities

Q2/2023 and whole year outlook: Flat steel market remains blurry, unfavourable for business performance to improve in the medium term

Quarterly earnings are full of risks and uncertainties, especially when sales are heavily dependent on exports.

As mentioned above, NKG's sales volume in the remaining quarters of the year has not yet found a solid driver because the demand for GI/GL sheet for export is still weak, while the domestic absorption is limited. Alongside with a large inventory and unpredictable changes in HRC prices, NKG's short and medium-term results are subjected to many uncertainties. In addition, financial expenses and SG&A expenses, despite being actively cut by NKG, are still at over VND200 billion per quarter. These are burden on the bottom line, so NKG could make gross profit but net loss.

Figure 4: ASEAN HRC price CFR Vietnam (USD per ton)



Source: Bloomberg, RongViet Securities.

Our Q2/2023 earnings estimate for NKG is based on the assumption that the quarterly average HRC price is $637/ton, 4% lower than the previous quarter. The price of raw materials used by NKG may be 15% lower than the previous quarter due to the accumulation in the low price range and the provision for inventory loss from previous quarters around VND 145 billion. Sales volume can recover evenly across product groups and markets compared to Q1, so gross margin can be improved to nearly 10%. Gross profit, EBIT and EAT are estimated at VND 454 billion, VND 223 billion and VND 178 billion, respectively. At the same time, we think it will also be the quarter with the best results in 2023 due to both favorable output and price factors. Q3 and Q4/2023 are likely to bring obstacles, as mentioned, such as HRC prices on the decline, weak steel demand in Q3 and lack of motivation to increase consumption in the medium and long term.

Steel market does not provide favorable conditions for results to improve in the medium term

We think that NKG's full-year results will be lower than the plan announced by the company at the AGM in 2023, including sales volume of 940,000 tons (+7.5% yoy), revenue of VND 20,000 billion (-13% yoy) and pre-tax profit of VND 400 billion (in 2022, PBT is negative VND 46 billion). Building material companies in general and GI/GL sheet manufacturers in particular see sales volume as the decisive factor in results, and currently the steel market is providing very little support. Consumption volume, in addition to having a direct impact on revenue, is also a balancing factor between output and input prices, contributing to stabilizing the gross profit margin by boosting the conversion cycle. The current weak absorption in the market is the main reason why gross margin is under pressure from both input and output. The steel market experienced this difficulty in the second half of 2022, which may repeat until the Real Estate – Construction market identifies a clear growth driver in the long term.

NKG's results for the whole year of 2023 are forecasted based on the assumption that HRC prices will average $680/ton throughout the year. If HRC price is stable, NKG's full-year gross profit margin could reach 6.4%, similar to last year's. Sales volume for the whole year is forecasted to be equal to that of the previous year, revenue is predicted to go down by 19% mainly due to the considerably lower HRC price (USD 680 vs. USD 876). NKG can cut SG&A expenses, mainly due to a decrease in exports. Financial expenses may reduce compared to last year because of stable exchange rate. NKG's interest expense on the one hand continues to be favorable due to almost zero long-term debt, but short-term debt remains at around VND 5,000 billion to finance working capital and high interest rates will continued to put pressure on earnings. Lastly, NKG's NPAT in 2023 is forecasted at VND 246 billion (negative VND 67 billion in 2022), equivalent to an EPS of VND 756. This forecasted profit represents our expectation that the business performance will recover after a very difficult period, but also shows our cautious rationale on NKG shares in the medium term.

VND Billion

INCOME STATEMENT	FY2021	FY2022	FY2023E	FY2024F
Revenue	28,173	23,071	18,667	20,597
COGS	23,904	21,529	17,465	19,246
Gross profit	**4,270**	**1,542**	**1,202**	**1,351**
Selling Expense	1,398	1,202	720	842
G&A Expense	123	186	121	138
Finance Income	199	303	258	292
Finance Expense	397	503	321	236
Other profits	11	0	0	0
PBT	**2,562**	**-46**	**299**	**427**
Prov. of Tax	337	21	53	63
Minority's Interest	0	0	0	0
PAT to Equity S/H	**2,225**	**-67**	**246**	**363**
EBIT	2,749	154	361	371
EBITDA	3,128	532	733	749

%

FINANCIAL RATIO	FY2021	FY2022	FY2023E	FY2024F
Growth (%)				
Revenue	143.7	-18.1	-19.1	10.3
Operating Income	253.2	-83.0	37.9	2.2
EBITDA	439.7	-94.4	134.3	2.8
PAT	653.3	-103.0	-469.1	47.6
Total Assets	103.9	-12.1	-8.4	-0.9
Equity	79.9	-6.0	-5.4	6.9
Profitability (%)				
Gross margin	15.2	6.7	6.4	6.6
EBITDA margin	11.1	2.3	3.9	3.6
EBIT margin	9.8	0.7	1.9	1.8
Net margin	7.9	-0.3	1.3	1.8
ROA	14.5	-0.5	2.0	3.0
ROE	38.9	-1.2	4.8	6.7
Efficiency				
Receivable Turnover	14.8	15.2	9.6	13.7
Inventory Turnover	2.9	3.0	2.7	2.8
Payable Turnover	4.1	7.5	5.2	5.5
Liquidity				
Current	1.3	1.3	1.2	1.1
Quick	0.4	0.4	0.4	0.3
Finance Structure (%)				
Total Debt/Equity	66.7	95.1	96.4	104.8
Current Debt/Equity	65.9	95.0	96.3	104.7
Long-term Debt/Equity	0.8	0.1	0.1	0.1

VND Billion

BALANCE SHEET	FY2021	FY2022	FY2023E	FY2024F
Cash and cash equivalents	751	1.005	445	470
Short-term investments	448	252	176	194
Accounts receivable	1.905	1.517	1.944	1.508
Inventories	8.281	7.061	6.355	6.858
Other current assets	833	641	705	775
Property, plant & equipment	2.706	2.525	2.235	1.939
Acquired intangible assets	241	283	276	270
Long-term investments	8	8	8	8
Other non-current assets	209	230	241	253
Total assets	**15.383**	**13.522**	**12.386**	**12.274**
Accounts payable	5.780	2.883	3.339	3.470
Short-term borrowings	3.773	5.111	4.901	5.699
Long-term borrowings	46	3	3	3
Other non-current liabilities	11	32	34	35
Bonus and Welfare fund	49	114	122	132
Technology-science, dev. fund	0	0	0	0
Total liabilities	**9.659**	**8.144**	**8.399**	**9.339**
Common stock and APIC	2.970	3.419	3.419	3.419
Treasury stock (enter as -)	0	0	0	0
Retained earnings	2.636	1.686	1.386	1.720
Other comprehensive income	43	87	87	87
Inv. and Dev. Fund	75	186	198	216
Total equity	**5.723**	**5.378**	**5.090**	**5.442**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2021	FY2022	FY2023E	FY2024F
EPS (VND)	4,025	-181	756	1,116
P/E (x)	3.8	n/a	20.0	14.6
BV (dong)	19,467	18,292	16,111	17,227
P/B (x)	1.5	0.6	1.0	0.9
DPS (dong/cp)	500	1.000	0	0
Dividend yield (%)	2.0	1.3	0.0	0.0

VALUATION MODEL	Price	Weight	Average
P/B	16,900	100%	16,900
Target price (VND per share)			**16,900**

VALUATION HISTORY	Price	Recommendation	Period
09/2022	25,200	BUY	Intermediate

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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