April 2023

HOA PHAT GROUP JSC (HSX: HPG)

Domestic steel demand dictates profit recovery progress

(VND bn)	Q4-FY22	Q3-FY22	+/- (qoq)	Q4-FY21	+/- (yoy)
Net revenue	25,826	34,103	-24%	44,711	-42%
NPAT-MI	-1,992	-1,774	n/a	7,427	n/a
EBIT	-1,944	71	n/a	8,367	n/a
EBIT margin	-7.5%	0.2%	n/a	18.7%	n/a

Source: HPG, RongViet Securities

Q4/2022 – Unable to avoid loss as market worsened suddenly

- Although company directors had predicted correctly that the market would be negative at the end of the year, HPG still had a record loss due to macro policies that caused sudden stagnation in the real estate-construction sector, making steel prices and output drop rapidly.
- The rather rigid inventory policy resulted in high inventory of raw materials in 2Q and 3Q causing a gross loss in 4Q.
- Having economies of scale as the best advantage, HPG now has to suspend some of their blast furnaces due to sluggish demand. The burden of fixed costs per ton of product continues to hinder the pace of profit recovery.

1Q2023 and whole year outlook – Rely on domestic construction demand recovery

- Revenue and NPAT in 1Q2023 are estimated at VND 23,922 billion and VND 27 billion respectively. Profit in Q1 will still be under great pressure due to depreciation expense, although financial expenses are on a downward trend.
- Raw material prices increasing more strongly than finished steel prices is a difficulty in the medium term, as the company cannot soon pass through to customers.
- The full recovery of the domestic real estate-construction market is necessary for HPG to increase its capacity utilization and to improve profitability. We acknowledge the company's efforts to offset the drop in domestic demand by exports, but domestic consumption remains the key to improving business results in the medium and long term.
- For the whole year, revenue is forecast at VND 107,734 billion, -24% YoY. We expect HPG to improve its profit after tax from 2Q2023. Financial expenses in 2023 are also forecasted to decrease because the exchange rate is expected to be stable and realized exchange rate loss is lower than last year. NPAT in 2023 is forecasted at VND 8,764 billion, corresponding with an EPS of VND 1,417.

Valuation and recommendation

In spite of its ability as a leading firm to have the most realistic market outlook, HPG did not manage to avoid net losses in the two most negative quarters of the steel industry. We believe that recent business results not only reflect the impact of the world and domestic markets on HPG's production and sales activities, but also show the company's flexibility and adaptability in terms of operating policies, namely purchasing and production. In the coming quarters, HPG will face certain challenges in revamping sales, reducing production costs and speculating/hedging material prices. We maintain that the most difficult period of the steel industry has passed, but the recovery progress of the Real Estate - Construction market might not be substantial to bring comprehensive improvement to the steel sector. FCFF and P/B valuation of the stock is determined at ***VND 20,950/share****, as of the closing price on April 3rd, 2023. With its 2022 results, it is likely that HPG will not pay a cash dividend this year. Therefore, we a* ***NEUTRAL*** *view on the stock, and recommend that investors who prefer HPG and steel stocks in general closely monitor their output and sales volumes to properly assess the recovery prospect and to find a reasonable buying point for the long-term.*

NEUTRAL

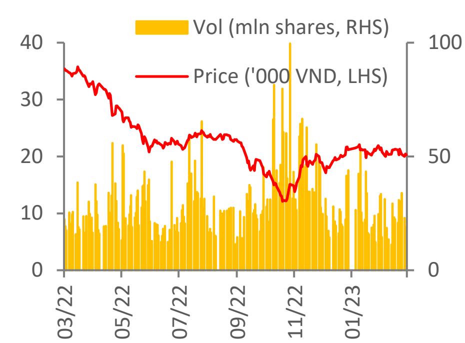
Current market price (VND)	20,950
Target price (VND)	20,950
Cash dividend (VND)	0

Stock Info

Sector	Basic materials
Market Cap (VND billion)	118,040
Current Shares O/S	5,814,785,700
Avg. Daily Volume (in 20 sessions)	22,501,460
Free float (%)	53
52 weeks High	36,480
52 weeks Low	11,800
Beta	1.1

	FY2021	FY2022
EPS	5,842	1,371
EPS Growth (%)	90.0	-81.1
Diluted EPS	5,842	1,371
P/E	6.5	12.3
P/B	2.3	1.1
EV/EBITDA	5.1	6.4
Cash dividend yield (%)	1.1	2.8
ROE (%)	38.0	8.8

Price performance



Major Shareholders (%)	
Trần Đình Long	26.1
Dragon Capital	7.7
Vũ Thị Hiền (Trần Đình Long's spouse)	7.3
Foreign ownership room (%)	25.3

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Exhibit 1: Q4-2022 Results

(VND Bn)	Q4/2022	Q3/2022	+/- (qoq)	Q4/2021	+/- (yoy)
Net revenue	25,826	34,103	-24.3%	44,711	-42.2%
Gross profit	-885	1,001	n/a	9,587	n/a
SG&A	1,059	929	13.9%	1,220	-13.2%
Operating income	-1,944	71	n/a	8,367	n/a
EBITDA	-222	1,808	n/a	9,934	n/a
EBIT	-1,944	71	n/a	8,367	n/a
Financial expenses	1,688	2,309	-26.9%	1,184	42.6%
- Interest Expenses	933	837	11.5%	630	48.2%
Dep. and amortization	1,723	1,737	-0.8%	1,567	10.0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	-2,079	-1,300	59.9%	8,038	n/a
NPAT-MI	-1,992	-1,774	12.3%	7,427	n/a
Adjusted NPAT-MI for (*)	-1,992	-1,774	12.3%	7,427	n/a

Source: HPG, RongViet Securities

Exhibit 2: Q4-2022 Performance Analysis

Particulars	Q4/2022	Q3/2022	*+/- (qoq)*	Q4/2021	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	-3.4%	2.9%	-636bps	21.4%	-2,487bps
EBITDA Margin	-0.9%	5.3%	-616bps	22.2%	-2,308bps
EBIT Margin	-7.5%	0.2%	-774bps	18.7%	-2,624bps
Net Margin	-7.7%	-5.2%	-251bps	16.6%	-2,432bps
Adjusted Net Margin	-7.7%	-5.2%	-251bps	16.6%	-2,432bps
Turnover*(x)					
-Inventories	2.7	2.6	0.1	3.2	-0.5
-Receivables	9.4	10.4	-0.9	19.3	-9.9
-Payables	6.8	5.0	1.8	5.1	1.7
Leverage (%)					
Total Liabilities/Equity	77.2%	87.4%	-1,019bps	96.3%	-1,911bps

*Source: RongViet Securities, * Annualized*

Exhibit 3: Q1/2023 Performance Forecast

Particulars (VND Bn)	Q1-FY23	+/- qoq	+/- yoy
Revenue	23,922	-7%	-46%
Gross profit	2,042	n/a	-80%
EBIT	956	n/a	-90%
NPAT-MI	27	n/a	-99%

Source: RongViet Securities

Q1/2023 assumptions:

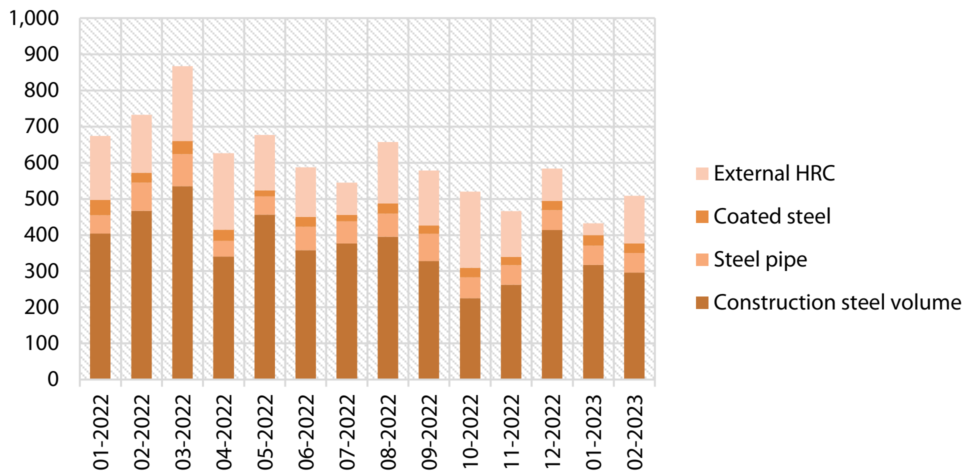
- Low-cost inventory in 4Q2022 cushions 1Q2023 gross margin.
- 1Q2023 volume is lower than the last quarter due to Tet period.
- Suspending blast furnaces, lowering capacity utilization cause depreciation per ton to rise, preventing efficiency to improve.
- Financial expenses are considerably lower compared to the last three quarters because of reduced outstanding debts and stable exchange rates.

4Q 2022: The leading firm in the industry could not avoid losses despite having anticipated worsening market conditions

Both output and prices dropped quickly, causing gross loss

Domestic construction activities stalled in October and November 2022, causing a rapid decrease in consumption. In 4Q2022, consumption volume of construction steel, steel pipe and galvanized sheet decreased by 43%, 7% and 52% respectively over the same period. Disbursements of civil construction projects, especially from large real estate developers, were heavily influenced by macro policies, making construction demand sluggish during the peak construction season at the end of the year, although public project disbursements were rather active.

Figure 1: HPG sales volume (thousand tons)

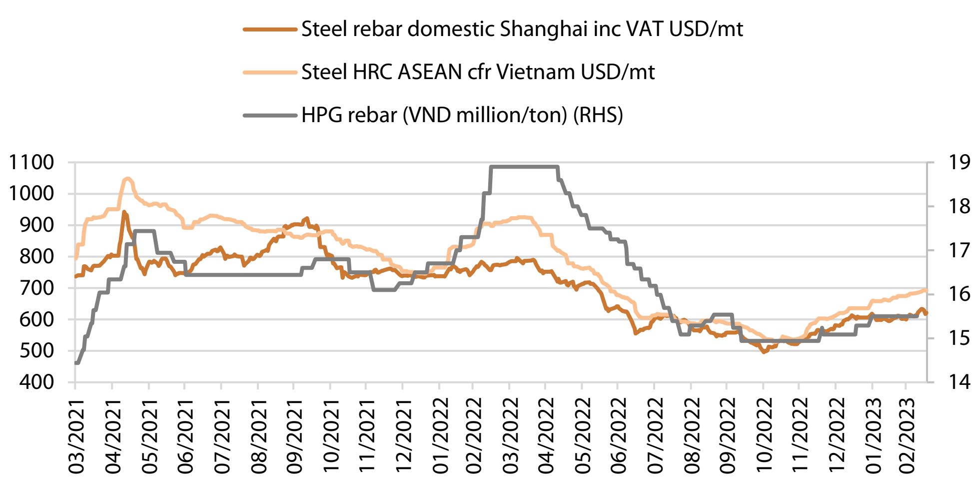


Source: VSA, HPG, RongViet Securities. HRC volume is external sales.

Inventory was cut down, but has yet to reflect truthfully the company's expectations on the business environment

The world and domestic steel prices continued to decline sharply since 3Q, causing the leading company to suffer a gross loss, with a gross margin of -3.4%, the first time since 4Q2008 when the economic crisis hit steel prices and steel industry profits severely. Although the BoD have publicly predicted that the market will be "catastrophic" at the AGM, inventory levels in Q2 and Q3 did not reflect this expectation. At the end of 2Q, HPG's inventory was pushed to nearly VND 58,000 billion, at the end of 3Q was nearly VND 44,000 billion. We think this led to HPG's net loss in 3Q and gross loss in 4Q.

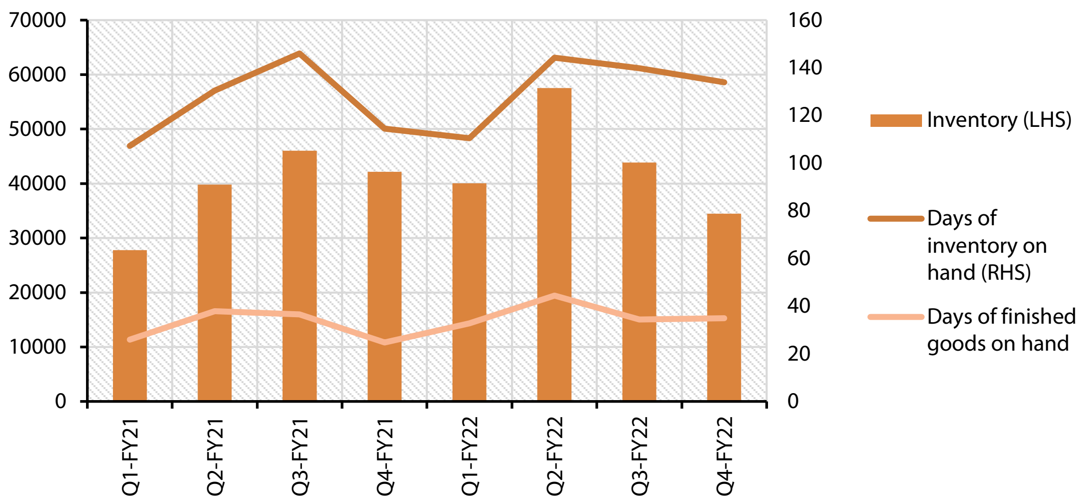
Figure 2: Global rebar and HRC prices, domestic rebar price



Source: Bloomberg, RongViet Securities

At the end of 4Q, HPG's inventory was about VND 34,000 billion, including VND 1,200 billion provision for inventory loss, down nearly VND 23,000 billion compared to the end of 2Q. We believe that although the absolute reduction is considerable, the purchasing and inventory policies were still not flexible enough. HPG's 4Q days of inventory on hand was 134 days, not much less than 144 days in Q2, and still higher than the strong period of 4Q2021-1Q2022 (115 and 110 days respectively). In which, days of finished goods on hand remained steadily at 25-44 days in the whole year of 2022. So we conclude that HPG's material purchasing policy was somewhat rigid and overly aggressive in the first half of the year, resulting in profits being eroded by both output and falling prices afterwards.

Figure 3: HPG's inventory (VND billion), days of inventory on hand and days of finished goods on hand



Source: HPG, RongViet Securities

1Q 2023 and whole year outlook: Rely on domestic construction demand recovery

We would like to emphasize that domestic steel consumption is the key factor for HPG's profit recovery. As the largest steel producer in Vietnam, HPG takes 35% of the domestic construction steel market share, 29% of the steel pipe market, 8% of the galvanized steel market share (top 5), and 42% of the hot rolled steel market. Of the consolidated consumption volume of 7.2 million tons of steel, more than 80% are sold to the domestic market. Therefore, HPG's profit outlook largely depends on the speed of recovery of the domestic steel demand.

Consumption rebounds but not enough for HPG to take full advantage of economies of scale

HPG is facing a challenge in terms of utilization capacity, which was rare in its history. At the end of 2022, steel consumption weakened rapidly, causing HPG to suspend four blast furnaces. In early 2023, according to data from the Steel Association and the company's announcement, HPG's crude steel production capacity reached 416,000 tons/month, equivalent to the capacity of three blast furnaces (100%) at Hai Duong and two blast furnaces (50%) at Dung Quat.

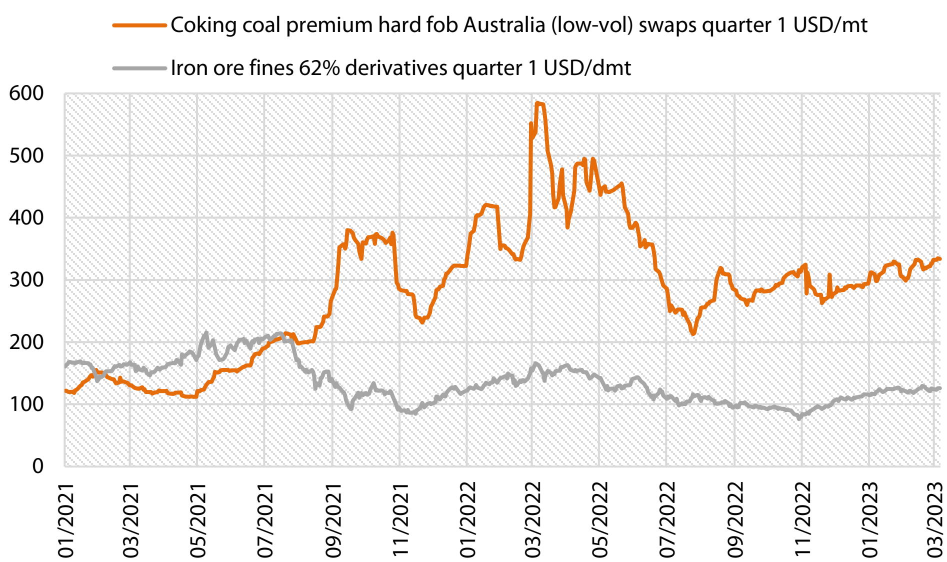
Currently, crude steel production rate is lower than consumption rate by about 60,000 tons/month, we think HPG can restart one more blast furnace in Dung Quat at 50% capacity. The remaining blast furnace opening in our opinion depends on domestic consumption of HRC, specifically steel pipe demand in the remaining months of the year.

The current steel consumption rate is equivalent to about 77% of HPG's design crude steel capacity. This figure is not low compared to the common level in both Vietnam and the world, but it cannot help HPG reach the maximum profit margin. HPG is depreciating Dung Quat complex faster, causing its steel segment's fixed assets to be depreciated in a straight line at about 13 years, a shorter useful life than a conventional steel plant with a useful life about 15-25 years. In recent years, almost all HPG's new blast furnaces have been mobilized at maximum capacity right from the time they are put into operation, helping to reduce fixed cost per ton of product to the lowest level, stabilizing the whole group's profit margin at a high level. On the contrary, mobilization capacity is not at the maximum level meaning that the rapid depreciation of blast furnaces will put pressure on profit margin. Without production and consumption at 100% of design capacity, it is impossible to achieve a gross profit margin of over 20% or net profit margin of over 15% as in the past.

Raw material prices will continue to challenge HPG in 2023

Upstream mills are still under pressure from the volatility of iron ore prices and the scarcity of coking coal. Iron ore is more volatile than finished steel and depends on local supply and demand, especially demand from China and supply from Australia and Brazil. Moreover, the price of coking coal experienced intense volatility in 2022, at times doubling compared to the beginning of the year (Figure 4). This is how the steel production market reacts to the global trend of dealing with climate change, as major coal producing countries introduce policies to tighten investment in the so-called "dirty" energy sector", causing a series of mining corporations to divest from coal mines as well as the flow of new investment money blocked. We believe that, although policy makers are aware of the impact of this trend on global energy security, coal consumers (including coal-fired power plants, industrial producers including crude steel production) will still face the risk of cost-push inflation due to tight supply.

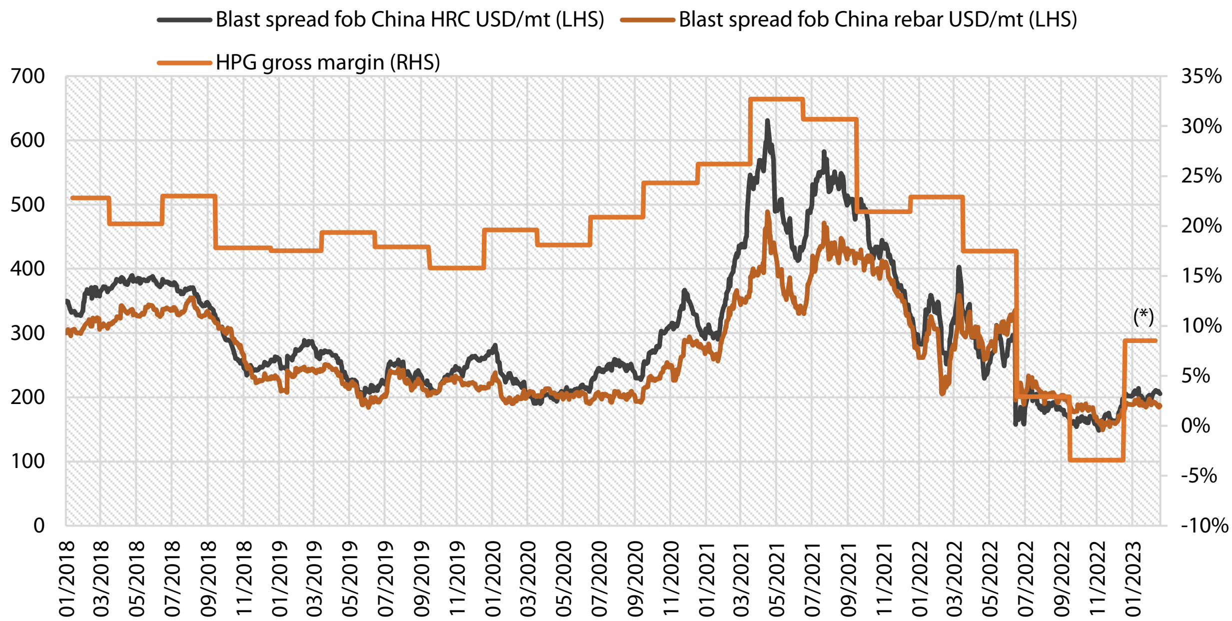
Figure 4: Iron ore and coking coal prices (USD per ton)



Source: Bloomberg, RongViet Securities.

HPG's quarterly profits will be more erratic, depending on its flexibility in inventory policy. HPG's business results in 3Q and 4Q2022, particularly gross profit margin, showed the impact of price fluctuations and raw material purchasing policy on operating efficiency. Gross profit margin dropped sharply in 3Q and turned negative in 4Q mostly due to stronger than forecast material price fluctuations.

Figure 5: Blast spreads (USD per ton) and HPG's quarterly gross margin



Source: RongViet Securities estimated. (*) 1Q2023 gross margin is predicted at 9.0%.

This has been a global trend, because raw material prices fluctuates more unpredictably and strongly. According to several market research organizations and our estimates, steel producers' overall profit margins are at the lowest level in the last five years, after having skyrocketed in 2021 and the first half of 2022. For example, the blast spread, the difference between selling price and raw material cost, which represents profit per ton of steel, reached about $160 at the end of 2022 for both rebar and HRC, a sharp decrease compared to the beginning of the year ($350-365 USD) and compared to the peak of 2021 (more than 600 USD for HRC and about 490 USD for rebar).

The recent fluctuations in raw material prices have challenged HPG's purchasing policy and material price hedging policies. This difficulty will last in the near future, as mentioned in our 2023 Strategy Report as cyclical sectors are in a recession phase. As manufacturers have to be flexible in purchasing and stockpiling raw materials, it will become more difficult for investors interested in steel stocks to grasp the cost price and forecast profit. As mentioned, the reduction of raw material inventories helps avoid losses during periods of falling prices, but also erodes profits when raw material prices are on the rise.

Profit recovery will go hand in hand with production and consumption recovery

In 1Q2023, we assume an average of 127 USD/ton for iron ore, 319 USD/ton for coking coal, 15,300 VND/kg for rebar and 670 USD/ton for international HRC. We estimate HPG's consolidated sales volume at 1,343,000 tons (-29% yoy), revenue of VND 23,922 billion (-46% yoy), and Dung Quat plant mobilized at 50% capacity. Dipping output in the month of Tet and a sharp drop in demand over the same period caused fixed costs such as depreciation, selling & administrative expenses, financial expenses to put pressure on profit, although low inventory of raw materials since the end of the year and increase in prices of raw materials & finished products in 1Q partly supported profit. All in all, HPG's gross profit can reach over VND 2,000 billion, equivalent to a gross margin of 9.0%, EBIT is nearly VND 1,000 billion and NPAT is estimated at VND 27 billion, just enough to escape a loss.

For the whole year of 2023, we assume HPG can mobilize one more blast furnace at Dung Quat from the beginning of 2Q2023 and maintain the mobilization capacity at 50% for the rest of the year. The operation of the remaining blast furnace, as well as the ability to increase the mobilization of consolidated production and consumption capacity will depend heavily on the market situation, which HPG cannot control. Therefore, based on the current market demand which we think will remain bleak through the end of the year, we estimate HPG's consolidated output at 5.9 million tons, -18% yoy. 2022. Forecasted revenue is VND 107,734 billion, -24% yoy. With this production and consumption rate, from 2Q2023, HPG can improve its profit after tax. Financial expenses in 2023 can decrease because the exchange rate is forecasted to be stable and the realized exchange rate loss is lower than last year. NPAT in 2023 is forecasted at VND 8,764 billion, a slight improvement compared to that of 2022.

VND Billion

INCOME STATEMENT	FY2021	FY2022	FY2023E	FY2024F
Revenue	**149,680**	**141,409**	**107,734**	**137,114**
COGS	108,571	124,646	91,211	113,710
Gross profit	**41,108**	**16,763**	**16,523**	**23,404**
Selling Expense	2,120	2,666	3,017	3,212
G&A Expense	1,324	1,019	1,325	1,119
Finance Income	3,071	3,744	1,549	1,477
Finance Expense	3,732	7,027	4,267	3,227
Other profits	48	129	81	86
PBT	**37,057**	**9,923**	**9,543**	**17,407**
Prov. of Tax	2,536	1,479	822	2,253
Minority's Interest	43	-39	-43	-45
PAT to Equity S/H	**34,478**	**8,484**	**8,764**	**15,199**
EBIT	37,664	13,078	12,181	19,072
EBITDA	43,741	19,893	20,162	28,497

%

FINANCIAL RATIO	FY2021	FY2022	FY2023E	FY2024F
Growth (%)				
Revenue	66.1%	-5.5%	-23.8%	27.3%
Operating Income	99.6%	-54.5%	1.4%	41.3%
EBITDA	120.0%	-65.3%	-6.9%	56.6%
PAT	156.6%	-75.4%	3.3%	73.4%
Total Assets	35.4%	-3.7%	4.1%	7.3%
Equity	53.4%	5.9%	5.5%	8.4%
Profitability (%)				
Gross margin	27.5%	11.9%	15.3%	17.1%
EBITDA margin	29.2%	14.1%	18.7%	20.8%
EBIT margin	25.2%	9.2%	11.3%	13.9%
Net margin	23.0%	6.0%	8.1%	11.1%
ROA	19.5%	5.0%	4.9%	8.0%
ROE	38.0%	8.8%	8.6%	13.8%
Efficiency				
Receivable Turnover	19.5	14.3	25.0	19.8
Inventory Turnover	2.6	3.6	2.5	3.2
Payable Turnover	3.9	9.0	5.0	5.3
Liquidity				
Current	1.3	1.3	1.3	1.2
Quick	0.7	0.8	0.8	0.6
Finance Structure (%)				
Total Debt/Equity	63.1%	60.3%	54.4%	50.3%
Current Debt/Equity	48.3%	48.7%	43.8%	42.2%
Long-term Debt/Equity	14.9%	11.6%	10.6%	8.1%

VND Billion

BALANCE SHEET	FY2021	FY2022	FY2023E	FY2024F
Cash and cash equivalents	22,471	8,325	9,696	13,666
Short-term investments	18,236	26,268	31,871	21,042
Accounts receivable	7,663	9,893	4,309	6,922
Inventories	42,134	34,491	36,216	35,391
Other current assets	3,650	1,538	1,615	1,696
Property, plant & equipment	77,582	84,163	87,766	105,506
Acquired intangible assets	574	722	697	670
Long-term investments	7	1	0	-1
Other non-current assets	4,510	4,907	5,152	5,410
Total assets	**176,827**	**170,307**	**177,322**	**190,301**
Accounts payable	27,971	13,824	18,242	21,269
Short-term borrowings	43,748	46,749	44,411	46,385
Long-term borrowings	13,465	11,152	10,706	8,866
Other non-current liabilities	532	686	699	713
Bonus and Welfare fund	1,741	1,813	1,873	3,248
Technology-science, dev. fund	0	0	0	0
Total liabilities	**87,456**	**74,223**	**75,931**	**80,483**
Common stock and APIC	47,941	61,359	61,350	61,350
Treasury stock (enter as -)	0	0	0	0
Retained earnings	41,763	33,834	39,164	47,637
Other comprehensive income	-2	-21	-21	-21
Inv. and Dev. Fund	924	835	835	835
Total equity	**90,626**	**96,007**	**101,328**	**109,801**
Minority Interest	**155**	**106**	**63**	**17**

VALUATION RATIO (*)	FY2021	FY2022	FY2023E	FY2024F
EPS (VND)	7,246	1,371	1,417	2,457
P/E (x)	6.5	12.3	14.4	8.3
BV (dong)	15,585	16,511	17,426	18,883
P/B (x)	2.3	1.1	1.2	1.1
DPS (dong/cp)	500	500	0	500
Dividend yield (%)	5.0%	1.2%	0.0%	2.5%

VALUATION MODEL	Price	Weight	Average
FCFF	22,900	50%	11,440
PB	19,000	50%	9,500
Target price (VND per share)			**20,950**

VALUATION HISTORY	Price	Recommendation	Period
08/2022	33,000	BUY	Intermediate
12/2022	21,300	ACCUMULATE	Intermediate

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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