Steel Industry - Protection is the Main Theme

Positive

Trade protections have brought about remarkable improvement to the domestic steel industry. In 6M2017, the market consumed 6.9 million tons of construction steel, steel pipe and coated steel, 14.5% higher YoY. Regarding exports, VSA members sold a total volume of more than 1.3 million tons to overseas, increasing 44.8% YoY. Imports were around 7.5 million tons, 5% lower YoY in terms of volume but 22% higher in terms of value. It was evident that steel producers' short term profitabilities were considerably improved thanks to the effects of the trade policies on the market prices, which we expect to remain in 2H2017. The VSA predicts that the consumption growth in 2H2017 is similar to that of 1H, at 12% YoY. In a longer term, the duties assist MoIT's strategy for the steel industry, which encourages producers to invest in modern, well-developed steel mills in order to create more value added for the economy as well as to reduce the reliance on imports.

As a result of the protective measures, we anticipate several changes in the market structure. Until April 15th 2017, billets and GI/GL import volumes went down by 87% and 27% YoY thanks to the anti-dumping and safeguard duties imposed by the MoIT. As most major coated steel products have received protection including GI/GL and color coated steel, Vietnamese coated steel firms are forecasted to be more focused on the domestic demand, as oversea sales accounted for over half of their volumes in 2016 and 1H2017.

Export activities continue to seize the opportunities but have to face up with the risks created by the anti-dumping trend. Vietnamese steel producers exported 4.1 million tons in 2016, 18% higher YoY, partly thanks to the anti-dumping measures used by large consuming countries such as the US. However, they probably face anti-dumping duties themselves, as several investigations have been initiated for the surge in volume of Vietnamese products.

As a result of the trade protection, firms with capacity expansion plans are able to benefit from the new markets. The three reviewed names are also the firms with the strongest capacity expansion plans and are expected to lead the local steel industry trend in the next few years.

Steel stocks rating and valuation

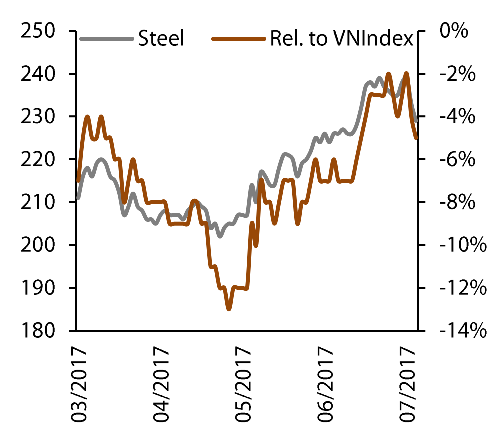
Ticker	Rating	Mkt. Cap (VND bn)	Avg. Daily Volume (20 sessions)	Target Price (VND)	Upside potential (%)	PER 2017F (x)	EV/EBITDA 2017F (x)	ROE (%)	ROA (%)	Div Yield (%)
HSG	BUY	10,709	3,062,677	36,300	9.7	6.9	4.0	36.4	12.2	4.8
NKG	BUY	3,225	654,007	39,800	15.7	4.6	2.4	32.8	8.1	0
HPG	BUY	48,618	4,441,639	40,000	21.2	6.7	5.1	33.4	19.9	5.6
Average		**20,851**	**2,719,441**	**38,700**	**15.5**	**6.1**	**3.8**	**34.2**	**13.4**	**3.5**

Sector	Basic materials
Sub-sector	Steel
Mkt. Cap (VND bn)	81,658
% of Total Mkt. Cap	3.9

Share Price Performance

%	1M	3M	12M
HSG	-6.1	6.8	39.1
NKG	0.8	14.6	49.3
HPG	0.2	13.9	48.4
Basic materials	1.9	9.7	5.6
VNIndex	6.8	6.8	16.4

Price Performance



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Trade protections have brought about remarkable improvement to the domestic steel industry

In 6M2017, the market consumed 6.9 million tons of construction steel, steel pipe and coated steel, 14.5% higher YoY. Regarding exports, VSA members sold a total volume of more than 1.3 million tons to overseas, increasing 44.8% YoY. Imports were around 7.5 million tons, 5% lower YoY in terms of volume but 22% higher in terms of value. It was evident that steel producers' short term profitability were considerably improved thanks to the effects of the trade policies on the market prices, which we expect to remain in 2H2017. The VSA predicts that the consumption growth in 2H2017 is similar to that of 1H, at 12% YoY. In a longer term, the duties assist MoIT's strategy for the steel industry, which encourage producers to invest in modern, well-developed steel mills in order to create more value added for the economy as well as to reduce the reliance on imports.

As a result of the protective measures, we anticipate several changes in the market structure

Until April 15th 2017, billets and GI/GL import volumes went down by 87% and 27% YoY thanks to the anti-dumping and safeguard duties imposed by the MoIT. As most major coated steel products have received protection including GI/GL and color coated steel, Vietnamese coated steel firms are forecasted to be more focused on the domestic demand, as oversea sales accounted for over half of their volumes in 2016 and 1H2017. HSG and NKG are going to fill in the vacancy left by Chinese coated steel getting anti-dumped, as HPG will also join the competition against imports by operating the new 400,000 tons per year plant by the end of the year. Shifting from exports to domestic sales can be profitable, as domestic steel prices are considered to offer higher margin. This is an opportunity for NKG, who used to export over 60% of their coated steel sales, to boost domestic proportion and to ultimately improve their margins.

Because of the trade protection, firms with capacity expansion plans are able to benefit from the new markets. Many steel firms have plan to or are currently expanding their capacities. For instance, HPG and HSG have capacity CAGR of 36% and 26% respectively during the 2013-2016 period. More importantly, there has been a trend of well-developed production process to capture higher benefit as well as to avoid the negative effects from global price fluctuations. Many long steel makers now have furnaces and many flat steel makers now process cold rolling mills, thus reducing the dependence on semi-product imports and improving gross margins. Lastly, most domestic producers now invest in modern machinery in order to produce high quality steel. Oversea buyers have been known for their strict standards but now domestic consumers have also been aware of steel quality, creating the trend of purchasing up-to-date machineries.

Export activities continue to seize the opportunities

We think export activities continue to seize the opportunities despite that steel companies have to face up with the risks created by the anti-dumping trend. Vietnamese steel producers exported 4.1 million tons in 2016, 18% higher YoY, partly thanks to the anti-dumping measures used by large consuming countries such as the US. However, they probably face anti-dumping duties themselves, as several investigations have been initiated for the surge in volume of Vietnamese products. Vietnamese producers themselves are involved in several investigations, most of which are from the ASEAN markets. Currently Indonesia, Malaysia and Thailand, the three major markets have used antidumping measures on Vietnamese products. However, most exporting firms have few difficulties finding new markets, which are the countries who have blocked Chinese steel. The current trend seems to make Vietnamese producers face up with obstacles in their traditional markets, but has made ways for them to approach even more and larger potential buyers. Diversifying markets is likely to help Vietnamese firms reducing sales risks caused by the reliance on few oversea customers. The domestic steel supply is forecasted to continue growing in 2017, even though the growth rate may not be as high as 2016. 2017 estimated supply growth rates vary between steel products. In particular, construction steel's growth rate is predicted at 11% YoY, those of coated steel, CRC and welded steel pipes are 12%, 13% and 15% respectively. The VSA forecasts that the total industry growth rate will be around 12%, equivalent to nearly 20 million tons of final products. More importantly, firms with relatively complicated production process such as HPG, HSG and NKG will survive the most difficult market conditions.

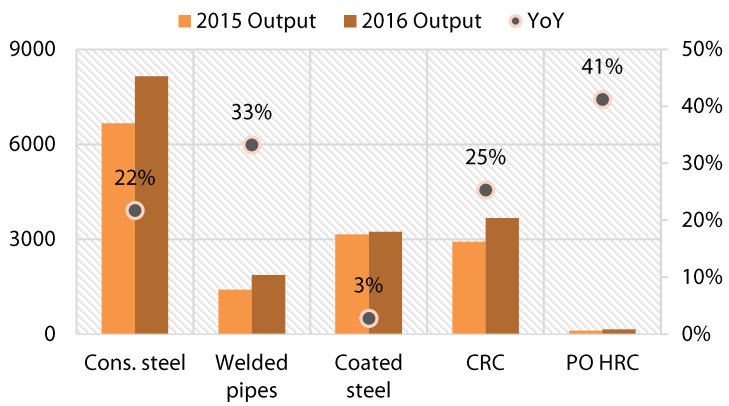
Domestic steel prices are expected to keep stable throughout 2017

The current trends observed in raw materials and global steel prices remain to be highly volatile and dependent on the largest producing and consuming country, China. While iron ore experts forecast that iron ore price might decline back to under USD50 per ton due to the oversupply at all four major mines, coking coal price seems to be under significant influence from Chinese fiscal policies as the country uses the most of global coking coal in steel production and the coking coal price is expected to average USD150 per ton in 2017. As a result, semi-products including HRC and billets can be extremely difficult to predict, even though the largest market participant reports that they are following their capacity cut guidance.

Regarding domestic steel prices, we expect that the prices keep stable throughout 2017, as the duties prevent sale prices from strongly fluctuating. In fact, the trend was upward stable in 1H2017. We expect HPG, HSG and NKG to benefit from stabilised prices, particularly HPG and HSG thanks to their developed distribution systems. On the other hand, firms will have to solve the input price problems for themselves. Those with excellent global price monitor can speculate or hedge against fluctuations, HPG, HSG in particular are experienced in the business. In a longer term, as most trade measures for the steel industry are official and effective in 3 to 4 years, steel prices are predicted to be stabilised and more correlated to the domestic construction demand.

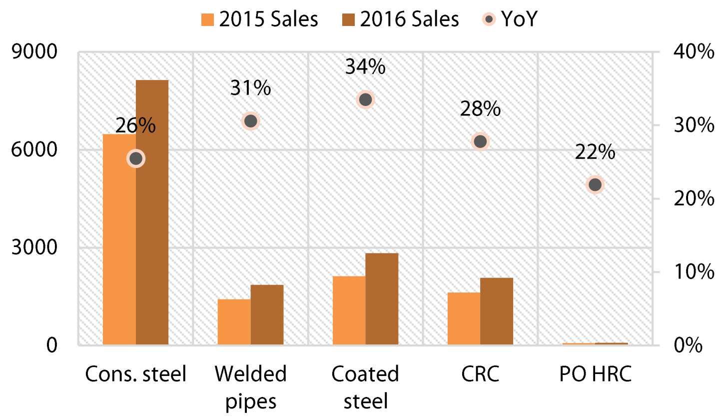
Appendix 1: The Steel Industry in Brief

Figure 1: Steel Output (thousand tons)



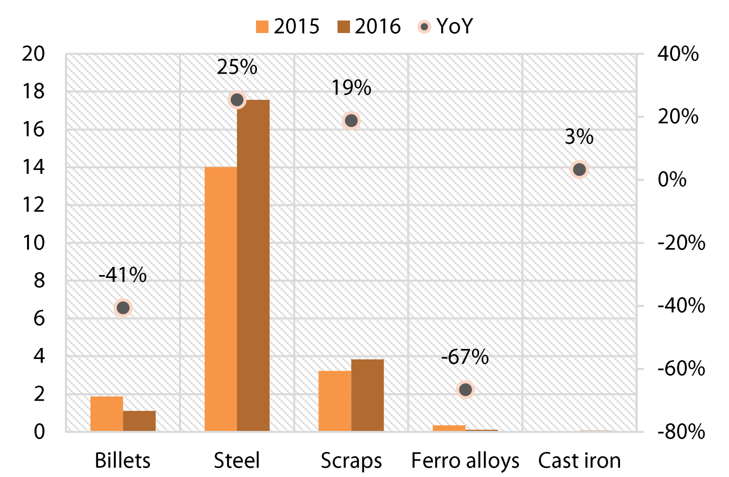
Source: VSA

Figure 2: Steel Domestic Consumption (thousand tons)



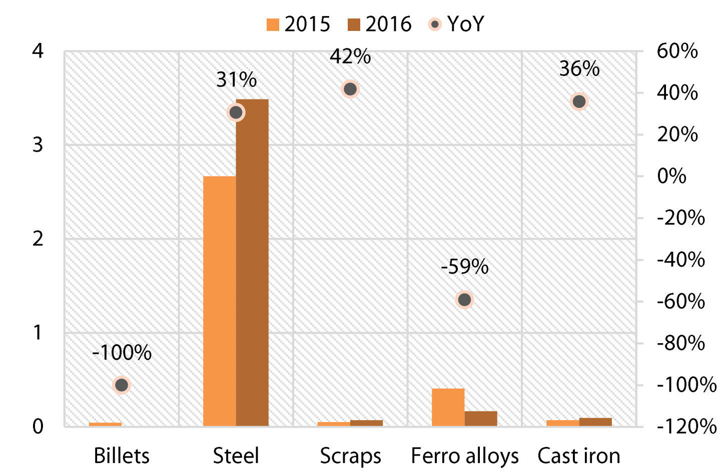
Source: VSA

Figure 3: Steel Imports (million tons)



Source: VSA

Figure 4: Steel Exports (million tons)

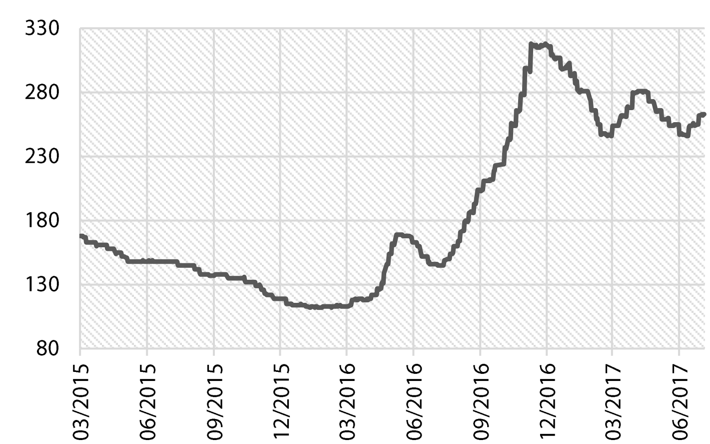


Source: VSA

Figure 5: Iron Ore Price (USD per ton)

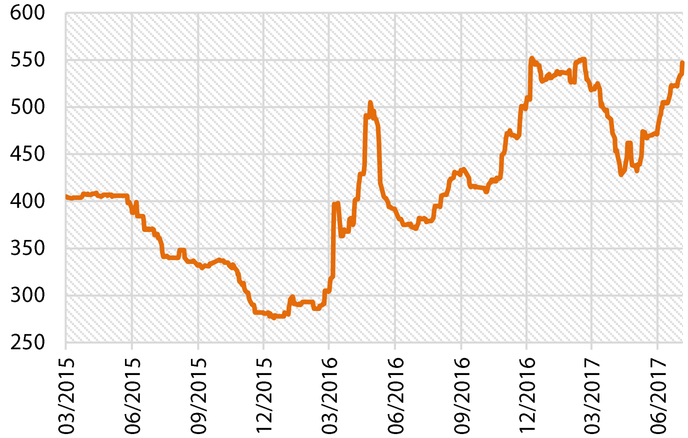
Source: VSA

Figure 6: Coking Coal Price (USD per ton)



Source: VSA

Figure 7: HRC Price (USD per ton)

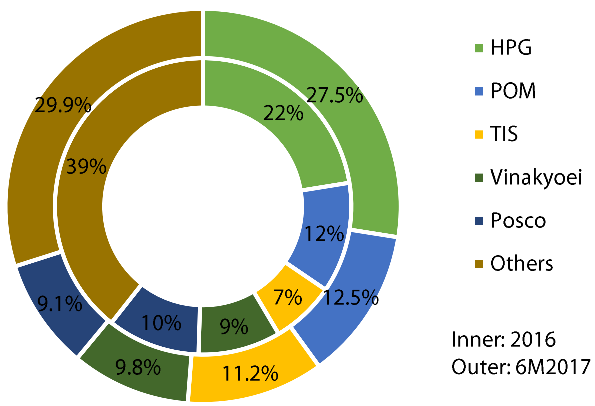


Source: VSA

Figure 8: Billets Price (USD per ton)

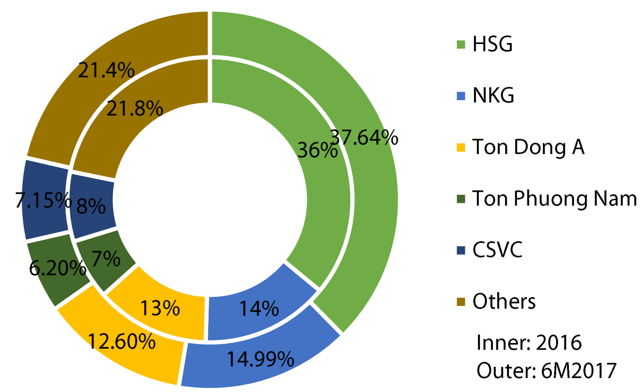
Source: VSA

Figure 9: Construction Steel Market Share



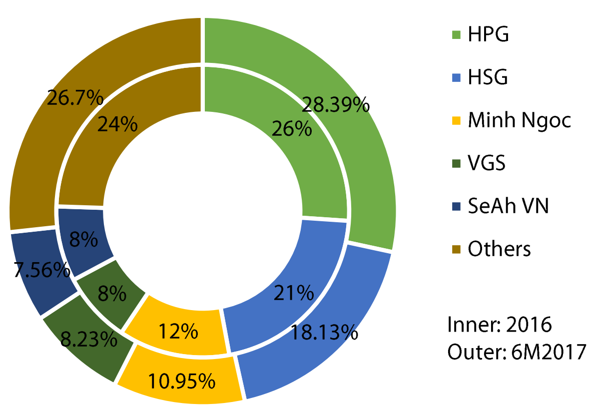
Source: VSA

Figure 10: Coated Steel Market Share



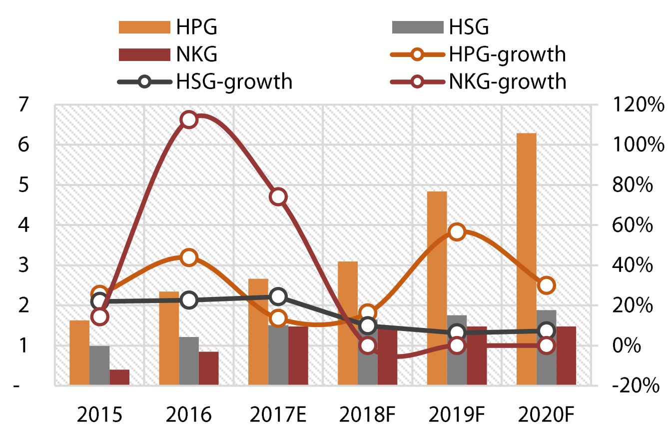
Source: VSA

Figure 11: Steel Pipe Market Share



Source: VSA

Figure 12: HPG, HSG and NKG' Capacity Expansions



Source: RongViet Research forecasts

Appendix 2: Trade Protections Relating to Vietnamese Steel Products

Table 1: Vietnam's Trade Protections

	Product	Cate gory	Initiators	Investigated countries	Determination
1	Billets & Construction steel	SG	HPG, SSC, TISCO, VIS	All countries except African and Latin American.	Preliminary 07/03/2016. Billets 23.3%, construction steel 14.2%. Official 18/07/2016. Billets 23.3% (to 0% in 2020), construction steel 15.4% (to 0% in 2020).
2	Color coated steel	SG	DTL, NKG, Ton Dong A	China, Korea, Taiwan.	Official 31/05/2017. Quota of 381,000; 419,000; 461,000 tons for 2017, 2018, 2019. Duty of 19% for exceeding quotas.
3	GI/GL steel	AD02	CSVC, SSSC, NKG, Ton Dong A	China, Hong Kong, Korea.	Preliminary 01/09/2016. China 4.02-38.34%. Korea 12.4-19.0%. Official 14/04/2017. China 3.17-38.34%. Korea 7.02-19.0%.
4	H-shaped steel	AD02	Posco SS Vina	China, Hong Kong.	Extending investigation period.

Table 2: Investigations on Vietnamese products

Date	Initiating country	Category	Product	Time line	Investigated country	Note
27/09/2016	The US	Antidumping Evasion of AD and Safeguards duties	CRS, CORE	4/11/2016 investigation began. 13/12/2016 VCA received questionnaire.	Vietnam	ArcelorMittal USA LLC, Nucor Corporation, United States Steel Corporation initiated.
07/10/2016	Australia	Anti-dumping and Safeguards	Zinc coated/galvanized steel (HS code 7210.49.00, 7212.30.00, 7225.92.00, 7226.99.00)	Investigated period (1/7/2015-30/6/2016)	India, Malaysia, Vietnam	Vietnam's accused dumping rate 27.2%
09/11/2016	The US	Antidumping review	OCTG (HS code 730429, 730629, 730520, 730439, 730459)	1/9/2015-31/8/2016	Vietnam	Determination is announced no later than 30/9/2017
23/12/2016	Indonesia	Safeguards	Color coated steel (HS code 7210.70.10.00, 7212.40.10.00, 7212.40.20.00)	7/2015-6/2016	China, Vietnam	

Table 3: Duties on Vietnamese Products

Product	Initiating country	Category	Investigated country	Note
Carbon welded pipe	The US	Antidumping	Vietnam, India, Oman, UAE	Final determination: 6/12/2016 no duty for Vietnam
Stainless pipe and tube	Thailand	Antidumping	Vietnam, China, Korea, Taiwan	Preliminary determination: 28/9/2016 310.74% duty for Vietnam
Cold rolled steel plated or coated with the alloy of aluminium-hot dipped galvanized	Thailand	Antidumping	Vietnam	Accused dumping rate 86.04% 20/9/2016, possible AD duties for Vietnamese producers 7.94-40.49%
Cold rolled steel, plated or coated with an alloy of aluminum and hot dipped galvanized and painted	Thailand	Antidumping	Vietnam	Accused dumping rate 89.58% 8/12/2016, possible AD duties for Vietnamese producers 4.51-60.26%
Cold rolled coils of Alloy and non-alloy steel	Malaysia	Antidumping	Vietnam, China, Korea	22/1/2016 accused dumping rate 4.58-10.55% 7-17/3/2016 review on 2 Vietnamese producers.

Source: VSA

July, 2017

HOA SEN GROUP JSC (HSG – HSX)

Robust Core Business

Particulars (VND bn)	Q2-FY16/17	Q1-FY16/17	+/- QoQ	Q2-FY15/16	+/- YoY
Net revenue	6,213	5,767	8%	4,384	42%
PAT	416	440	-6%	418	-1%
EBIT	700	537	30%	587	19%
EBIT margin	11.3%	9.3%	196bps	13.4%	-213bps

Source: HSG, RongViet Research

1H/FY2016-2017 Performance: Tracking Closely to the Guidance

- Continuously expanding capacity with the encouraged set-up progress.
- Gross margin dropped under pressures from input price movements.
- New trade measures against imports are in favour of the industry's leader.
- Postponing Ca Na Steel Complex is not a bad news.

Q3FY2016-2017 Potential: Focusing on Core Business is the Key to Growth

Our forecast includes a 9.1% volume growth, 23% revenue growth and -5% NPAT growth due to HRC price peaking at over USD530 per ton in March. This forecast is similar to our previous Result Update, as the effects of the HRC price movement has been included in the prediction. The new trade protection against coated steel imports would be a supportive news for HSG's Q4 potential rather than a noticeable performance boost. We have noticed that the HRC price is recovering while HSG's inventory is not necessarily expensive. In fact, HSG is capable of maintaining the ability to control input prices' effects owing to the nation-wide retail system.

***Valuation and Recommendation**: As all the duties on coated steel imports are in favor of HSG, the company can take advantage of the ability to control negative effects of the unfavourable HRC price movement to stabilising their profitability. However, we expect HSG to see a moderate decrease in their gross margin, thus a slightly lower quarterly bottom line YoY. Importantly, Ca Na project being called off can be a positive sign, as HSG can stay focused on its core business, which is still highly profitable.*

*We evaluate HSG price at **VND36,300/share**, which is **20.8%** higher than the closing price on 18th July 2017 and we recommend to **BUY** the stock in the **Intermediate-term**. This target price is revised from that in HSG Company Report published in March 2017 because we consider HSG to deserve a higher P/E ratio based on its remarkable performance and the recent market sentiment on the stock. The stock price has increased strongly since the 75% share dividends were delivered in May, thus the upside is unattractive. However, investors might as well hold the stock for FY2016-2017, as we anticipate an upside catalyst regarding Hoa Sen - Germadept port in Q4.*

BUY

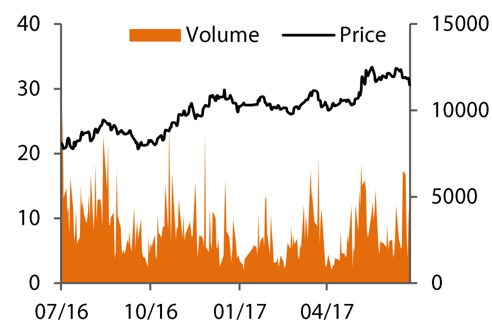
CMP (VND)	30,050
Target Price (VND)	36,300
Investment Period	**Intermediate-term**

Stock Info

Sector	Basic materials
Market Cap (VND B)	10,709
Current Shares O/S	349,996,683
Beta	1.33
Free float (%)	40.0
52 week High	33,300
52 week Low	20,706
Avg. Daily Volume (20 sessions)	3,062,677

	FY15-16	Current
EPS	4,200	5,445
EPS Growth (%)	120.24	-0.76
Diluted EPS	4,200	5,445
P/E	5.71	5.52
P/B	2.00	2.22
EV/EBITDA	5.02	7.33
Cash dividend	2,500	1,000
ROE (%)	41.04	42.67

Price performance



Major Shareholders (%)

Hoa Sen Inv. Group Ltd	25.69
Hoa Sen Inv. & Tourism Ltd	20.61
Tam Thien Tam Co.	6.92
Le Phuoc Vu	4.78
Foreign ownership room (%)	19.41

Exhibit 1: Q2/FY16-17 Results

Particulars (VND bn)	Q2-FY16/17	Q1-FY16/17	+/- (QoQ)	Q2-FY15/16	+/- (YoY)	2Q-FY17	+/-(YoY)
Net revenue	6,213	5,767	7.7%	4,384	41.7%	11,980	44%
Gross profit	1,157	1,047	10.5%	1,097	5.4%	2,203	26%
SG&A	457	509	-10.3%	510	-10.5%	966	12%
Operating income	700	537	30.4%	587	19.2%	1,238	27%
EBITDA	866	693	24.9%	720	20.3%	1,559	36%
EBIT	700	537	30.4%	587	19.2%	1,238	40%
Financial expenses	191	86	122.7%	70	171.5%	277	110%
- Interest Expenses	129	65	99.5%	54	138.0%	194	79%
Dep. and amortization	166	156	6.2%	133	24.9%	322	23%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	539	515	4.6%	531	1.5%	1,054	41%
PAT	416	440	-5.5%	418	-0.6%	856	33%
(*) Adjusted PAT	416	440	-5.5%	418	-0.6%	856	33%

Source: HSG, RongViet Research

Exhibit 2: 2QFY2016-2017 Performance Analysis

Particulars	Q2-FY16/17	Q1-FY16/17	+/- (QoQ)	Q2-FY16/17	+/- (YoY)
Profitability Ratios (%)					
Gross Margin	18.6%	18.1%	0.5%	25.0%	-6.4%
EBITDA Margin	13.9%	12.0%	1.9%	16.4%	-2.5%
EBIT Margin	11.3%	9.3%	2.0%	13.4%	-2.1%
Net Margin	6.7%	7.6%	-0.9%	9.5%	-2.8%
Adjusted Net Margin	6.7%	7.6%	-0.9%	9.5%	-2.8%
Turnover *(x)					
-Inventories	3	4	-0.8	5	-1.8
-Receivables	13.9	15.4	-1.6	21.5	-7.7
-Payables	13	10	3.2	10	3.1
Leverage (%)					
Total Debt/ Equity	253.8%	167.3%	86.5%	131.1%	122.7%

Source: HSG, (*) Annualized turnover

Exhibit 3: Q3-FY16/17 Performance Forecast

Particulars (VND bn)	Q3-FY16/17	+/- QoQ	+/- YoY
Revenue	5,630	-9%	23%
Gross profit	1,005	-13%	-10%
EBIT	515	-26%	-19%
NPAT	426	2%	-5%

Source: HSG, RongViet Research

Exhibit 4: Q2-FY16/17 Performance Forecast vs Results

Particular (VND bn)	Actual	Projected	Dif. (%)
Net revenue	6,213	6,746	-8%
Gross profit	1,157	1,298	-11%
EBIT	700	651	8%
PAT	416	435	-4%

Source: HSG, RongViet Research

Updates:

The new trade protection against coated steel imports is a supportive news for HSG's business results. MoIT has just announced the official protection measure on color coated steel imports, effective from June 15 2017. Even though the duty rate is not as expected, we predict that HSG is going to benefit directly from the decision as RongViet Research estimates that color coated steel accounted for over 25% of HSG's total revenue (FY2015-2016). This is also an opportunity for HSG and other firms to take over market shares from the Chinese imports and to raise the sale prices. In fact, HSG has just made the first move increasing their coated steel prices slightly in early July, which display its ability to control input prices' effects via the nation-wide retail system.

HRC price is recovering while HSG's inventory is not necessarily expensive. As HSG's inventory was record-high in the last quarterly report, which was VND8,465 billion, causing concerns over the risk of incurring provisions. Indeed, the reported amount of goods in transit and input was over VND5,500 billion at the end of Q2/FY16-17, nearly double that of Q1. However, considering HRC price movement during January-March 2017 period, it can be inferred that HSG's entire inventory was not necessarily purchased at high prices. According to HSG's representative, the average stored input can be sufficient for two months of production, thus HSG is capable of limiting purchases during HRC price's unfavourable fluctuations. Despite the fact that HRC price surged during the quarter and peaked at over USD520 per ton, the batch of imports with the highest price that HSG bought was worth around USD480 per ton. We observed that HRC price is currently picking up from USD430 in April, which can be inferred that HSG is unlikely to make a large amount of provision that it could impact their performance in Q3 and Q4/FY16-17.

Ca Na's postpone may not be a bad news after all because HSG still has potential growth drivers. The initial outlay can be over USD1 billion which is a massive project for HSG, as we consider the firm's capability to be sufficient for projects that are of the same size as their current ones. Therefore, we hold the view that this news is a positive sign, which implies that HSG can now focus on its core business of steel and plastic products. Beside the established power in the steel industry, HSG has one of the largest capacities in the domestic plastic pipe market while the utilisation ratio is only around 50%, which means ample room for volume growth. HSG is also carrying out aggressive marketing and discount policies to take over market share with the assistance of their well-developed nation-wide retail system. We expect the plastic pipe business to be an ace in HSG's long-term growth story, as HSG's ambition for the plastic business has caused concern among its competitors.

Whereas the project's initiation might have taken most investors by surprise because of its unexpected pace, it has been consistent regarding the company's tradition that decisions are quickly made and implemented. This results from the fact that very few individuals hold the highest power of deciding in HSG, which has played a significant role in Hoa Sen's growth owing to the timeliness and the progress pace. However, the dependence exposes HSG to the risk that concerns the few individuals, where their actions if unfavourably interpreted by the market can cause pressures on the stock price.

Sales of Hoa Sen Germadept port can bring about an extraordinary profit for the year. According to Germadept Corporation (GMD-HSX), they have signed a memo with a Korean buy-side to transfer the port, which HSG holds 45% ownership. Based on the information announced by GMD management, we estimate that HSG could recognise VND89 billion net profit from the deal, including reversals of the provisions made for the investment in the past years. We forecast that HSG can record nearly VND500 billion NPAT for Q4, +16% compared to Q3 thanks to the extraordinary profit.

VND billion

INCOME STATEMENT	FY14-15	FY15-16	FY16-17E	FY17-18F
Revenue	17,447	17,886	23,239	28,214
COGS	14,869	13,708	19,026	23,270
Gross profit	2,578	4,178	4,213	4,944
Selling Expense	864	1,103	1,209	1,468
G&A Expense	512	917	646	824
Finance Income	32	38	25	36
Finance Expense	425	274	331	364
Other profits	24	-2	89	0
PBT	832	1,921	2,139	2,325
Prov. of Tax	179	420	361	417
Minority's Interest	0	0	0	0
PAT to Equity S/H	653	1,501	1,778	1,907
EBIT	1,202	2,158	2,357	2,653
EBITDA	1,664	2,675	3,166	3,598

%

FINANCIAL RATIO	FY14-15	FY15-16	FY16-17E	FY17-18F
Growth				
Revenue	16.4%	2.5%	29.9%	21.4%
Operating Income	63.6%	60.8%	18.4%	13.6%
EBITDA	75.6%	79.6%	9.2%	12.5%
PAT	59.1%	129.9%	18.5%	7.3%
Total Assets	-7.5%	30.4%	15.8%	16.1%
Equity	22.3%	41.8%	35.3%	25.5%
Profitability				
Gross margin	14.8%	23.4%	18.1%	17.5%
EBITDA margin	9.5%	15.0%	13.6%	12.8%
EBIT margin	6.9%	12.1%	10.1%	9.4%
Net margin	3.7%	8.4%	7.7%	6.8%
ROA	6.9%	12.2%	12.5%	11.5%
ROE	22.4%	36.4%	31.8%	27.2%
Efficiency				
Receivable Turnover	23.1	16.3	17.7	18.5
Inventory Turnover	4.2	2.8	3.8	3.7
Payable Turnover	14.5	5.8	8.6	8.5
Liquidity				
Current	0.9	1.0	1.2	1.4
Solvency				
Total Debt/Equity	188.7%	140.2%	114.8%	96.3%
Current Debt/Equity	155.3%	105.8%	80.0%	65.2%
Long-term Debt/Equity	33.3%	34.4%	34.8%	31.2%

VND billion

BALANCE SHEET	FY14-15	FY15-16	FY16-17E	FY17-18F
Cash and cash equivalents	277	577	1,069	1,377
Short-term investments	0	0	0	0
Accounts receivable	755	1,098	1,313	1,523
Inventories	3,544	4,822	4,981	6,358
Other current assets	593	562	674	809
Property, plant & equipment	3,740	4,591	5,538	5,791
Acquired intangible assets	295	293	290	287
Long-term investments	38	26	26	26
Other non-current assets	199	342	359	377
Total assets	**9,441**	**12,310**	**14,250**	**16,549**
Accounts payable	1,025	2,360	2,212	2,744
Short-term borrowings	4,521	4,366	4,466	4,566
Long-term borrowings	970	1,419	1,944	2,183
Other non-current liabilities	5	4	4	5
Bonus and Welfare fund	8	31	37	39
Technology-science, dev. fund	0	0	0	0
Total liabilities	**6,530**	**8,180**	**8,663**	**9,538**
Common stock and APIC	1,495	2,517	4,052	4,052
Treasury stock (enter as -)	-52	0	0	0
Retained earnings	1,453	1,603	1,525	2,949
Other comprehensive income	7	7	7	7
Inv. and Dev. Fund	9	0	0	0
Total equity	**2,911**	**4,127**	**5,584**	**7,007**
Minority Interest	**0**	**3**	**3**	**3**

VALUATION RATIO	FY14-15	FY15-16	FY16-17E	FY17-18F
EPS (dong)	1,878	4,317	4,756	5,102
P/E (x)	12.1	5.8	6.9	6.5
BV (dong)	28,879	20,996	15,953	20,021
P/B (x)	1.4	2.1	2.1	1.6
DPS (dong/cp)	1,500	2,500	1,000	1,000
Dividend yield (%)	3.7%	6.0%	3.0%	3.0%

VALUATION MODEL	Price	Weight	Average
FCFE	37,603	30%	11,281
PE	35,669	70%	24,968
Target price (dong)			**36,300**

VALUATION HISTORY	Price	Recommendation	Period
29/10/2015	18,457	Accumulate	Long term
22/03/2017	28,971	Neutral	Intermediate

NAM KIM GROUP JSC (NKG – HSX)

Proving Its Capability

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- QoQ	Q1-FY16	+/- YoY
Net revenue	2,392	2,458	-3%	1,799	33%
PAT	156	66	138%	66	137%
EBIT	243	117	107%	105	132%
EBIT margin	10.2%	4.8%	540bps	5.8%	433bps

Sources: NKG, RongViet Research

Q12017 Performance: In Line with Our Expectation

- Nam Kim 3 Plant construction is going to finish.
- New strategic partners join ownership structure.
- Benefits from the new trade measures against imports, similar to HSG.
- Sales volume increased 10% YoY while revenue grew mostly by an improved ASP. Exports accounted for more than half of sales volume.

Q22017 Potential: Capacity Growth Contributes the Most to 2017 Performance

2017 is an important year, as Nam Kim 3 will raise NKG's total design capacity by more than double. Operation of the new production lines is going to play an important role in NKG's revenue growth. However, the company is going to experience the negative effects of the decreasing HRC price during the quarter. Our Q2 forecast includes VND3,385 billion and VND181 billion in revenue and NPAT respectively, equivalent to the YoY growth rates of 56% and -25%. The forecasted YoY deterioration in net profit is partly because Q22016 results were extraordinary because of extremely advantageous global steel price movements.

Valuation and Recommendation*: NKG has been delivering radical changes in its internal business performance, regarding production, sales and financial strength. Moreover, the company has been taking advantage of countervailing measures against Chinese steel in both Vietnam and other export markets. As the construction of the new plant is concluding, NKG's efficiency and profitability has been advancing to a new level, and the company has been making rapid improvements in its financial strength by successful private placements. Firmly maintaining the second highest rank in terms of capacity among local names, NKG's remarkable profit growth is offering the market an attractive valuation as the lowest P/E ticker among leading producers in the steel industry.*

We evaluate NKG price at ***VND39,800/share****, which is* ***23.4%*** *higher than the closing price on July 18th 2017 and recommend to* ***BUY*** *the stock in the* ***INTERMEDIATE TERM****. This target price is revised from that in our NKG Result Update report published on 01/11/2016 owing to an increase in our forecasts on NKG's 2017 and 2018 business results. However, investors might as well consider the dilution caused by the upcoming placement as NKG is planning for an issuance to strategic partners in the second half of 2017.*

BUY

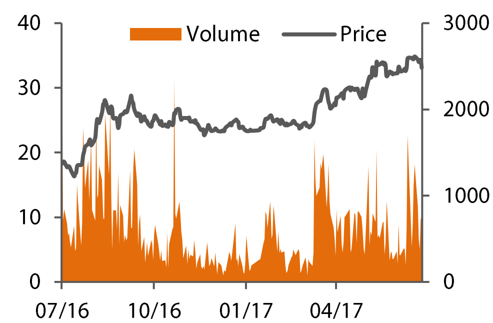
CMP (VND)	32,250
Target Price (VND)	39,800
Investment Period	**Intermediate-term**

Stock Info

Sector	Basic materials
Market Cap (VND B)	3,225
Current Shares O/S	100,000,000
Beta	1.32
Free float (%)	33.4
52 week High	34,850
52 week Low	16,333
Avg. Daily Volume (20 sessions)	654,007

	FY2016	Current
EPS	6,850	7,479
EPS Growth (%)	286.20	79.30
Diluted EPS	6,850	7,479
P/E	3.41	4.31
P/B	1.47	1.84
EV/EBITDA	6.51	7.11
Cash dividend	0	0
ROE (%)	46.36	49.51

Price performance



Major Shareholders (%)

P&Q Ltd	18.47
VEIL	15.00
Ho Minh Quang	13.44
Tran Uyen Nhan	11.84
Foreign ownership room (%)	18.44

Exhibit 1: Q1FY17 Results

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- (QoQ)	Q1-FY16	+/- (YoY)
Net revenue	2,392	2,458	-2.7%	1,799	33.0%
Gross profit	307	242	26.6%	139	120.0%
SG&A	63	69	-9.0%	43	47.1%
Operating income	244	173	40.7%	97	152.0%
EBITDA	300	168	78.7%	142	110.4%
EBIT	243	117	107.4%	105	131.7%
Financial expenses	98	127	-23.4%	49	98.3%
- Interest Expenses	53	40	32.5%	27	96.4%
Dep. and amortization	56	50	11.9%	37	50.6%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	191	78	145.8%	78	143.8%
PAT	156	66	137.5%	66	136.7%
(*) Adjusted PAT	156	66	137.5%	66	136.7%

Source: NKG, RongViet Research

Exhibit 2: 1QFY2017 Performance Analysis

Particulars	Q1-FY17	Q4-FY16	+/- QoQ	Q1-FY16	+/- YoY
Profitability Ratios (%)					
Gross Margin	12.8%	9.9%	297bps	7.8%	507bps
EBITDA Margin	12.5%	6.8%	571bps	7.9%	461bps
EBIT Margin	10.2%	4.8%	540bps	5.8%	433bps
Net Margin	6.5%	2.7%	385bps	3.7%	286bps
Adjusted Net Margin	6.5%	2.7%	385bps	3.7%	286bps
Turnover *(x)					
-Inventories	3.5	5.3	-1.7	6.5	-3.0
-Receivables	14.7	15.4	-0.7	11.6	3.1
-Payables	11.0	12.9	-1.8	8.6	2.4
Leverage (%)					
Total Debt/ Equity	221.6%	183.6%	3,807bps	324.7%	-10,309bps

Source: NKG, (*) Annualized turnover

Exhibit 3: Q2-FY17 Performance Forecast

Particulars (VND bn)	Q2-FY17	+/- QoQ	+/- YoY
Revenue	3,385	42%	56%
Gross profit	414	35%	16%
EBIT	337	38%	9%
NPAT	181	16%	-25%

Source: NKG, RongViet Research

Updates:

2017 is an important year, as Nam Kim 3 will more than double the total design capacity. As soon as the last GI/GL production line starts operation in December 2017, *Nam Kim 3 Plant* will increase NKG's total coated steel capacity to over 1.2 million tons per year, which means NKG will remain the second largest firm among Vietnamese participants. The plant is going to be the most well developed coated steel factory producing from HRC in the domestic market, hoping to help NKG gaining domestic market share gradually. We forecast that the new plant is going to run at the utilisation of 70% and 80% in 2017 and 2018 respectively, before operating at full capacity in 2019, which is one of the major growth drivers for NKG in the long term.

Nam Kim Long An Steel Pipe Plant is another part of NKG's market coverage expanding strategy. At the maximum actual capacity of 25,000 tons per month, the welding plant targets Mekong Delta consumers and NKG aims to reach the full-capacity utilization rate in 2-3 years, which means the plant will contribute nearly 300,000 tons of welded steel pipes into NKG's total consumption. In 2017, NKG's guidance volume for the plant is 90,000 tons.

Nam Kim Corea Project is considered as a breakthrough strategy as NKG decides to enter the home appliance's value chain. Affiliating with Unicoh from Korea, a current strategic shareholder, NKG is going to establish a VND160-billion charter capital firm (NKG contributes 25%, Unicoh 45%, NKG Chairman 30%), to produce parts for electrical home appliances including refrigerators, washing machines and air-cons. Using the high-quality as the base steel, the OEM production is expected by NKG management to bring about higher margins than the company's traditional products which are mostly used as construction materials. The affiliate is currently under legal procedure for establishment, whereas NKG representatives reported that the company may carry out construction in the near future in order to start operation in June 2018.

The cold-rolling lines are going to stabilise NKG's gross margin. NKG is going to operate a new cold-rolling line in 2017 and another one in 2018, remarkably easing the reliance on CRC purchases and improving NKG's gross margin. We forecast that from 2018 on, NKG is capable of producing over 60% of their needed CRC amount, higher than that of 2016 (35%). Consequently, NKG is going to experience an improvement in gross margin by 90bps in 2017 and 96bps in 2018 thanks to the production process moving upstream.

NKG is making continuous efforts in improving its financials. After concluding two private placements during 2016 and proceeding over VND430 billion for new machineries, the 1-trillion-charter-capital firm now continues to seek funding from strategic partners. According to the latest updates, NKG is going to propose a resolution allowing a private placement of a maximum of 30 million shares to strategic investors. As the company is known for issuing shares at an 18-22% discounted price compared to the market price, we estimate the issuance price for this placement at around VND26,000 per share, which is 25% lower than the average closing price of the most recent 10 trading sessions. Accordingly, NKG will proceed a maximum amount of VND780 billion. All of the projects mentioned above need funding of an estimated VND400 billion, provided that NKG borrows 70% of the total investment value. Moreover, NKG's current debts/assets ratio is already 78%, very high and risky, which needs restructuring, thus parts of the proceeds may be used for improving NKG's financial strength. NKG is holding an extraordinary GM on July 22nd to make important decisions regarding the plan, on which we will update the details soon.

"Short-term" investors should evaluate the dilution effects on the stock price potential. NKG might have to achieve its long-term financial stability by giving up its shareholder's rights in the short term, because the private placements is going to create a dilution rate of maximum 30% for most current shareholders. Except for the few major members who are eligible to take part in the placement deal, investors might see NKG's EPS diluted by 30%. In our forecast, we assume NKG issues 20 million shares at VND26,000 per share, which produces an FCFE valuation of over VND5,000 billion for the equity value, equivalent to VND42,163 per share at the fully diluted O/S numbers of 119 million.

Regarding NKG's valuation methods, the above FCFE value implies a forward P/E of 5.62x, which we consider suitable for NKG under the current business performance. However, we only use the forward P/E ratio of 5.0x in our valuation because we suppose the company needs more time to prove its ability to maintain a stable growth after a period of surging profits and only then can the company deserves a higher P/E. In contrast, "long-term" investors might as well consider that NKG's 2018 EPS (fully diluted) is forecasted at over 10,000 dong per share, which means that even if the same P/E is applied, NKG's upside for the next year is still enormously attractive.

VND billion

INCOME STATEMENT	FY2015	FY2016	FY2017E	FY2018F
Revenue	5,751	8,936	13,817	18,549
COGS	5,304	7,924	12,128	16,104
Gross profit	447	1,012	1,689	2,444
Selling Expense	95	162	249	325
G&A Expense	42	54	65	74
Finance Income	42	110	4	3
Finance Expense	195	299	378	428
Other profits	0	0	0	0
PBT	156	608	1,002	1,619
Prov. of Tax	30	90	180	282
Minority's Interest	0	0	1	1
PAT to Equity S/H	126	518	821	1,337
EBIT	310	796	1,375	2,045
EBITDA	432	963	1,731	2,518

%

FINANCIAL RATIO	FY2015	FY2016	FY2017E	FY2018F
Growth				
Revenue	-1.5%	55.4%	54.6%	34.2%
EBITDA	52.5%	122.7%	79.8%	45.5%
EBIT	64.1%	157.1%	72.7%	48.7%
PAT	64.5%	310.8%	58.6%	62.8%
Total assets	21.6%	78.9%	32.1%	19.5%
Total equity	26.3%	146.6%	78.2%	32.5%
Profitability				
Gross margin	7.8%	11.3%	12.2%	13.2%
EBITDA margin	7.5%	10.8%	12.5%	13.6%
EBIT margin	5.4%	8.9%	10.0%	11.0%
Net margin	2.2%	5.8%	5.9%	7.2%
ROA	3.5%	8.1%	9.7%	13.2%
ROCE	21.3%	23.1%	28.9%	34.4%
ROE	19.7%	32.8%	29.2%	35.9%
Efficiency				
Receivables turnover	10.8	18.0	18.0	18.0
Inventories turnover	4.8	3.9	3.6	3.8
Payables turnover	5.6	12.2	11.1	11.1
Liquidity				
Current	0.9	1.0	1.3	1.4
Solvency				
Total Debt/Equity	309.2%	263.5%	161.0%	131.6%
Current Debt/Equity	182.3%	145.5%	92.3%	72.4%
Long-term Debt/Equity	126.9%	117.9%	68.7%	59.2%

VND billion

BALANCE SHEET	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	51	174	163	231
Short-term investments	0	26	29	29
Accounts receivable	533	496	767	1,030
Inventories	1,098	2,033	3,396	4,187
Other current assets	147	346	415	498
Property, plant & equipment	1,657	3,233	3,588	4,033
Acquired intangible assets	60	59	57	56
Long-term investments	0	0	0	0
Other non-current assets	25	24	25	26
Total assets	**3,572**	**6,390**	**8,440**	**10,090**
Accounts payable	953	649	1,092	1,449
Short-term borrowings	1,166	2,296	2,596	2,696
Long-term borrowings	812	1,860	1,931	2,206
Other non-current liabilities	1	1	1	2
Bonus and Welfare fund	0	4	6	10
Technology-science, dev. fund	0	0	0	0
Total liabilities	**2,933**	**4,810**	**5,626**	**6,363**
Common stock and APIC	**2,933**	**4,810**	**5,626**	**6,363**
Treasury stock (enter as -)	501	925	1,775	1,775
Retained earnings	129	635	978	1,824
Other comprehensive income	1	5	5	5
Inv. and Dev. Fund	9	13	54	121
Total equity	**640**	**1,577**	**2,811**	**3,724**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	FY2015	FY2016	FY2017E	FY2018F
EPS (dong)	1,151	4,966	7,497	10,667
P/E (x)	3.9	3.0	4.6	3.2
BV (dong)	14,576	23,888	23,616	31,283
P/B (x)	0.5	1.0	1.5	1.1
DPS (dong/cp)	0	0	1,000	3,000
Dividend yield (%)	0	0	2.9%	8.7%

VALUATION MODEL	Price	Weight	Average
FCFE	42,163	50%	21,081
P/E	37,485	50%	18,743
Target price (dong/share)		100%	39,800

VALUATION HISTORY	Price	Recommendation	Period
06/11/2015	8,947	Neutral	Intermediate
1/11/2016	30,466	Buy	Intermediate

HOA PHAT GROUP JSC (HPG – HSX)

The Most Profitable Business Has Received the Highest Priority

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- QoQ	Q1-FY16	+/- YoY
Net revenue	10,265	9,951	3%	7,142	44%
PAT	1,934	1,949	-1%	1,022	89%
EBIT	2,251	2,312	-3%	1,244	81%
EBIT margin	21.9%	23.2%	-131bps	17.4%	451bps

Sources: HSG, RongViet Research

Q12017 Performance: The Undeniable Efficiency of the Market Leader

- Steel volume 632,001 tons, +30%YoY.
- Construction steel prices increased 19.6% YoY.
- Slightly declined gross margin QoQ amid strong global steel price fluctuations thanks to the well-developed production complex.

Q22017 Potential: Anticipating a New Input Price Hike

Hai Duong Steel Complex is operating at full capacity and the steel business contributes over 80% net profit for HPG. Possessing the most upstream production mill, HPG is continuing to assert dominance in the domestic long steel market with no archrivals. However, the rainy season in Q2 is going to impact on HPG's steel sales and the iron ore and coking coal prices' peaking during the quarter may cause HPG's gross margin to deteriorate.

Our Q2 forecast includes a volume growth rate of 27% YoY, revenue growth rate of 28% YoY while we expect HPG's NPAT to be 23% lower YoY due to the effects of the input price change.

Dung Quat Steel Complex has started construction and the fact that the right issuance receives positive reaction from the market seems assuring for the progress. Nevertheless, HPG's resources are sufficient for the first phase of the project, which makes sure that Dung Quat's will start contributing to the group's performance in 2H2018.

***Valuation and Recommendation**: While a strong capacity growth is not the spotlight for HPG in 2017, Hai Duong Steel complex will continue to be state-of-the-art in the domestic market and bring about a remarkable stability for the company's attractive gross margin. We maintain our positive point of view on the superior profitability of Hoa Phat's steel business, which is going to keep 2017 EPS stable in spite of the 20% dilution caused by the right issuance.*

*In a longer term, we expect that HPG's growth will be boosted by the operation of Dung Quat, a steel complex that will triple HPG's capacity. Using FCFF and P/E methods, we evaluate HPG price at **VND40,000/share**, which is **24.8%** higher than the closing price on 18th July 2017 and recommend to **BUY** the stock in the **INTERMEDIATE-TERM**. This target price is revised from that in our 2017 Strategy Report published on 15/03/2017 as the promising potential of the new steel project is included.*

BUY

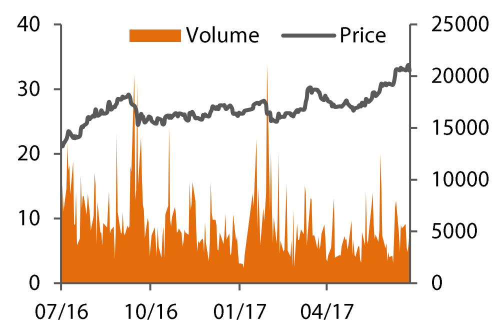
CMP (VND)	32,050
Target Price (VND)	40,000
Investment Period	**Intermediate-term**

Stock Info

Sector	Basic materials
Market Cap (VND B)	48,618
Current Shares O/S	1,516,947,138
Beta	1.32
Free float (%)	47.8
52 week High	33,700
52 week Low	21,150
Avg. Daily Volume (20 sessions)	4,441,639

	FY2016	Current
EPS	4,470	5,565
EPS Growth	82.34	89.61
Diluted EPS	4,470	5,565
P/E	6.02	5.76
P/B	1.84	2.03
EV/EBITDA	3.95	4.72
Cash dividend	1,500	-
ROE	35.31	40.93

Price performance



Major Shareholders (%)

Tran Dinh Long & wife	32.80
Dragon Capital	7.65
Foreign ownership room (%)	15.04

Exhibit 1: Q1FY2017 Results

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- QoQ	Q1-FY16	+/- YoY
Net revenue	10,265	9,951	3.2%	7,142	43.7%
Gross profit	2,463	2,639	-6.7%	1,431	72.1%
SG&A	212	327	-35.2%	187	13.3%
Operating income	2,397	2,652	-9.6%	1,432	67.4%
EBITDA	2,492	2,569	-3.0%	1,451	71.7%
EBIT	2,251	2,312	-2.6%	1,244	81.0%
Financial expenses	112	101	10.9%	94	18.8%
- Interest Expenses	84	63	33.7%	81	3.3%
Dep. and amortization	241	257	-6.3%	207	16.3%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	2,243	2,253	-0.4%	1,211	85.2%
PAT	1,934	1,949	-0.8%	1,022	89.2%

Source: HPG, RongViet Research

Exhibit 2: 1QFY2017 Performance Analysis

Particulars	Q1-FY17	Q4-FY16	+/- QoQ	Q1-FY16	+/- YoY
Profitability Ratios (%)					
Gross Margin	24.0%	26.5%	-253bps	20.0%	396bps
EBITDA Margin	24.3%	25.8%	-154bps	20.3%	396bps
EBIT Margin	21.9%	23.2%	-131bps	17.4%	451bps
Net Margin	18.8%	19.6%	-75bps	14.3%	453bps
Adjusted Net Margin	18.8%	19.6%	-75bps	14.3%	453bps
Turnover *(x)					
-Inventories	3	3	-0.2	4	-0.5
-Receivables	16.8	17.9	-1.1	17.2	-0.4
-Payables	6	6	0.0	7	-1.3
Leverage (%)					
Total Debt/ Equity	67.6%	62.6%	499bps	59.8%	781bps

Source: HPG, (*) Annualized turnover

Exhibit 3: Q2FY2017 Performance Forecast

Particulars (VND bn)	Q2-FY17	+/- QoQ	+/- YoY
Revenue	10,287	0%	28%
Gross profit	2,061	-16%	-20%
EBIT	1,833	-19%	-24%
NPAT	1,558	-19%	-23%

Source: HPG, RongViet Research

Updates:

Updates on HPG's real estate projects:

Mandarin Garden 2 (Hanoi) has a total investment amount of VND1,500 billion and is projected to contribute to HPG's results from 2018. This is a housing project of the mid-end segment as the estimated sales price is VND26 million/m2. 640 apartments started selling in Q3/2016 and will be handed over in late 2017, which is going to enable HPG to recognize incomes in 2018.

70 Nguyen Duc Canh Apartment (Hanoi) has a smaller scales (200 apartments) of a wider range of size (50 to 120 m2 per apartment), which shows that HPG is shifting their targets toward the middle income customers instead of the high-end segment as it did with Mandarin Garden 1. HPG is constructing the basements and estimates the handover time at late 2018. The project's average sales price is predicted to be lower than that of Mandarin Garden 2, which is considered attractive for its location and can help HPG to boost sales activities for the project.

Yen My II Industrial Park (Hung Yen province) is said to join the market during a high demand phase. The project is operated on an area of 169ha, divided into two phases. Phase I is going to lease out 107ha and occupying a total investment of VND630 billion. The estimated lease price can be USD65/m2 and the maximum fill rate is expected to be achieved within 4 years. Because the revenue is recognized once, the project is likely to pay a substantial contribution into HPG's real estate business results in 2018.

Pho Noi North Residential Area (Hung Yen province) is HPG's largest housing since Mandarin Garden 1 as the total area is 262ha, also divided into two phases. Phase I will cost HPG VND2,700 investment, selling two major housing types i.e. villas and apartments. The project is currently under clearance progress and as the most sizable one in HPG's pipeline, the contribution is also expected to be remarkable.

HPG are making cautious movements regarding its agricultural business. The company is operating two feed factories of 600,000 tons per year in total capacity in the North and another one in the South is scheduled for production test. The feeds are used as input for their farms, which are located near the factories where various animals are raised and bred. Hoa Phat's livestock include hogs, cows and hens, as they have been selling lean cows to slaughterhouses and are planning to introduce eggs and pork to the market in the near future. However, it should be noticed that HPG is cautious with the "1 million heads" target for their hog farms.

Updates on Dung Quat Steel complex:

The 4-million-ton capacity steel mill when completing both phases will triple HPG's current output, which can also be inferred as an enormous improvement in earnings. We expect a significant growth in HPG's business results in 2019 when the company starts operating Dung Quat. We have projected a brief forecast on Dung Quat's performance and cash flow using HPG's details and the figures display a promising potential for HPG's long-term growth. In particular, Dung Quat will contribute over 1.7 million tons into Hoa Phat's output in 2019, which is around 30% of the total output, in 2021 the number is forecasted to double to 3.4 million tons, and Dung Quat would contribute over half of HPG's output. Regarding efficiency, phase I of the project is going to stabilise its gross margin of over 20%, similar to phase III of Hai Duong steel complex, while phase II is going to run at a lower margin because it will be the first time HPG produces flat steel. Nevertheless, HPG's overall gross margin can still be improved since 2019 because a large proportion of the HRC produced will be used in steel pipe production and allow this sector to capture higher added value for moving upstream. Regarding cash flows, we estimated that the NPV of the project is nearly VND12,500 billion under 11% WACC, equivalent to a thirteen-year IRR of 12.85%. Thus, for those who participated in the right issuance, cash flows from the project would add around 5,800 dong to the value of each pre-issue share.

The initiation of Dung Quat Steel Complex shows that Hoa Phat still prioritises their most profitable business. The project is expected to inherit HPG's experience regarding price monitoring as well as production and consumption management. As HPG is determined to avoid ownership dilution by issuing to current shareholders, the company's financial capability is highly respected as the project's borrowing proportion is only 50% of the total capex (most domestic steel producers use debt/asset ratio >70%). Importantly, the Ministry of transport has just recently announced the approval of Dung Quat Port into the Vietnam Central region's master plan for seaport until 2020, which is remarkably beneficial for the construction progress at Dung Quat as well as the operation in the future. It can be observed that their internal resources are sufficient and the market conditions are in favour of the two-billion dollar project. We consider that Hoa Phat has a reasonably appropriate timing for their largest project and maintain an optimistic view on the company's long-term potential.

Table: Details on Dung Quat Steel Complex

Particular	Phase I	Phase II
Capacity	2 million tons/year	2 million tons/year
Product mix	1 million tons rebar 1 million tons high-quality wire rod (for bolt & nail production)	2 million tons HRC
Targeted market	Domestic Exports	Internal consumption (for steel pipe production) Domestic/exports
Official operation	02/2019	08/2019
Capital	VND20,000 billion Capex VND6,000 Working Cap	VND20,000 billion Capex VND6,000 Working Cap
CapEx Funding	50% chartered capital-available 50% borrowing	25% Share issuance 25% earnings in 2017-2018 50% borrowing
Capex disbursement schedule	N/A	2017: VND3,200 billion 2018: VND4,200 billion 2019: VND12,000 billion 2020: VND600 billion
Progress	Paying clearance expense to Quang Lian (previous investor) Constructing logistic infrastructure (ports)	
Tax incentives	0% tax during first 4 years of positive taxable income 10% for the following 9 years.	

Source: HPG, RongViet Research compiled

VND billion

INCOME STATEMENT	FY2015	FY2016	FY2017E	FY2018F
Revenue	27,453	33,283	40,212	50,897
COGS	21,859	24,533	30,649	39,752
Gross profit	5,594	8,751	9,564	11,145
Selling expenses	424	490	597	741
G&A expenses	761	405	344	361
Financial income	249	197	161	203
Financial expense	566	368	331	752
Other income/loss	-101	17	17	17
PBT	3,990	7,702	8,470	9,510
Tax expense	485	1,096	1,252	1,617
Minority interests	19	4	4	5
PAT	3,485	6,602	7,214	7,889
EBIT	4,409	7,856	8,623	10,043
EBITDA	5,691	9,530	10,727	13,408

%

FINANCIAL RATIO	FY2015	FY2016	FY2017E	FY2018F
Growth				
Revenue	7.6%	21.2%	20.8%	26.6%
EBITDA	7.0%	67.5%	12.6%	25.0%
EBIT	4.6%	78.2%	9.8%	16.5%
PAT	10.9%	89.4%	9.3%	9.4%
Total assets	15.5%	30.1%	38.3%	43.3%
Total equity	22.4%	36.7%	56.2%	23.8%
Profitability				
Gross margin	20.4%	26.3%	23.8%	21.9%
EBITDA margin	20.7%	28.6%	26.7%	26.3%
EBIT margin	16.1%	23.6%	21.4%	19.7%
Net margin	12.7%	19.8%	17.9%	15.5%
ROA	13.7%	19.9%	15.7%	12.0%
ROCE	27.8%	36.4%	25.8%	19.5%
ROE	24.1%	33.4%	23.4%	20.7%
Efficiency				
Receivables turnover	17.1	13.9	13.9	13.9
Inventories turnover	3.2	2.4	2.8	2.9
Payables turnover	6.2	4.0	4.8	5.3
Liquidity				
Current	1.2	1.6	1.7	1.8
Solvency				
Total Debt/Equity	47.5%	32.7%	24.7%	49.7%
Current Debt/Equity	42.3%	27.8%	19.6%	17.4%
Long-term Debt/Equity	5.1%	4.9%	5.1%	32.3%

VND billion

BALANCE SHEET	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	2,373	4,559	6,037	7,447
Short-term investments	758	694	763	763
Accounts receivable	1,608	2,395	2,893	3,662
Inventories	6,937	10,247	10,797	13,651
Other current assets	239	289	346	416
Property, plant & equipment	12,579	13,799	23,806	38,552
Acquired intangible assets	255	257	254	251
Long-term investments	103	79	78	78
Other non-current assets	652	862	905	950
Total assets	**25,504**	**33,180**	**45,880**	**65,768**
Accounts payable	3,527	6,097	6,436	7,553
Short-term borrowings	6,117	5,488	6,037	6,641
Long-term borrowings	739	972	1,568	12,312
Other non-current liabilities	308	419	461	507
Bonus and Welfare fund	349	400	437	478
Technology-science, dev. fund	0	0	0	0
Total liabilities	**11,040**	**13,376**	**14,939**	**27,490**
Common stock and APIC	8,004	9,103	17,699	17,699
Treasury stock (enter as -)	-1	-1	-1	-1
Retained earnings	5,549	9,486	11,981	19,318
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	891	1,156	1,156	1,156
Total equity	**14,444**	**19,745**	**30,835**	**38,172**
Minority Interest	**23**	**106**	**110**	**115**

VALUATION RATIO	FY2015	FY2016	FY2017E	FY2018F
EPS (dong)	3,587	4,823	4,898	4,836
P/E (x)	3.7	3.4	6.7	6.8
BV (dong)	19,706	23,425	20,325	25,161
P/B (x)	0.8	1.1	1.6	1.3
DPS (dong/cp)	1,000	1,500	0	0
Dividend yield (%)	6.5%	5.6%	0	0

VALUATION MODEL	Price	Weight	Average
FCFF	40,898	50%	20,449
P/E	39,186	50%	19,593
Target price (dong/share)		**100%**	**40,000**

VALUATION HISTORY	Price	Recommendation	Period
15/01/2016	21,833	BUY	Long-term
21/11/2016	31,250	ACCUMULATE	Long-term
15/03/2017	35,556	BUY	Long-term

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