HOA SEN GROUP JSC (HSX: HSG)

Prolonged impact from flat steel market's sluggish recovery

(VND bn)	Q1FY22-23	Q4FY21-22	+/- qoq	Q1FY21-22	+/- yoy
Net revenue	7,917	7,939	0%	16,934	-53%
NPAT-MI	-680	-887	-23%	638	-207%
EBIT	-608	-997	-39%	762	-180%
EBIT margin	-7.7%	-12.6%	487bps	4.5%	-1,218bps

Source: HSG, RongViet Securities

Q1/FY2022-2023 – Demand recovered slowly

- Demand from the domestic market remained weak, causing Q1 GI/GL sales volume to decrease by half compared to the same period last year, although export volume has shown signs of recovery after having bottomed in Q4/FY21-22.
- HRC's price dropped in the quarter, as gross profit margin continues to be pressured.
- Operating loss eased compared to the previous quarter but remained considerably negative due to weak gross profit, which was unable to cover fixed costs, especially selling expenses.

Q2/FY2022-2023 and whole year outlook – Flat steel markets are still sluggish

- Revenue and NPAT in Q2/FY22-23 are estimated at VND 7,118 billion (-58% yoy, -10% qoq) and VND -155 billion, respectively. GI/GL demand remaining weak and Tet holidays resulted in lower sales compared to the previous quarter. Profits started to recover as HRC prices kept a decent upward trend throughout the quarter.
- Whole-year business results depend heavily on flat steel's demand recovery, especially GI/GL export activities. However, as half-year has gone by, we have not seen a clear sign of recovery.
- HSG is trying to cut SG&A and financial expenses, but it is likely that the profit in the second half of its FY will not be able to offset the loss reported in the first half.
- FY22-23 revenue is forecasted at VND 30,442 billion, -39% YoY. We expect total sales volume to reach 1.3 million tons (-27% yoy) and the average HRC price to be around 715 USD/ton. NPAT is forecasted at VND -684 billion, significantly lower than HSG's target NPAT approved at its AGM (two scenarios of VND 100 billion (-60% yoy) and VND 300 billion (+20% yoy)).

Valuation and recommendation

*The lack of demand for GI/GL and steel pipes in both domestic and export markets will continue to put pressure on HSG's mid- to long-term business results, although profits may recover in the short term because of material price uptrend. Operating in both the manufacturing and retail segments, HSG has the advantage to be able to maintain stable selling prices but also faces pressure from the cost of maintaining a large retail system that erodes profits. FY 2022-2023 will be a difficult year for HSG, as the medium-term market outlook is the biggest obstacle to its endeavor to neutralize the loss of VND 680 billion reported in the first quarter. FCFF and P/B valuations determine HSG share price at **VND 17,200**, **9.6%** higher than the closing price on April 18th, 2023. This upside implies that HSG's short-term business results may improve due to the recovery of HRC prices year-to-date as the construction peak season has started. HSG is having its 4th consecutive year not paying cash dividend. We have a **NEUTRAL** view on the stock. We also recommend that investors monitor global HRC price and HSG's sales volume closely to take advantage of possible trading opportunities in the short term and to assess investment rationales in the longer term.*

NEUTRAL +9.6%

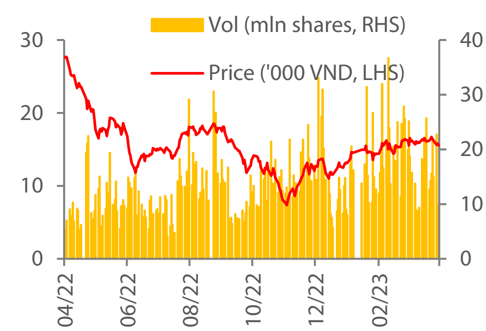
Current market price (VND)	15,700
Target price (VND)	17,200
Cash dividend (VND)	0

Stock Info

Sector	Basic materials
Market Cap (VND billion)	9,690
Current Shares O/S	598,126,786
Avg. Daily Volume (in 20 sessions)	17,372,820
Free float (%)	80
52 weeks High	30,580
52 weeks Low	6,850
Beta	0.8

	FY21-22	TTM
EPS	420	-1,785
EPS Growth (%)	-95	n/a
Diluted EPS	416	-1,785
P/E	35.3	n/a
P/B	0.8	1.0
EV/EBITDA	7.4	12.5
Cash dividend yield (%)	0	0
ROE (%)	2.4	-10.5

Price performance



Major Shareholders (%)

Hoa Sen Inv. & Tourism Pte Ltd	19.9
Lê Phước Vũ	17.0
Tundra Vietnam Fund	3.4
Foreign ownership room (%)	34.5

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Exhibit 1: Q1/FY2022-2023 Results

(VND Bn)	Q1/FY22-23	Q4/FY21-22	+/- (qoq)	Q1/FY21-22	+/- (yoy)
Net revenue	7,917	7,939	-0.3%	16,934	-53.2%
Gross profit	160	-231	n/a	2,123	-92.5%
SG&A	768	766	0.3%	1,361	-43.6%
Operating income	-608	-997	n/a	762	n/a
EBITDA	-313	-708	n/a	1,057	n/a
EBIT	-608	-997	n/a	762	n/a
Financial expenses	114	111	1.9%	169	-32.8%
- Interest Expenses	*48*	*74*	*-34.9%*	*75*	*-36.5%*
Dep. and amortization	295	288	2.3%	295	-0.1%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	-667	-997	n/a	750	n/a
NPAT-MI	-680	-887	n/a	638	n/a
Adjusted NPAT-MI for (*)	-680	-887	n/a	638	n/a

Source: HSG, RongViet Securities

Exhibit 2: Q1/FY2022-2023 Performance Analysis

Particulars	Q1/FY22-23	Q4/FY21-22	+/- (qoq)	Q1/FY21-22	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	2.0%	-2.9%	493bps	12.5%	-1,052bps
EBITDA Margin	-4.0%	-8.9%	497bps	6.2%	-1,020bps
EBIT Margin	-7.7%	-12.6%	487bps	4.5%	-1,218bps
Net Margin	-8.6%	-11.2%	258bps	3.8%	-1,236bps
Adjusted Net Margin	-8.6%	-11.2%	258bps	3.8%	-1,236bps
Turnover*(x)					
-Inventories	4.6	3.3	1.3	5.2	-0,6
-Receivables	20.3	18.4	2.0	18.8	1,6
-Payables	13.4	12.7	0.7	8.3	5,1
Leverage (%)					
Total Liabilities/Equity	56.8%	55.2%	160bps	94.0%	-3,724bps

*Source: RongViet Securities, * Annualized*

Exhibit 3: Q2/NĐTC 2022-2023 Performance Forecast

Particulars (VND Bn)	Q2/FY22-23	+/- qoq	+/- yoy
Revenue	7,118	-10%	-58%
Gross profit	621	288%	-71%
EBIT	-73	-88%	n/a
NPAT-MI	-155	-77%	n/a

Source: RongViet Securities

Q1/2023 assumptions:

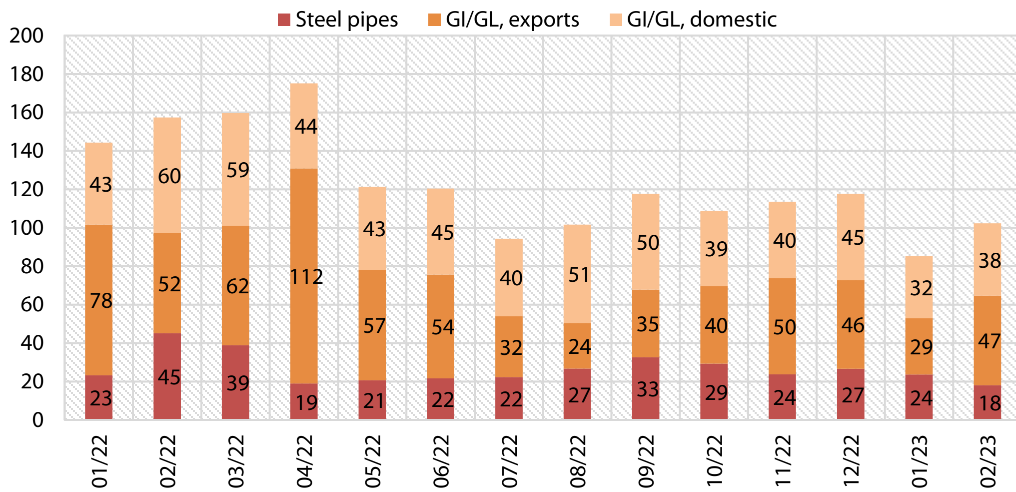
- Estimated sales volume of 231,000 tons of GI/GL, 65,000 tons of steel pipes, 11,000 tons of plastic pipes, lower than Q1 due to Tet holidays. Total volume decreased by 35% over the same period.
- The average HRC price in the quarter is 670 USD/ton. Gross margin recovered to 8.7%.
- Fixed costs, especially selling expenses, eroded profits, and Q2's NPAT remained negative. However, monthly profit has improved in March, according to management's update at the AGM.

Q1/FY2022-2023: Demand recovered is slowl but business results improved as inventory are reduced to a healthy level

Sales volume stayed weak

It can be seen that the demand for GI/GL steel weakened quite early (compared to construction steel - starting to weaken from Q3/2022). HSG's GI/GL and steel pipe sales decreased significantly from April 2022 and GI/GL exports weakened from May 2022. As of February 2023, domestic sales volume have not recovered significantly partly due to Tet holidays.

Figure 1: HSG sales volume (thousand tons)

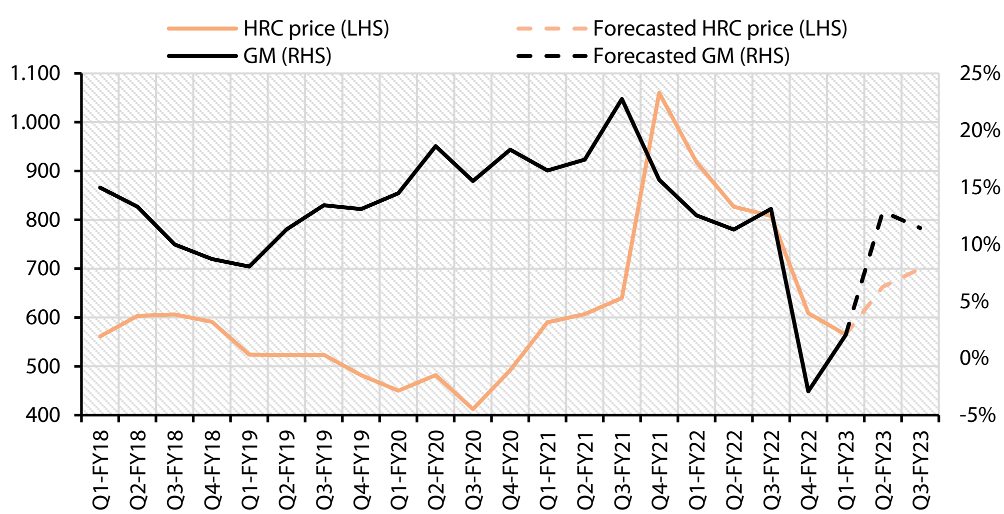


Source: VSA, HSG, RongViet Securities

HRC price continued to dip in the last months of 2022, savaging Q1/FY2022-2023 business results

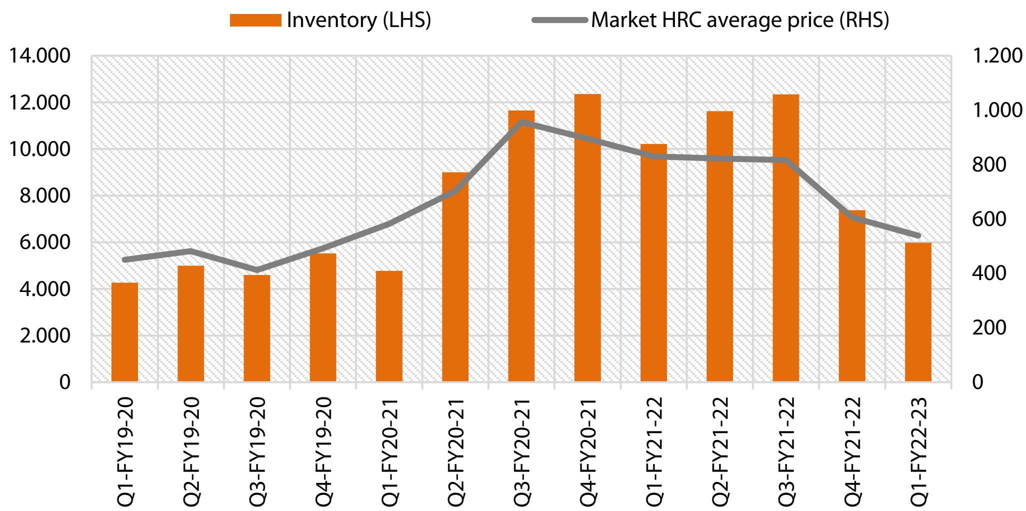
The world and domestic HRC prices continued to decline sharply from Q3 which was the reason why HRC continued to have a rather large net loss of VND 680 billion in Q1 (previous quarter: VND -887 billion). However, HSG reported a gross profit of VND 160 billion in the quarter, which we attribute to its rapid reduction of inventories to record lows to mitigate the impact of falling raw material prices in the last months of 2022. Therefore, the advantage in selling directly to retail users helped this industry leader to record a positive gross profit margin right in the most difficult time for domestic steelmakers.

Figure 2: Quarterly average HRC price (USD per ton) and HSG's gross margin



Source: Bloomberg, RongViet Securities

Figure 3: HSG's inventory (VND billion) and HRC price (USD per ton)



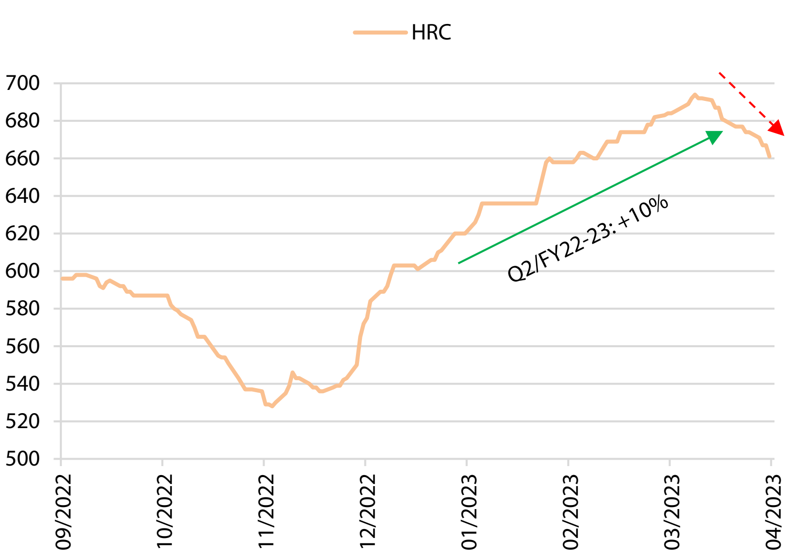
Source: HSG, RongViet Securities

Q2/FY2022-2023 and whole year outlook: Flat steel market remains blurry, whole-year earnings might end up negative

Efforts to cut inventory and fixed costs helped results recover, although Q2 might be a loss in NPAT.

The increase in HRC price during the second quarter of FY2022-2023 is the basis for HSG to recover its profit, specifically since the price of HRC CFR Vietnam increased from $611/ton on December 31, 2022 to $674/ton on March 31. 2023. HSG directors mentioned at the AGM that profits had reached a positive level in March 2023 after many negative months. However, overall weak sales means NPAT could stay negative for the whole quarter, estimated at VND -155 billion.

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



Source: Bloomberg, RongViet Securities.

The prospect of recovering flat steel industry in the medium-term is still dim, full-year NPAT is likely to be negative

In Q3 FY2022-2023, we expect domestic demand for GI/GL sheets and steel pipes to support selling prices. Both HSG's selling price and output in the short term may recover compared to the previous quarter. We estimate HSG's business results Q3/FY2022-2023 to include total sales volume of 349,000 tons, up from the previous quarter (306,000 tons), of which GI/GL steel reached 265,000 tons with volume recovering in both domestic and exports, steel pipe reached 71,000 tons (up 16% over the same period, up 10% compared to the previous quarter). Assuming HRC price used increases by 4% compared to Q2, gross profit margin can improve to 13%, NPAT will reach VND 146 billion.

However, we believe that the recovery is still not sustainable to create momentum for strong profit improvement in the medium term. Most likely, April, May, and June will be the period where GI/GL steel and steel pipe market are less difficult before the construction season falls back into the low season (lunar ghost month occurring in Q4/FY2022-2023). This means that exports will have to be very active to compensate for weak domestic consumption, but we have not seen any significant promising signs yet.

The market of steel materials and finished products in the early days of April 2023 cooled down despite being in the peak of construction before the rainy season. Compared to the end of March, prices of iron ore and coking coal decreased by 6% and 3% respectively, and prices of rebar and HRC decreased by 3% and 2% respectively (Figure 4). On the one hand, we believe that prices need time to cool down after many consecutive uptrend months and it is likely that they will continue to increase until the end of May as in recent years. On the other hand, in the period when the domestic real estate-construction market lacks major growth drivers, the construction and material industry faces up with a higher risk of loss when they cannot take their output as a cushion to support profits. It means that internal factors that are beneficial to the company in the short term will turn to be unfavorable only by the slightest reversal movements of the commodity price market.

Regarding HSG, this trend is reflected in profits in recent quarters. In the past, although HRC price experienced many strong fluctuations in a short period of time, HSG did not record a quarterly gross loss except only in Q1/FY2008-2009, mainly due to the advantage of being a leader in market share in the GI/GL sheet and steel pipe segments and have access to end-users to stabilize prices. Currently, this price advantage is no longer strong enough to keep the company's gross margin positive, in large part due to the current market conditions. Therefore, HSG reduced its inventories in order to avoid material loss. However, the company has to trade off by not being able to speculate when HRC price bottoms up, hence a limited chance to bounce back strongly. We believe that if the steel market keeps its seasonality as usual and cools down during the rainy season and ghost month (around July, August, September, 2023), HSG's NPAT is going to return to negative levels.

All in all, HSG's FY 2022-2023 will see a net loss, as few months of positive business results are not enough to compensate for the rest of the year. Revenue is forecasted at VND 30,442 billion, -39% y/y, NPAT is forecasted at VND -684 billion. As stated in our recent report, we maintain the view that the real estate - construction industry is going to remain in a recession until the end of 2023. Flat steel companies in general and HSG in particular still have to rely on a macroeconomic recovery to improve long term business results.

VND Billion

INCOME STATEMENT	FY20-21	FY21-22	FY22-23E	FY23-24F
Revenue	**48,727**	**49,711**	**30,442**	**32,329**
COGS	39,910	44,794	27,852	28,726
Gross profit	**8,817**	**4,917**	**2,590**	**3,603**
Selling Expense	3,344	3,831	2,497	2,439
G&A Expense	426	522	466	503
Finance Income	367	267	94	149
Finance Expense	554	521	360	278
Other profits	-1	50	0	0
PBT	**4,858**	**360**	**-638**	**532**
Prov. of Tax	609	108	46	91
Minority's Interest	0	0	0	0
PAT to Equity S/H	**4,249**	**251**	**-684**	**442**
EBIT	5,047	564	-372	661
EBITDA	6,223	1,724	901	1,913

%

FINANCIAL RATIO	FY20-21	FY21-22	FY22-23E	FY23-24F
Growth (%)				
Revenue	76.9%	2.0%	-38.8%	6.2%
Operating Income	96.1%	-72.3%	-47.7%	112.3%
EBITDA	158.7%	-88.8%	-166.0%	-277.5%
PAT	269.3%	-94.1%	-372.2%	-164.6%
Total Assets	49.9%	-36.0%	-13.7%	2.7%
Equity	63.8%	-0.4%	-8.8%	1.1%
Profitability (%)				
Gross margin	18.1%	9.9%	8.5%	11.1%
EBITDA margin	12.8%	3.5%	3.0%	5.9%
EBIT margin	10.4%	1.1%	-1.2%	2.0%
Net margin	8.7%	0.5%	-2.2%	1.4%
ROA	16.0%	1.5%	-4.7%	2.9%
ROE	39.6%	2.4%	-7.0%	4.5%
Efficiency				
Receivable Turnover	10.7	34.1	19.1	12.0
Inventory Turnover	3.2	6.1	4.5	4.5
Payable Turnover	4.5	25.9	9.5	9.5
Liquidity				
Current	1.3	1.7	1.7	1.9
Quick	0.4	0.4	0.5	0.7
Finance Structure (%)				
Total Debt/Equity	63.7%	39.2%	20.4%	22.1%
Current Debt/Equity	50.7%	38.1%	20.4%	22.1%
Long-term Debt/Equity	13.0%	1.1%	0.0%	0.0%

VND Billion

BALANCE SHEET	FY20-21	FY21-22	FY22-23E	FY23-24F
Cash and cash equivalents	493	330	327	347
Short-term investments	24	9	66	134
Accounts receivable	4,535	1,460	1,594	2,692
Inventories	12,356	7,374	6,148	6,341
Other current assets	1,250	655	401	426
Property, plant & equipment	7,103	6,358	5,266	4,198
Acquired intangible assets	219	204	193	186
Long-term investments	21	17	17	17
Other non-current assets	619	617	679	747
Total assets	**26,620**	**17,024**	**14,690**	**15,088**
Accounts payable	8,863	1,731	2,940	3,032
Short-term borrowings	5,437	4,070	1,988	2,180
Long-term borrowings	1,399	117	0	0
Other non-current liabilities	15	16	18	20
Bonus and Welfare fund	0	0	0	0
Technology-science, dev. fund	0	0	0	0
Total liabilities	**15,713**	**5,934**	**4,946**	**5,232**
Common stock and APIC	5,092	6,138	6,138	6,138
Treasury stock (enter as -)	0	0	0	0
Retained earnings	5,633	4,542	3,607	3,719
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	**10,725**	**10,680**	**9,745**	**9,857**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY20-21	FY21-22	FY22-23E	FY23-24F
EPS (VND)	7,105	416	-1,064	687
P/E (x)	6.6	35.3	n/a	19.9
BV (dong)	21,733	17,857	16,294	16,481
P/B (x)	2.1	0.8	0.8	0.8
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	0	0	0	0

VALUATION MODEL	Price	Weight	Average
FCFF	16,523	50%	8,262
P/B	17,923	50%	8,962
Target price (VND per share)			**17,200**

VALUATION HISTORY	Price	Recommendation	Period
12/2022	14,400	ACCUMULATE	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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