RONG VIET
SECURITIES

PRELIMINARY 2H2021 OUTLOOK

STEEL INDUSTRY

Opportunities Overseas

Tu Pham - tu.pm@vdsc.com.vn

The state is forcing decarbonization and solving overcapacity in the steel industry.

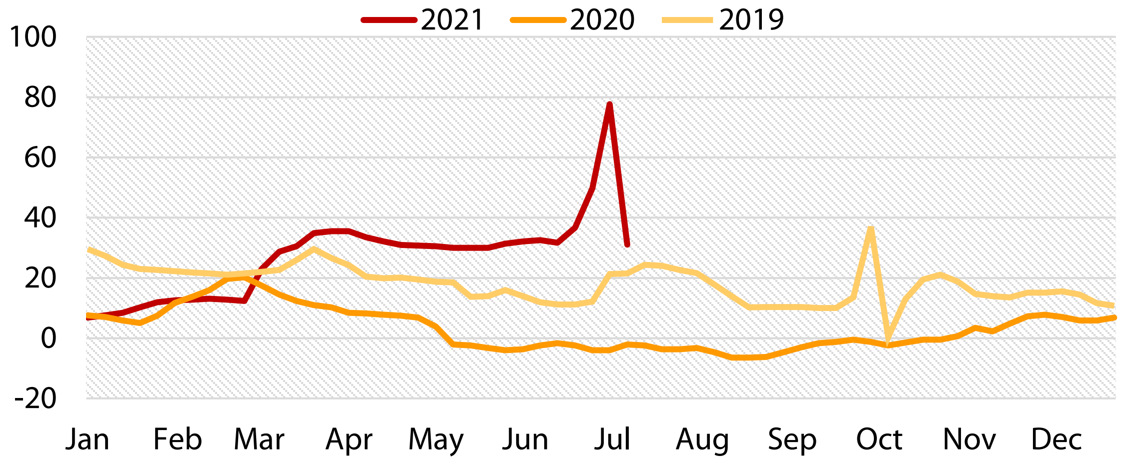
- China aims to achieve net zero carbon emissions before 2060 and raise the portion of EAF steel capacity from the current 10% to over 15% by 2025.
- China plans to hold the crude steel output in 2021 flat to the 2020 levels, which means production volume must be cut in 2H after increasing by 13% YoY in 1H.
- The state has posted the lists of steel mills that not meet ultra-low carbon emission and will be replaced. We estimate that mills with capacity of 74 mn tons per year (tpy) will be transformed to be more eco-friendly, and thus, reduce capacity by 23 mn tpy.

More drastic actions are being carried out.

- The country launched the world's largest carbon emissions trading scheme in July 2021, with sectors like steel to be added as soon as 2025.
- Besides, BF suspension rate has increased in most-producing provinces, such as Hebei (Figure 1).
- VAT tax rebate on CRC, coated steel export has been removed, and export tax was imposed on pig iron since August.

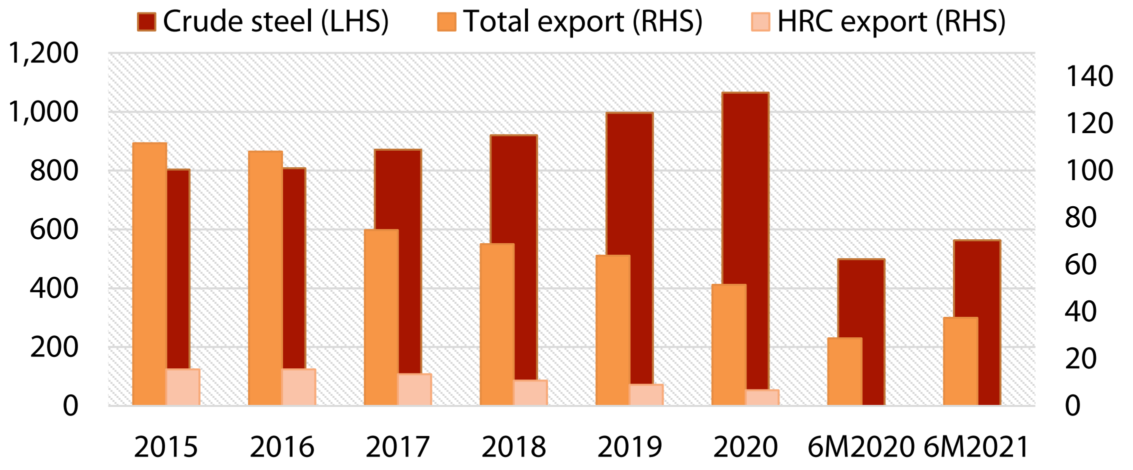
This can benefit Vietnam's producers by reducing competition and maintaining steel price in high level due to increasing production cost in China.

Figure 1: BOF capacity suspension rate (%) in Tangshan



Source: Goldman Sachs, RongViet Securities

Figure 2: China's crude steel, & steel export volume (thousand tons)



Source: National Bureau of Statistics of China, RongViet Securities

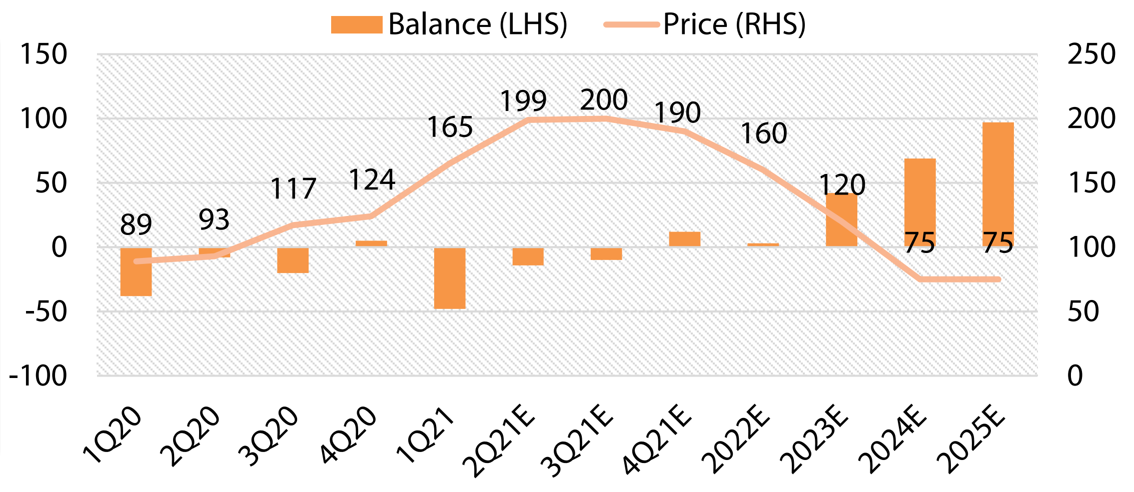
Increasing material price contributed to the rising steel price

- Iron ore price has gained 24% YTD due to high demand worldwide and weak supply from Brazil**, coupling with the increasing coking coal price that made BOF** production cost rise. Then increasing the steel price in 1H2021.

Steel price is hard to collapse and can maintain at high level until 1H2022.

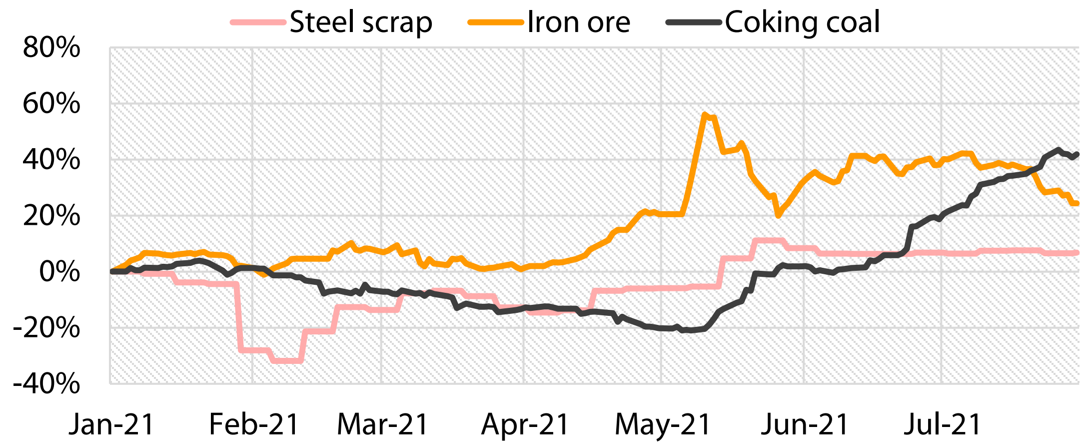
- Iron ore price can maintain at USD 160/ton in 2022 as demand can rise in ex-China countries, and Brazil mining volume grows slowly. Thus, BOF production cost is anticipated to stay high, and we believe that steel price is hard to collapse.
- Besides, China's attempts to cut production volume and strong demand in EU-North America markets can support steel price to be stable at current range until 1H2022.

Figure 3: Iron ore balance (mn tons) and price (USD/ton) forecast



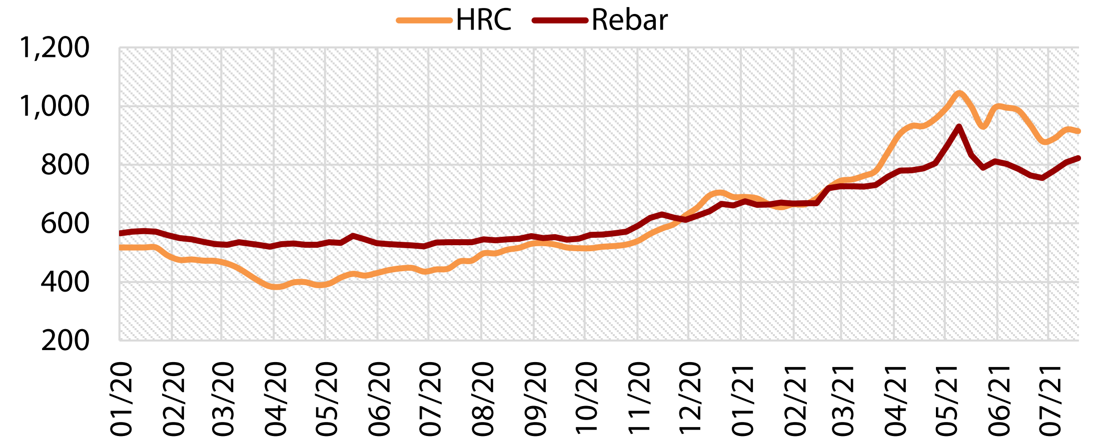
Source: Goldman Sachs, RongViet Securities

Figure 4: Material price changes



Source: Bloomberg, RongViet Securities

Figure 5: Steel prices (USD/ton)



Source: Bloomberg, RongViet Securities

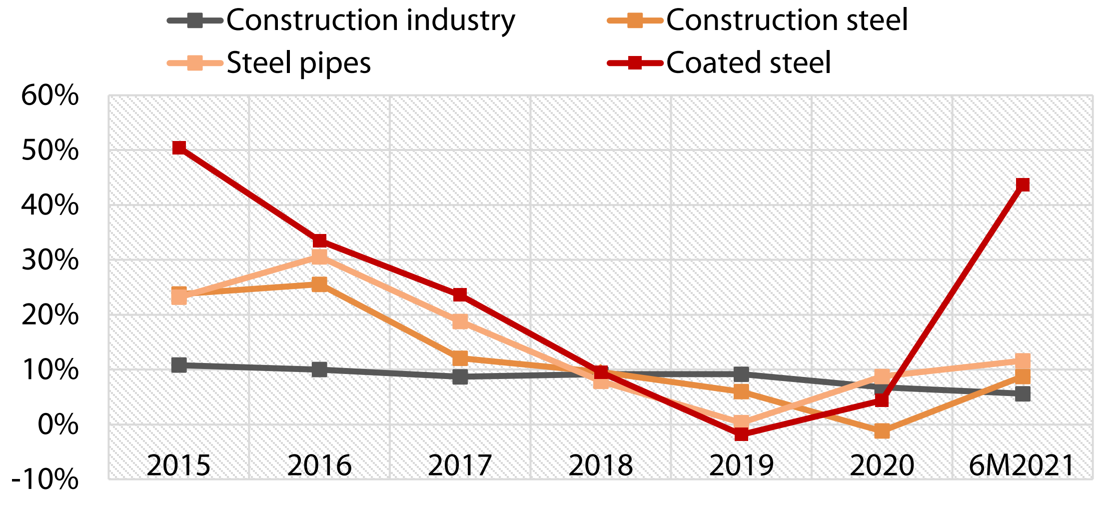
Construction steel: Volume grew at a higher pace than construction industry because of exports.

- Total sales volume increased 8.7% YoY, higher compared to construction growth rate of 5.6% YoY. Export volume rose by 27% to contribute 15.6% to total sales volume. Meanwhile, domestic production increased by only 5.9%.
- Increasing construction steel and HRC prices boosted HPG's GPM from 19% in 1H2020 to roughly 30% in 1H2021.

Coated steel: Benefits from strong demand overseas and increasing selling prices

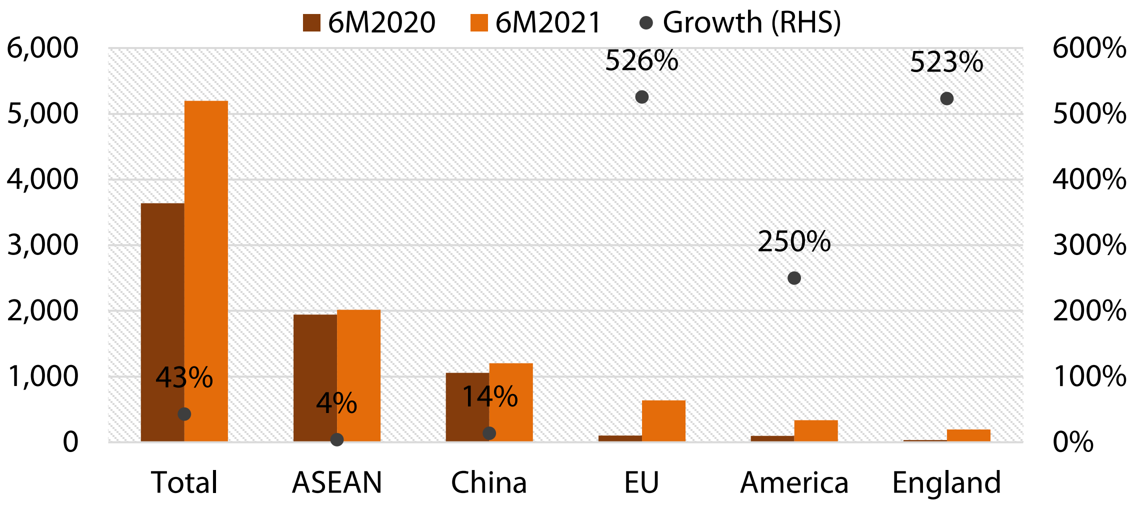
- Total sales volume grew by 44% YoY, supported by strong export volume growth, which was 133% YoY. Export volume to EU and North America rose sharply due to recovering demand in these countries and the ban/high import taxes on China's steel. EU-North America markets accounted for 80-90% of NKG's export volume, and 30% of HSG's.
- Besides, HRC prices increased by roughly 25% QoQ each quarter in 1H, boosting NKG and HSG's NPAT increased by 1,880% and 426% YoY in 6M2021.

Figure 6: Steel sales volume and construction industry growth



Source: VSA, GSO, RongViet Securities

Figure 7: Steel exports, by country (thousand tons)



Source: Vietnam's Custom, RongViet Securities

Trade policies and robust demand still support coated steel exports.

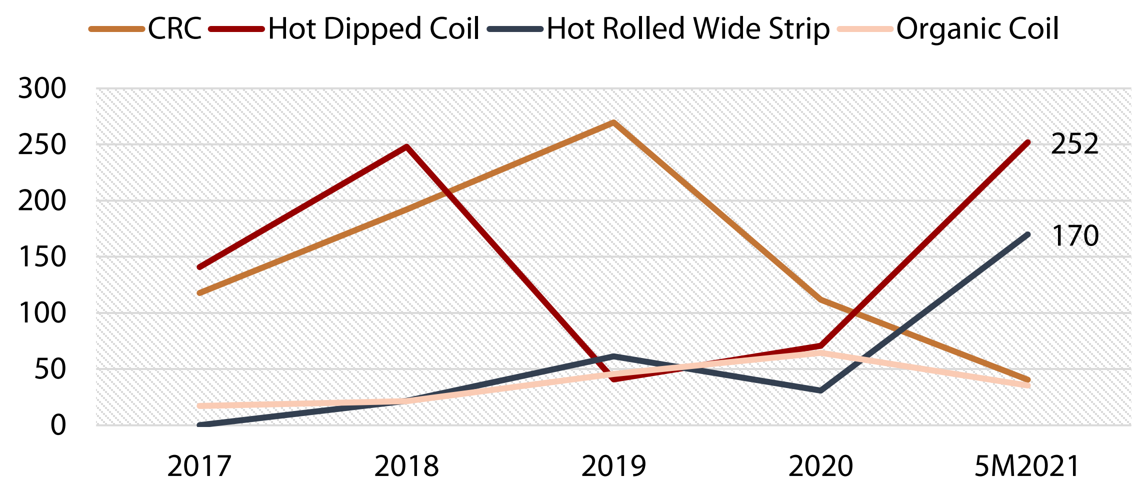
- Steel demand in Europe is forecasted to grow by 10.2% YoY in 2021 and 4.8% in 2022.
- EU has extended steel import safeguards, mainly targeting China, India, South Korea and Turkey. Producers, such as NKG, HSG, received sufficient orders until November,
- Producers can increase ASEAN's portion to maintain high selling volume if demand from Europe-North America falls.
- Vietnam's export volume will still high until 2023 as EU plans to apply carbon border mechanism, harming Vietnam's competitiveness.

Table 1: EU's steel import quota for VN's group (thousand tons)

	Jul 2020-Jun 2021	Jul 2021-Jun 2022	Jul 2022-Jun 2023	Jul 2023-Jun 2024
Hot Rolled Sheets & Strips	4,000	4,051	4,172	4,297
Cold Rolled Sheets & Strips	1,100	1,054	1,086	1,118
Metallic coated sheets (4A)	2,000	2,045	2,106	2,169
Organic coated sheets	112	158	163	168

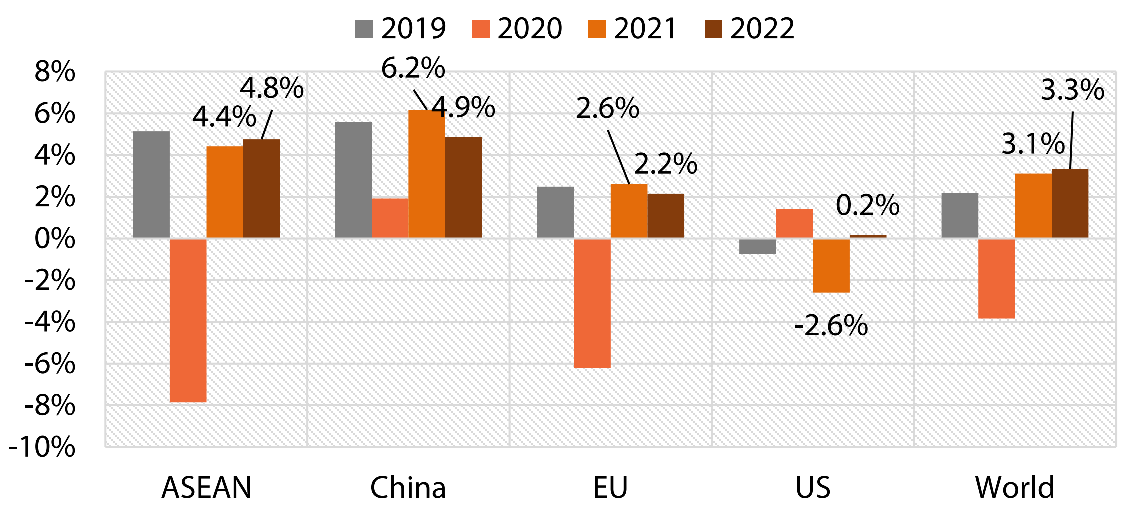
Source: EUROFER, RongViet Securities

Figure 8: Vietnam's steel export to Europe (thousand tons)



Source: EUROFER, RongViet Securities

Figure 9: Construction industry growth outlook



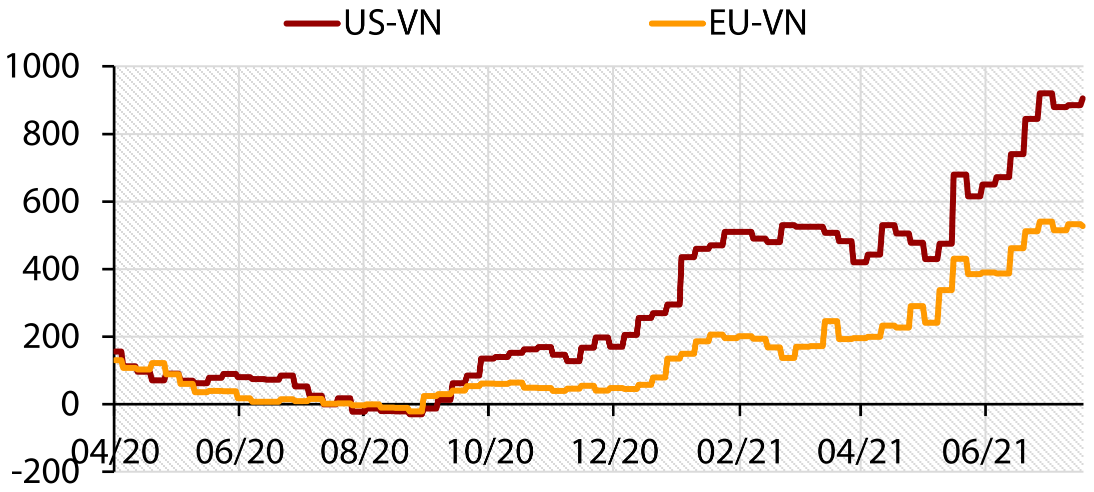
Source: IHS market, RongViet Securities

Vietnam's steel producers has strong competitiveness in terms of prices.

- The price gap between the EU & Vietnam has been increasing and varied in a range of USD 300-530/ton. We estimate GPM for Vietnam's exporters can range from 19%-22% in 2H.
- Assuming each ton of steel (BOF) needs to emit 1.85 tons of CO_2 (WSA), production cost in EU will be **120 USD** higher compared to Vietnam, India due to the cost of purchasing emission rights.
- Electricity prices range in USD 150-330/Mwh in EU, and USD 77/Mwh in Vietnam. This implies electricity cost (BOF) is USD 15-35 higher per ton in EU.
- Steel produced by Electric arc furnaces accounts for 40% of steel output in Europe and has 15%-20% higher production cost than steel produced by BOF.

We expect GPM of exporting to EU-North America can steadily decrease from 22% in 2Q to 14% in 2022, but it is still higher compared to 2018-2019 period.

Figure 10: HRC prices difference (USD/ton)



Source: Bloomberg, RongViet Securities

Figure 11: Carbon prices (USD/ton)

Source: EMBER, ICE, RongViet Securities

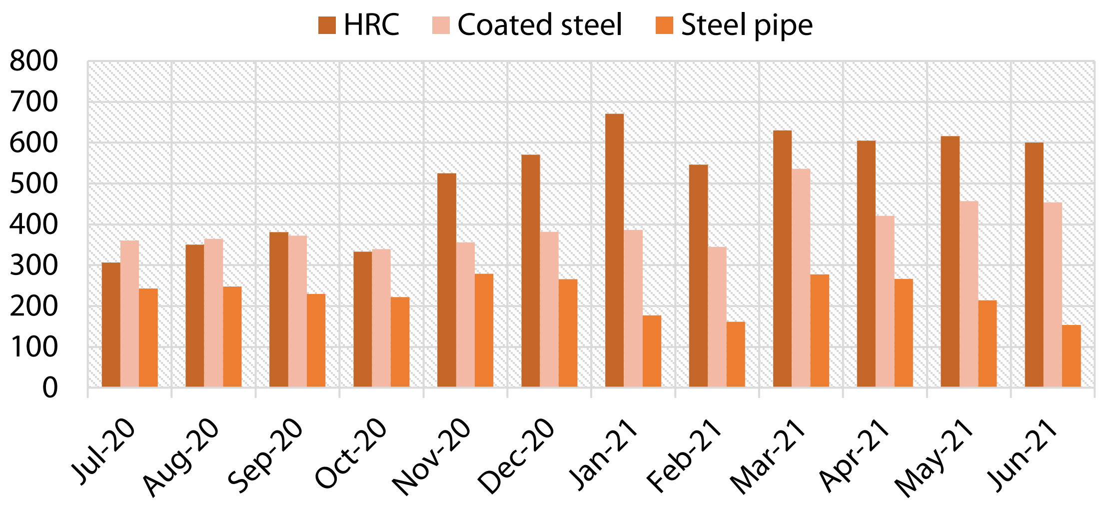
HRC consumption will be robust owing to strong downstream demand

- HRC selling price in 3Q is still high due to the strong demand for exporting to EU-North America markets, which banned Chinese-origin steel.
- For 2022, we expect the HRC consumption will be still high. The high price gap between Europe-North American and Vietnam allows HPG and Formosa to export with high profitability. Besides, coated steel export volume can remain strong due to Vietnam's competitive steel prices and the construction industry in EU-North American can keep recovering.
- Hence, HPG and Formosa will still enjoy high profitability and sales volume in 2H2021 in HRC segment.

But demand for construction steel is weak

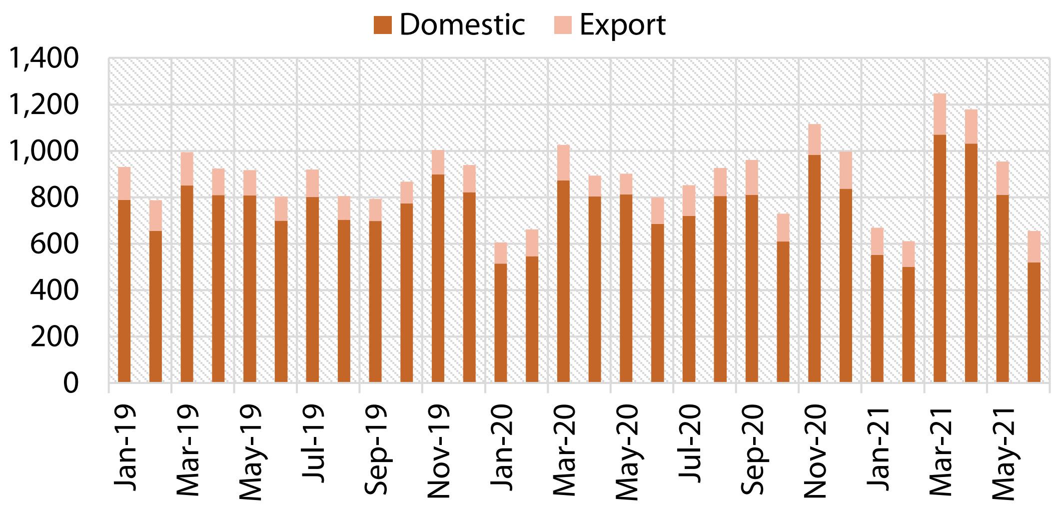
- Directive-16 can be applied at least until 14 August in the South, where accounts for 34% of construction steel consumption, can lead to low sales volume in 3Q. The consumption can recover strongly in 4Q due to seasonality and postponed projects in 3Q, but still depends on pandemic status.
- Coupled with increasing production cost, **construction steel producers' GPM will be put under high pressure in 2H.**

Figure 12: Flat steel sales volume (thousand tons)



Source: VSA, RongViet Securities

Figure 13: Construction steel sales volume (thousand tons)

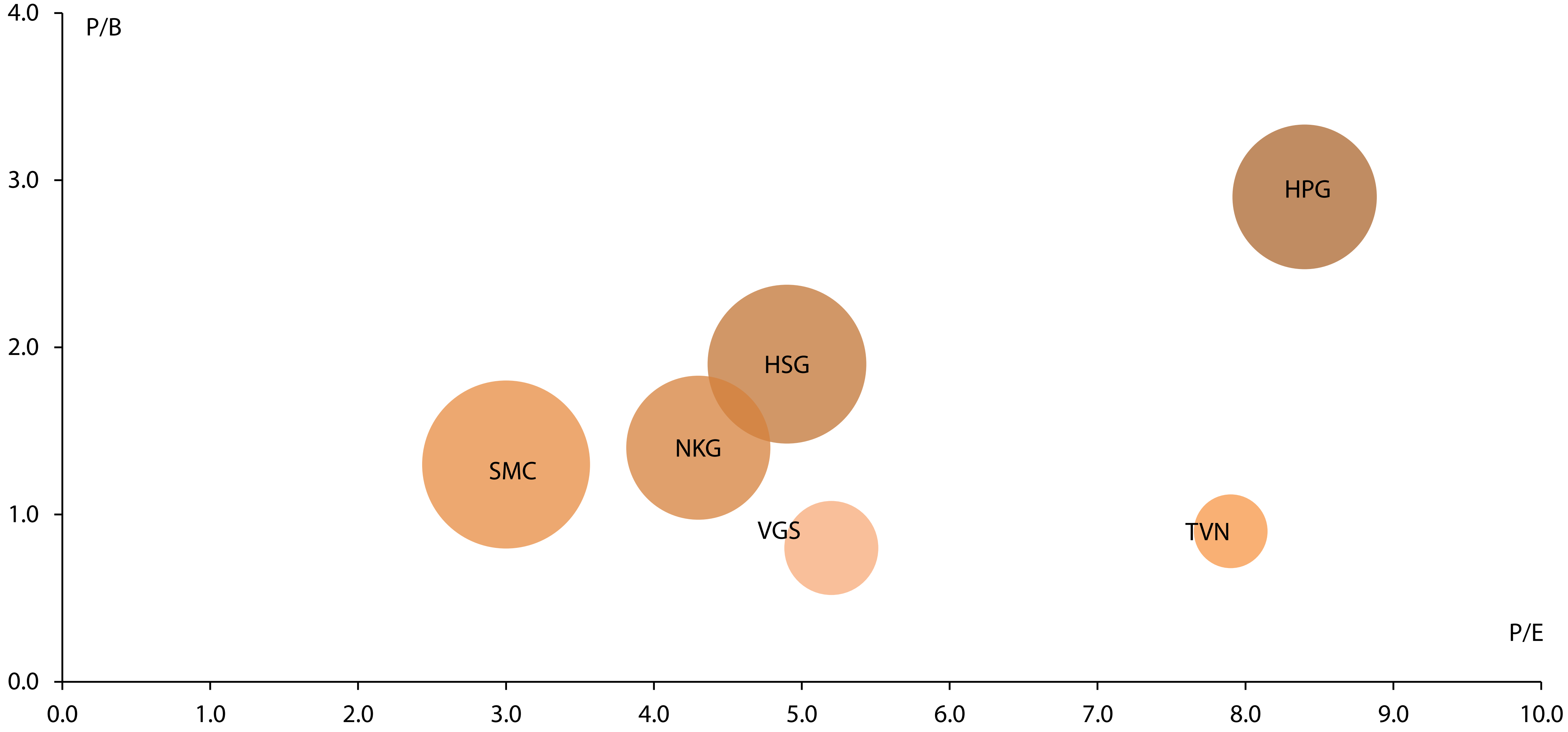


Source: VSA, RongViet Securities

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
HPG	9,188.9	59,000	29.6	56.5	29.3	24.6	86.6	21.6	18.3	39.5	0.0	8.4	2.9
NKG	795.3	42,500	37.3	53.3	13.4	11.2	143.7	9.1	18.3	47.6	0.0	4.9	1.9
HSG	273.4	42,800	61.4	143.4	11.6	9.5	374.9	7.5	14.0	39.2	0.9	4.3	1.4
SMC	123.7	47,500	24.8	158.0	6.7	6.1	222.7	5.1	12.9	53.3	2.1	3.0	1.3
VGS	362.3	N/A	15.9	33.2	4.5	3.0	138.7	3.4	4.5	10.3	0.0	7.9	0.9
TVN	27.8	N/A	-2.8	N/A	0.0	0.0	19.0	0.0	0.0	0.0	6.6	5.2	0.8
TIS	79.1	N/A	17.3	27.4	3.7	2.4	500.2	1.0	1.2	5.8	0.0	16.2	0.9

Source: Bloomberg, RongViet Securities. Share price as of 02 Aug 2021.

PE, PB AND ROE (TTM)

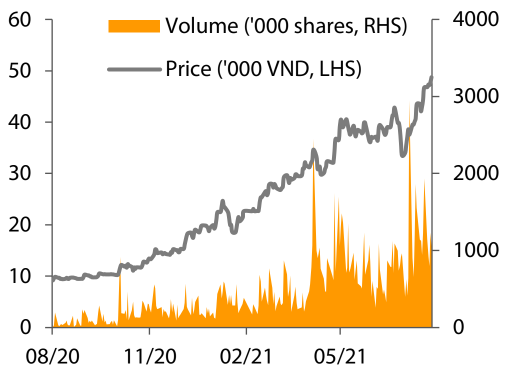


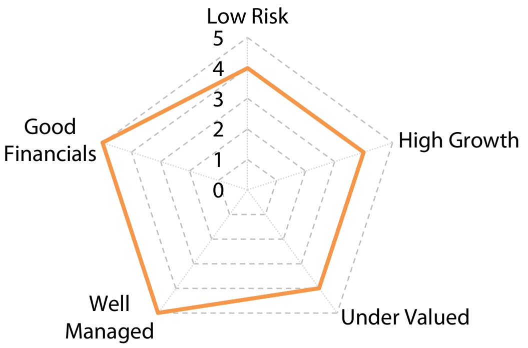
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 09 Aug 2021.

BENEFITING FROM HIGH PRICES AND STRONG DEMAND FOR HRC

HSX: HPG

<BUY: 26%> **<MP: 47,250>** **<TP: 59,000>**





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	211,346
Current Shares O/S (mn shares)	4,473
3M Avg. Volume (K)	30,965
3M Avg. Trading Value (VND Bn)	1,656
Remaining foreign room (%)	22
52-week range (VND)	21,700 - 67,800

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND Bn)	90,119	143,454	154,861
NPATMI (VND Bn)	13,439	32,724	33,546
ROA (%)	10.3	22	18.2
ROE (%)	22.8	32.8	27.4
EPS (VND)	2,824	6,877	7,050
Book Value (VND)	13,204	22,301	27,351
Cash dividend (VND)	0	500	2,000
P/E (x) (*)	6.6	7.0	6.9
P/B (x) (*)	2.3	2.2	1.8

INVESTMENT RATIONALES

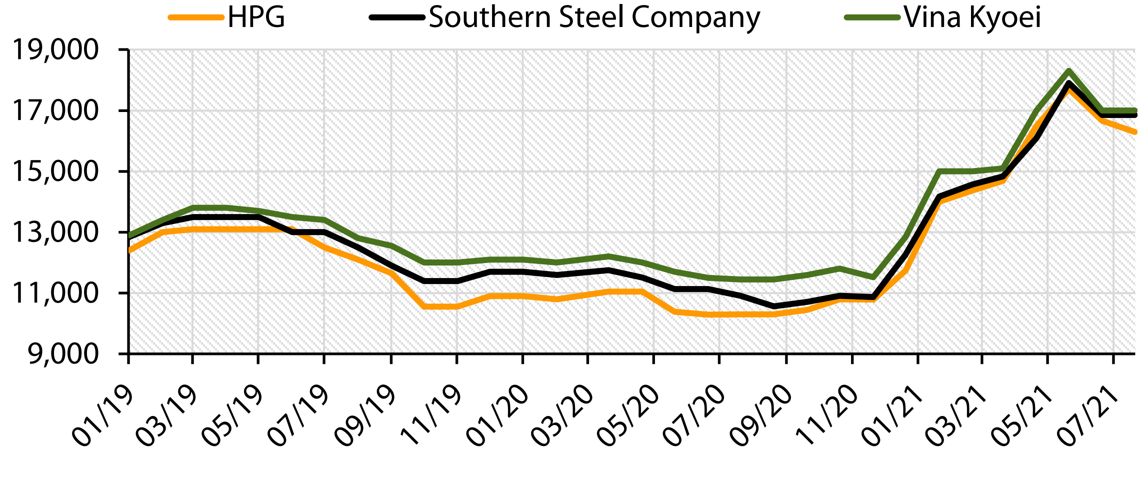
HPG can maintain a high profitability in the flat segment in 2H and 2022 due to high prices, favorable trade, and environmental policies in China and Europe.

- HPG's hot rolled steel (HRC) price in 3Q will keep increasing, from USD 870/ton to USD 960/ton. We expect that the HRC price can remain at USD 900/ton in 4Q. Hence, the company can see its GPM at 38.5% in 2H2021.
- For 2022, HPG's profitability in the flat steel segment can be still high. EU's trade defense on steel import, which focuses on India, Turkey, and South Korea, while the rising carbon price in the EU, leading to high steel production cost in EU, will be favorable market conditions for Vietnam's producers. The competition from China can decrease as this country is forcing decarbonization and reduce steel export.
- **The company has plentiful production capacity to reach high sales volume growth after the pandemic.**
- After the pandemic, demand for construction steel can recover, allowing HPG to sell more finished products and to reduce billet export volume, which has low gross margin.
- We expect HPG's construction steel sales volume will grow by 15% YoY in 2022, higher compared to a pace of 9% YoY in 2021.

RISKS TO OUR CALL

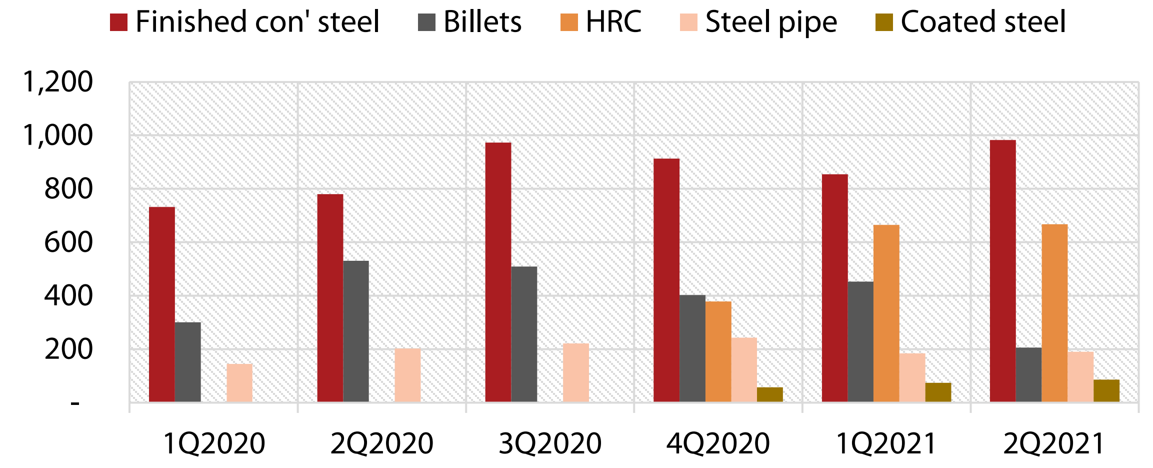
- Steel prices can decrease sharply, thus, harming HPG's GPM.
- Changes in EU's trade policies can affect HPG's NPAT significantly.

Figure 1: Leading construction steel companies' price (VND/kg)



Source: Rong Viet Securities

Figure 2: Sales volume, by product (thousand tons)



Source: HPG, Rong Viet Securities

1H: Revenue of VND 66,295 bn (+67%YoY); NPAT of VND 16,751 bn (+231% YoY); sales volume of 4.36 million tons (+62% YoY).

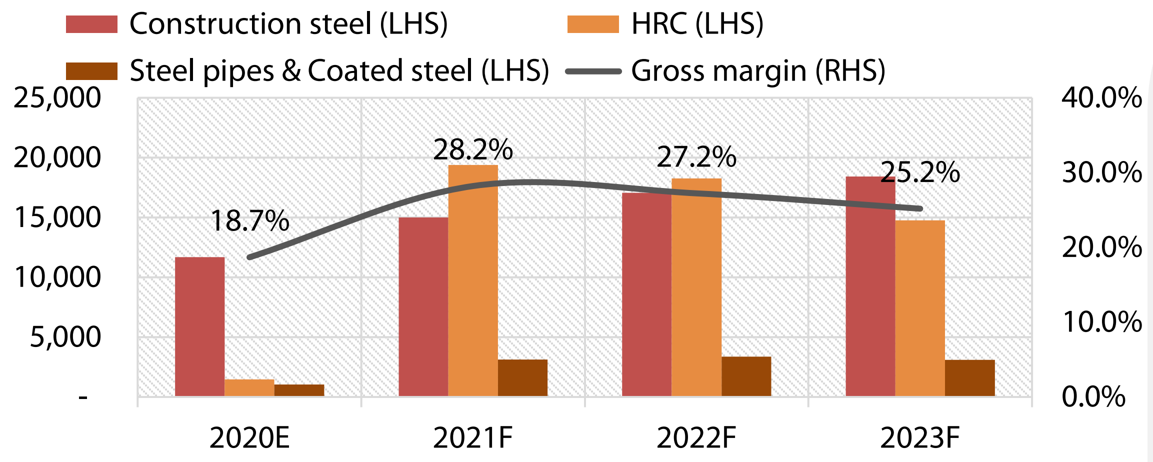
Increasing steel prices enhanced gross margin

- Quarterly HRC prices rose by 20% QoQ in 1Q and 26% QoQ to reach USD 870/ton in 2Q. Construction steel prices also rose strongly during the same period (figure 1).
- Material inventory accumulated at low prices allowed HPG to have a gross margin of 29.7% in 1H2021, increasing from 18.8% in 1H2020.

High-profitability product sales volume increased strongly

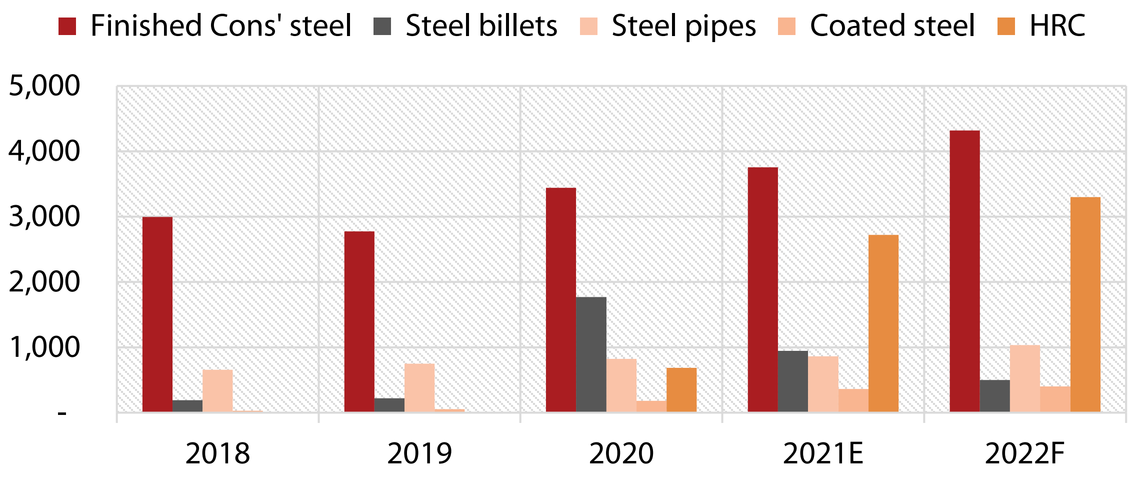
- HPG boosted finished construction steel exports as domestic demand was relatively weak. Sales volume grew by 22% YoY to 1.84 million tons in 1H, of which exports volume rose by 80%, while domestic sales grew by only 12%.
- Robust demand from EU-North America has boosted HRC and coated steel sales. HRC volume reached 1.33 million tons in 1H, contributing of 30.5% total steel sales (internal and external).

Figure 3: Steel segment's gross margin (%) and gross profit (VND bn)



Source: Rong Viet Securities

Figure 4: Sales volume forecast (thousand tons)



Source: HPG, Rong Viet Securities

Flat steel segment: Profit margin to keep increasing compared to 1H

- Downstream demand for domestic HRC is strong owing to vibrant coated steel export activities to EU and North American, which imposed a high tax on China's steel.
- HPG's HRC price in 3Q is roughly USD 960/ton and is forecasted to be USD 900/ton in 4Q. Due to high selling prices, we expect the company can earn a GPM of 37.5% in 2H, increasing slightly from 34.4% in 1H. GPM in this segment can reach 36.2% in 2021.
- For 2022, we expect HRC's GPM will be still high, reaching 31%, due to favorable demand and prices in Europe and North America.

Construction steel segment: Weak construction steel demand and rising production cost

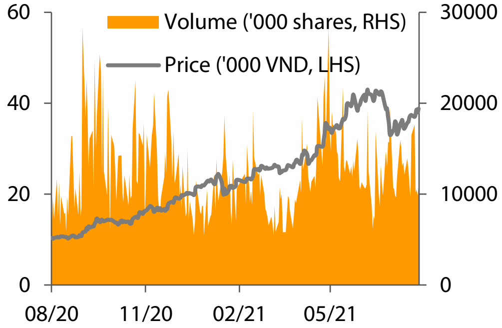
- Domestic steel demand is weak in 2H due to measures to control the pandemic. HPG could sell 880,000 tons of finished products in 3Q, and 1.02 million tons in 4Q. Sales volume in 2H2021 can be flat YoY.
- Rising production costs caused by both iron ore and coking coal, coupled with weak demand, will put pressure on profitability. We expect GPM can decrease from 24.0% in 1H to 15.8% in 2H. GPM in this segment can reach 19.8% in 2021.
- For 2022, we expect demand for construction steel to recover, and HPG's sales volume to increase by 15%.

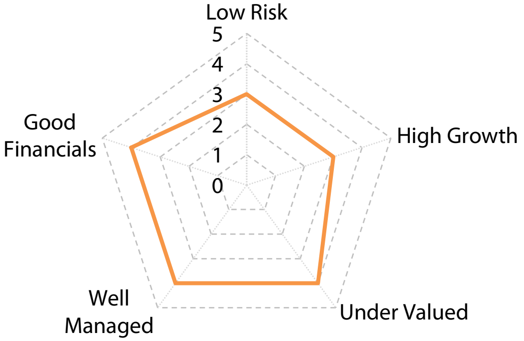
We forecast revenue and NPAT will be VND 77,000 bn (USD 3,348 mn, +53% YoY) and VND 16,300 bn (USD 709 mn, +93% YoY) in 2H2021.

BOOSTING EXPORT ACTIVITIES

HSX: HSG

<ACCUMULATE: 14%> **<MP: 37,400>** **<TP: 42,800>**





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	18291.7
Current Shares O/S (mn shares)	489.1
3M Avg. Volume (K)	13046.5
3M Avg. Trading Value (VND Bn)	507.4
Remaining foreign room (%)	38.9
52-week range (VND)	21,700 - 67,800

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND Bn)	27,543	46,025	58,908
NPATMI (VND Bn)	1,151	4,393	3,575
ROA (%)	6.5	19.6	13.9
ROE (%)	17.4	41.1	25.5
EPS (VND)	2,588	8,353	6,798
Book Value (VND)	14,860	21,863	28,661
Cash dividend (VND)	0	0	0
P/E (x) (*)	6.0	4.5	5.6
P/B (x) (*)	1.1	1.7	1.3

INVESTMENT RATIONALES

Robust demand overseas allows HSG to run coating factories at full capacity in 2H2021

- HSG will increase export volume in 4Q/FY20-21 to net-off the weak demand for coated steel in the domestic market. The company received sufficient orders overseas for production until November-December. Coated steel export volume can increase by 10% QoQ in 4Q, while selling volume in the domestic market can decrease by 11% QoQ.
- HSG can increase export's GPM to 19.5% in 4Q from 18.9% in 3Q. This is because export volume to the EU & US, which have a high GPM of roughly 22%, can grow by 120% QoQ to 184,000 tons in 4Q.

HSG can maintain strong export volume in the next fiscal year due to strong demand, favorable trade and environmental policies in Europe

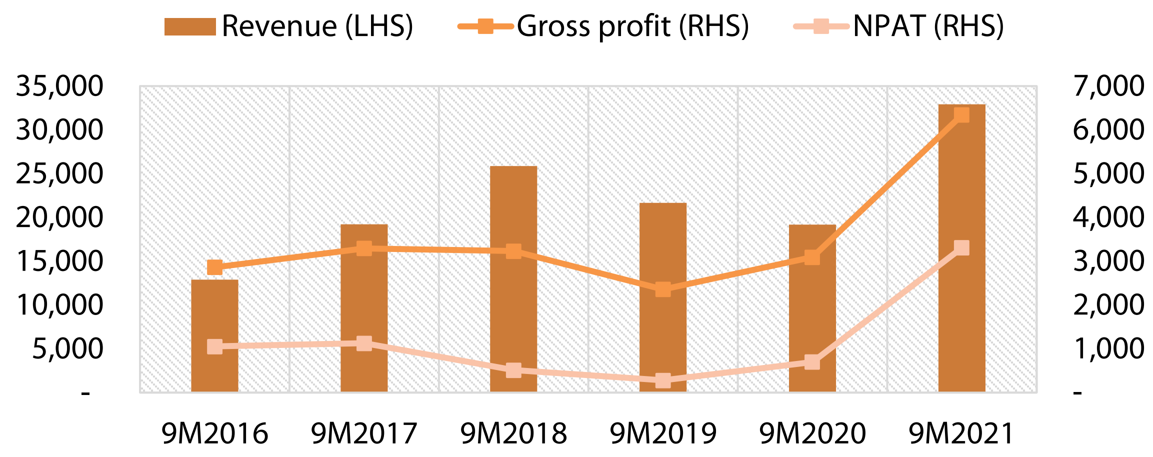
- EU and America are commencing a bunch of infrastructure projects, demanding large amount of steel. Besides, Vietnam's producers benefit from the EU's trade defense on steel imports, which focus on India, Turkey and Korea. Rising carbon price in the EU leads to high steel production costs, which will make Vietnam steels competitive.
- We expect that HSG's export volume can be stable at 1.2 million ton in FY 2021-2022, which is high compared to previous years.

RISKS TO OUR CALL

- Changes in the EU's trade policies can affect HSG's NPAT significantly.

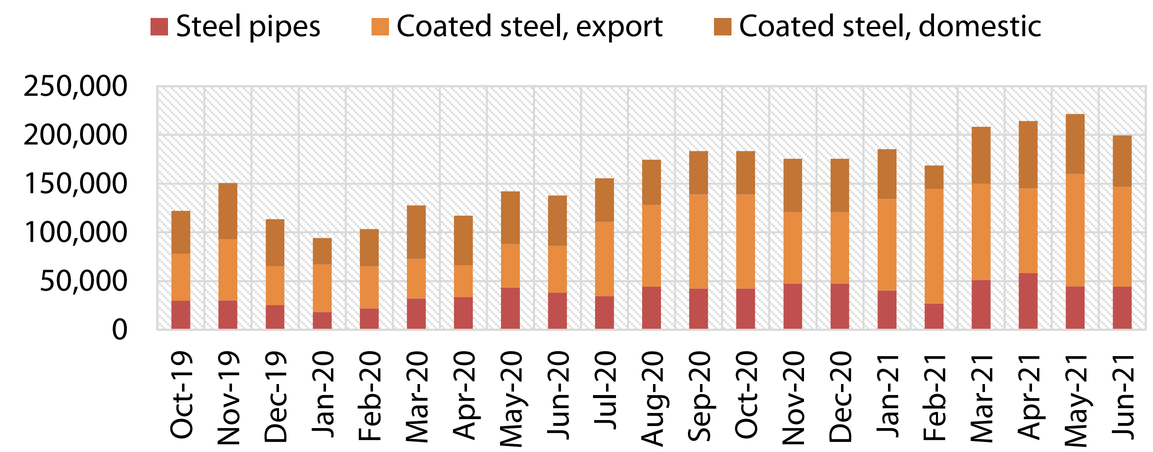
9M/FY20-21: BENEFIT FROM STEEL PRICE AND STRONG DEMAND OVERSEAS

Figure 1: Revenue and NPAT (VND bn)



Source: Rong Viet Securities

Figure 2: Sales volume (thousand tons)



Source: HSG, Rong Viet Securities

9M: Revenue of VND 32,932 bn (USD 1,419mn,+72%YoY); NPAT of VND 3,308 bn (USD 142mn, +372% YoY); sales volume of 1,731,000 tons (+56% YoY);

ASP increasing by 10% YoY.

Interest expenses dropping from VND 446 bn (USD 19mn) to VND 320 bn (USD 14mn) in 9M.

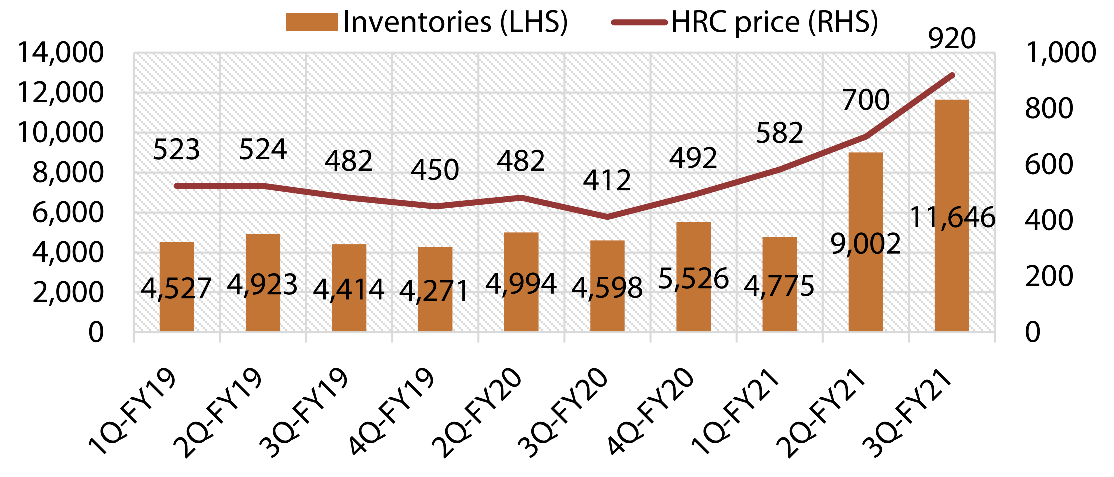
Increasing steel prices boosted the gross margin

- Quarterly HRC prices rose by 20%-31% QoQ each quarter from USD 582/ton in 1Q/FY20-21 to USD 920/ton in 3Q.
- Gross margin increased from 16.1% in 9M/FY19-20 to 19.2% in 9M/FY20-21.

Selling volume increased strongly mainly due to export activities

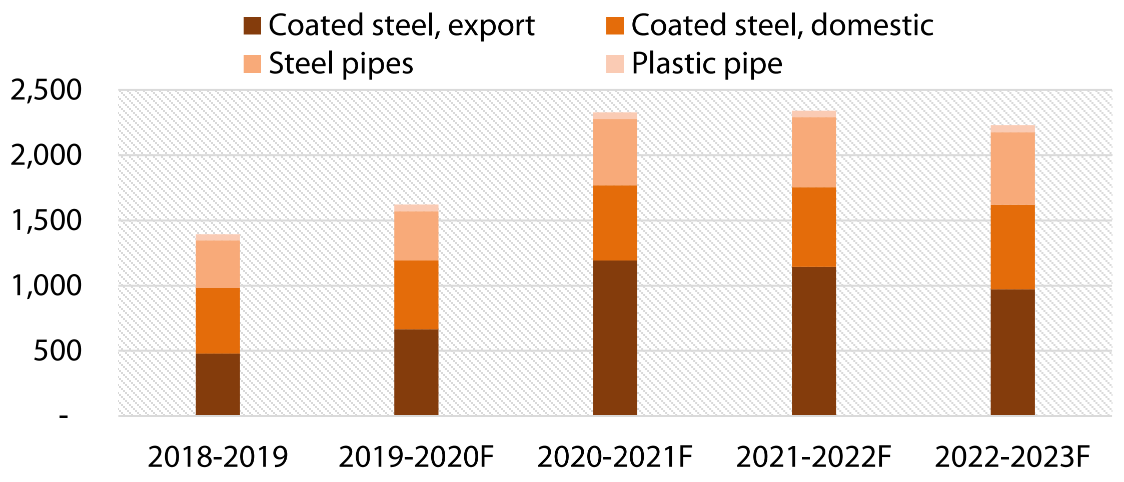
- In 9M, coated steel volume grew by 59%, of which export volume grew by 110%.
- Robust demand from EU-North America has boosted export volume. These markets accounted for 25%-30% of export volume in 3Q.

Figure 3: HSG's inventory (VND bn) and HRC price (USD/ton)



Source: Rong Viet Securities

Figure 4: Sales volume forecast (thousand tons)



Source: HSG, Rong Viet Securities

4Q/FY20-21: Focus on export markets

- HSG can increase its export volume from 304,000 tons in 3Q to 334,000 tons in 4Q. Coated steel selling volume can reach 480,000 tons in 4Q, increasing by 3% QoQ.
- Steel pipes selling volume can decrease by 18% to 116,500 tons due to directive-16 implementation in the South of Vietnam.
- EU-America markets can increase export portion in sales volume from 27% in 3Q to 55% in 4Q. GPM in these market is roughly 22%.
- GPM can fall to 19.5% in 4Q from 22.7% in 3Q as we expect GPM in the domestic market can decrease from 28% in 3Q to 20% in 4Q due to the weak demand and stable steel prices.
- Revenue: VND 13,095 bn (USD 564mn), +57%. NPAT: VND 1,100 billion (USD 47mn), +144% YoY.

FY21-22: Market conditions allow HSG to maintain a high export volume

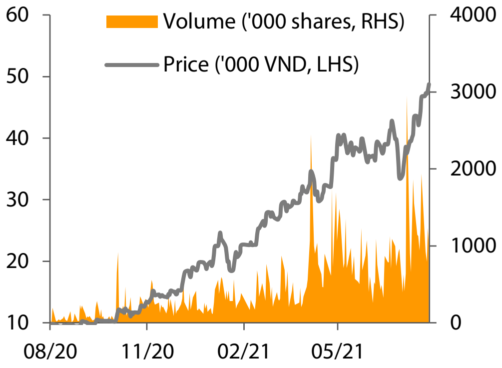
- Export volume is expected to be stable at 1.2 million tons owing to favorable trade policies and robust demand in Europe after the pandemic, which may come from rising infrastructure investments.
- Domestic coated steel & steel pipe volume are expected to grow by 6% YoY.
- GPM in 2022 can fall from 19.2% to 14.1 % mainly due to stable steel prices. As a result, NPAT can decrease by 19% YoY to VND 3,575 bn (USD 154mn).

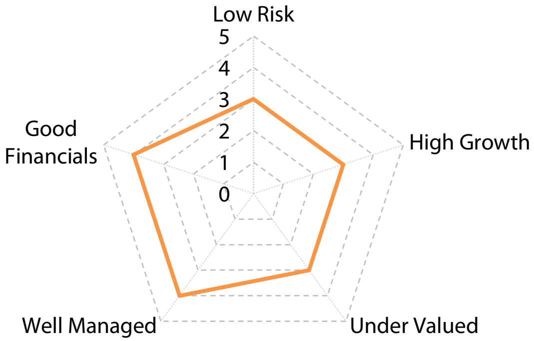
FY22-23: Due to EU's carbon border, HSG's export volume can decrease by 15% and GPM fall from 14.1% in previous FY to 12.7%.

EXPORTING TO BOOST SALES AND PROFITABILITY

HSX: NKG

<BUY: 24%> **<MP: 34,550>** **<TP: 42,500>**





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	6288.1
Current Shares O/S (mn shares)	182.0
3M Avg. Volume (K)	5237.8
3M Avg. Trading Value (VND Bn)	169.1
Remaining foreign room (%)	35.2
52-week range (VND)	21,700 - 67,800

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND Bn)	11,560	28,166	29,062
NPATMI (VND Bn)	295	2,264	1,503
ROA (%)	3.9	20.1	12.4
ROE (%)	9.3	43.2	23.2
EPS (VND)	1,101	11,820	7,847
Book Value (VND)	17,479	28,799	35,646
Cash dividend (VND)	0	300	1,000
P/E (x) (*)	9.2	3.2	4.8
P/B (x) (*)	0.9	1.3	1.1

INVESTMENT RATIONALES

Strong exporting activities will net-off the weak demand in domestic market in 2H2021

- NKG has received orders for production until November, helping factories run at full capacity in 2021. Export volume can account for roughly 80% of total coated steel sales volume.
- NKG can earn high export profit margin in 2H2021, compared to 2H2020 as NKG accumulated cheap HRC in June, coupling with the increasing ASP in its main markets Europe, American.

Favorable trade and environmental policies in Europe can support NKG's export in the next year

- EU extends trade-defense policy on steel import by three years, which focus on South Korea, Turkey. Then, this will create opportunity for Vietnam's exporters.
- Carbon prices have been increasing, leading to high steel production cost in EU compared to many countries, such as Vietnam and India.

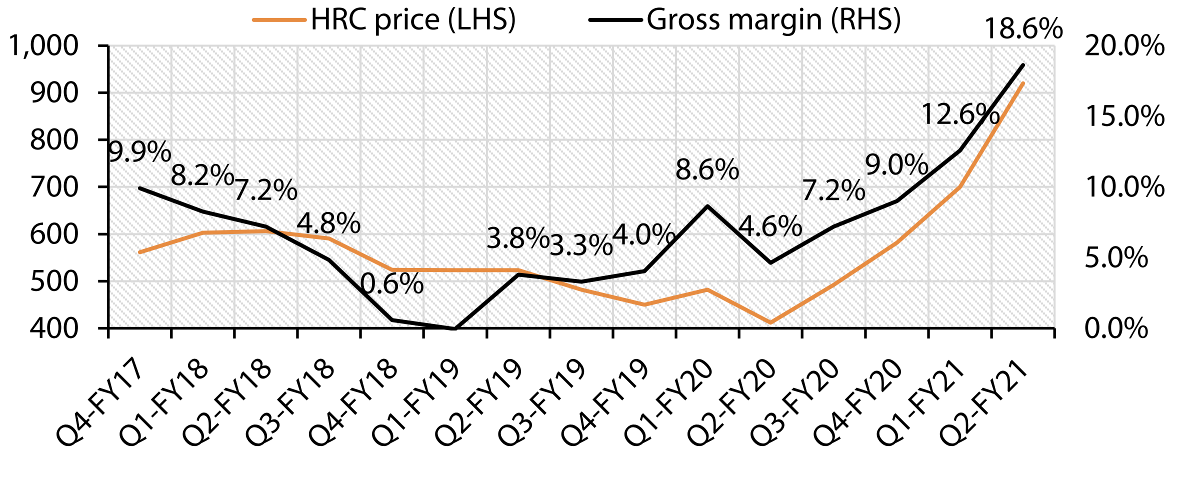
Expanding capacity to seize opportunities

- NKG is building a new warehouse and moving its steel pipe production lines to new factory, which can increase steel pipe capacity by 80% to 330,000 tons and coating capacity by 15% to 1.15 million tons.

RISKS TO OUR CALL

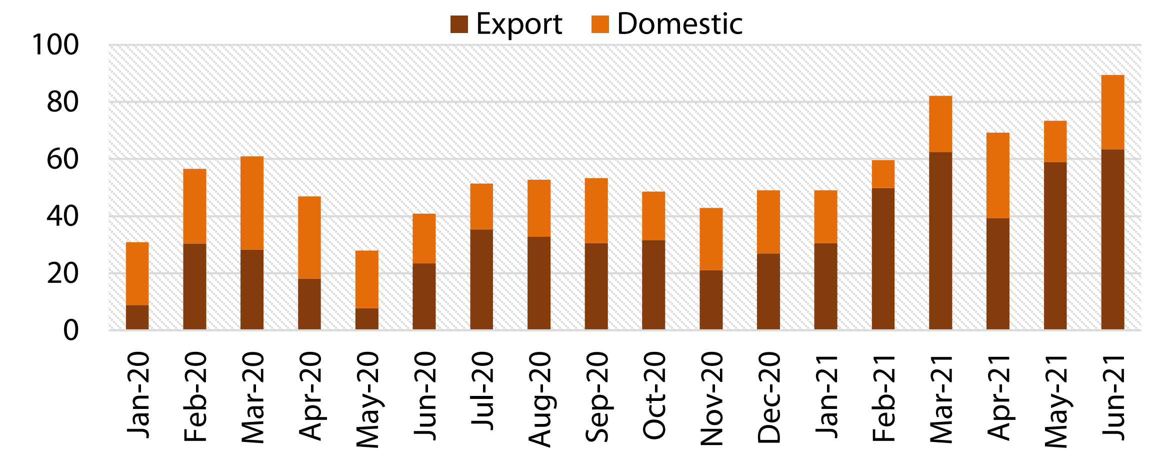
- Changes in EU's trade policies can affect NKG's NPAT significantly.

Figure 1: HRC price (USD/ton) and GPM (%)



Source: Rong Viet Securities

Figure 2: Coated sales volume, by market (thousand tons)



Source: NKG, Rong Viet Securities

1H: Revenue of VND 11,862 bn (USD 511mn, **+149%YoY); NPAT of VND 1,166 bn** (USD 50mn, **+1,884% YoY); sales volume of 518,000 tons (+75% YoY)**

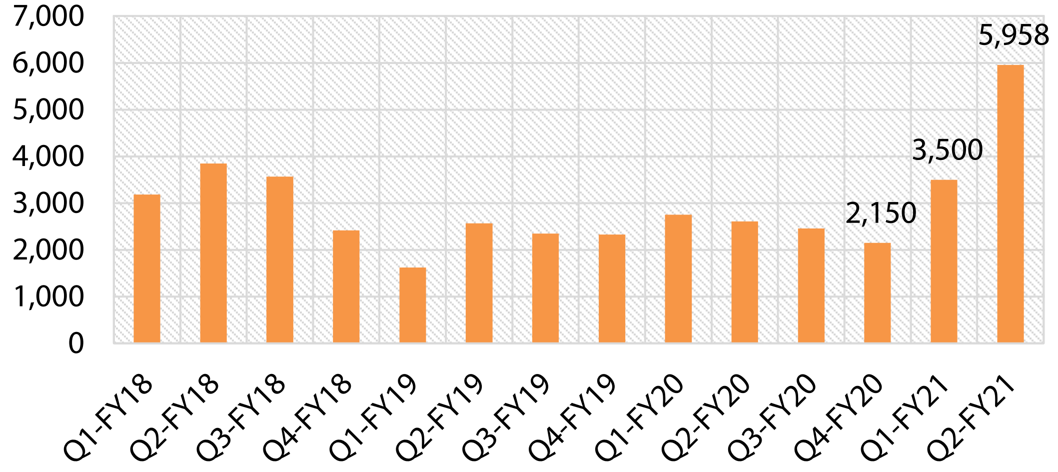
Positive effect of increasing steel price was amplified by large inventory

- Quarterly HRC price rose by 31% QoQ from USD 700/ton to USD 920/ton. NKG earned large profit by accumulating HRC at relatively low price in March. Its inventory increased by 63% QoQ in 1Q in terms of value.
- 2Q2021 ASP increased by 28% QoQ.
- Gross margin increased from a high level of 12.6% in 1Q to 18.6% in 2Q, which was very impressive compared to historical margins.

Export brings high profitability and boost sales volume

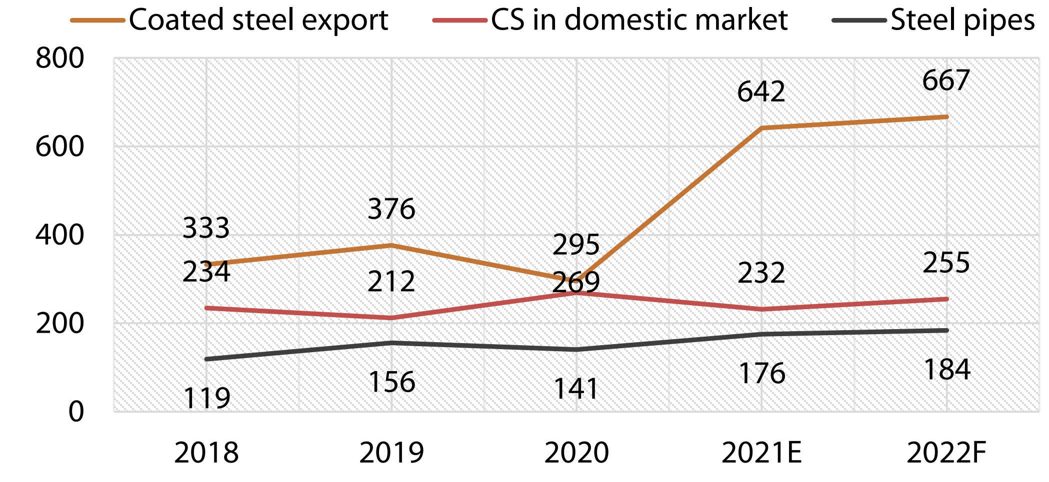
- Due to the large difference of HRC price between Europe and Vietnam, NKG earned high GPM for exporting, which we estimate was roughly 22%.
- Export volume increased by 160% YoY to 518,000 tons in 1H, contributing roughly 59% to total sales volume. This implied that most its factories ran at full capacity and the company also used external CRC to exploit coating capacity of one milline ton/year.

Figure 3: Inventory (VND bn) increased sharply in 2Q2021



Source: Rong Viet Securities

Figure 4: Sales volume forecast (thousand tons)



Source: NKG, Rong Viet Securities

2H2021: Focus on export markets

- Currently, HRC prices reached USD 1,400/ton in Europe, higher compared to USD 900-1000/ton in Vietnam, implying high GPM for exporting segment.
- We forecast that GPM for exporting to EU can reach 19% in 3Q2021, lower than 2Q2021 but still better than that in last year. Overall, GPM can decrease to 12.2% in 2H2021 from 16.1% in 1H2021 because steel prices can be stable in 2H2021, while increasing strongly in 1H2021.
- Despite pandemic, NKG's factories can run at full capacity owing to large orders from Europe and North America. Volume is forecasted to reach 536 thousand tons in 2H2021, +32% YoY.
- Revenue and NPATMI to post VND 16,350 bn (USD 705mn), +140% and VND 1,160 bn (USD 50mn), +390% YoY, respectively in the H2 2021.

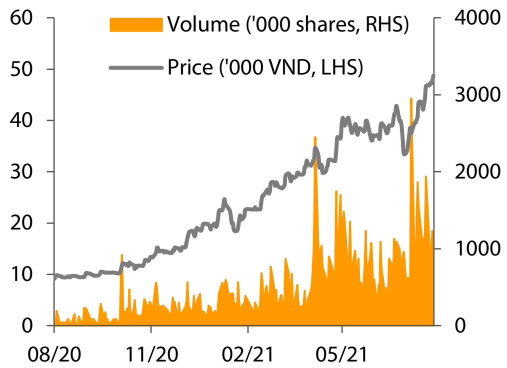
2022: NKG can maintain strong export volume and increase capacity.

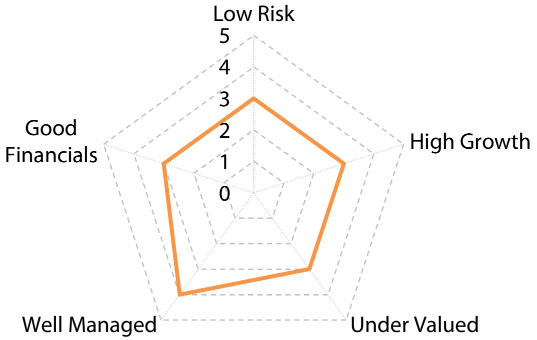
- We expect that export volume can grow slightly in 2022 owing to favorable trade policy, and robust demand in Europe after the pandemic, which may come from rising infrastructure investments.
- NKG is investing roughly VND 120 billion (USD 5.2mn) in its new warehouse and steel pipe factory (moved from NK2 factory). Coated steel and steel pipe capacity will increase by 15% and 80% respectively in 2022.
- GPM in 2022 will decrease from 13.7% to roughly 9.0% due to stable steel prices. NPAT in 2022 will decrease by 34% to VND 1,500 bn (USD 64.7mn).

FACING DIFFICULTIES IN THE SHORT-TERM

HSX: SMC

<ACCUMULATE: 4%> **<MP: 46,700>** **<TP: 47,500>**





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	2845.1
Current Shares O/S (mn shares)	60.9
3M Avg. Volume (K)	913.6
3M Avg. Trading Value (VND Bn)	35.7
Remaining foreign room (%)	27.0
52-week range (VND)	21,700 - 67,800

FINANCIALS	2020A	2021F	2022F
Revenue (VND Bn)	15,736	23,345	23,755
NPATMI (VND Bn)	300	820	409
ROA (%)	4.5	11.5	5.7
ROE (%)	19.8	36.1	15.7
EPS (VND)	4,932	13,295	6,641
Book Value (VND)	24,907	37,202	42,843
Cash dividend (VND)	1,000	1,000	1,000
P/E (x) (*)	4.0	3.3	6.6
P/B (x) (*)	0.8	1.2	1.0

INVESTMENT RATIONALES

SMC's sales activities will face obstacles from measures to control COVID-19 in 3Q, but can recover in 4Q

- By applying Directive-16 in the South, construction activities in the South will be suspended at least until August. We expect that trading and manufacturing volume will decrease by 19% QoQ and 15% QoQ respectively in 3Q, before growing 24% QoQ and 54% QoQ in 4Q as we expect that the demand will recover quickly after social distancing.
- Total volume can reach 1.2 million tons in 2021, 14% lower than our expectations before applying Directive-16 in the South.

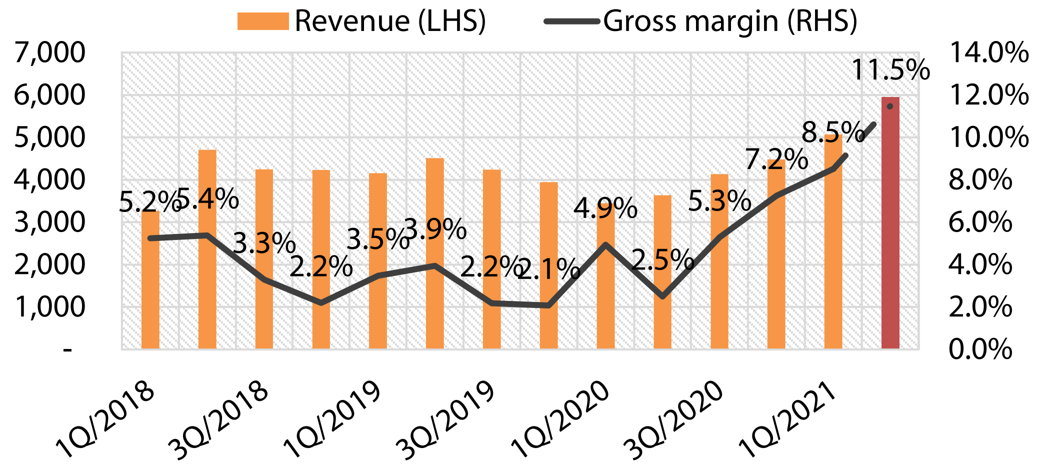
New factories can be completed in early 4Q, allowing seizing recovering demand after the pandemic

- Two new factories, including a Coil Center and a Precision Mechanical factory, can start operating in late-September. SMC's coil processing capacity will increase be 32.5% in 2022, reaching 530,000 tons of products.
- We expect these factories can provide 16,500 tons of products in 2021, contributing 4% to processing coil volume, before increasing to 150,000 tons in 2022, contributing 31% to processing coil volume.

RISKS TO OUR CALL

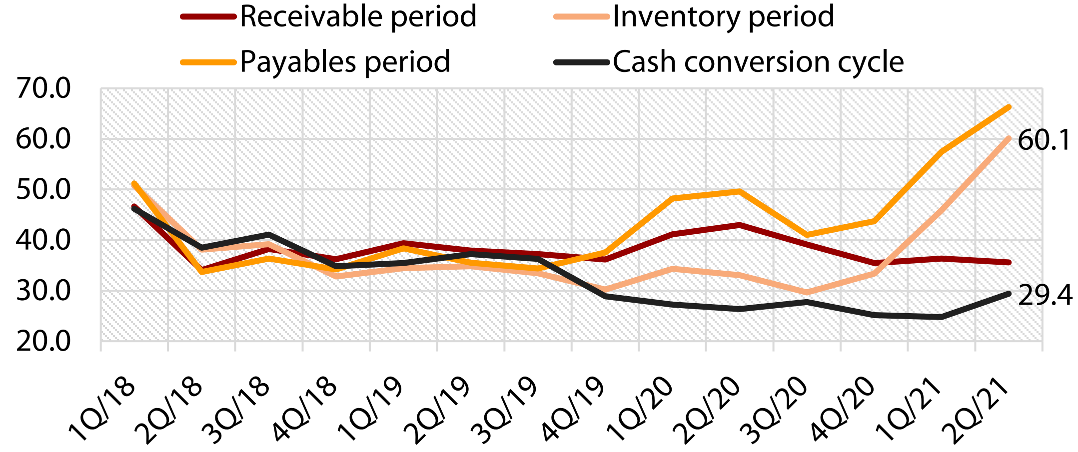
- Iron ore prices can decrease sharply, leading to lower steel prices, thus, harming GPM. Besides, measures to control COVID-19 can be extended, thus affecting negatively SMC's sales volume.
- Upside risk can come from China's export tax on HRC, which can boost HRC price in Vietnam, then impacting on domestic steel pipe and coated steel prices.

Figure 1: Revenue (VND bn) and Gross margin (%)



Source: Rong Viet Securities

Figure 2: Activity ratios (days)



Source: SMC, Rong Viet Securities

1H REVIEW:

Revenue of VND 11,019 bn (USD 475 mn, +56%YoY); NPAT of VND 710 bn (USD 30.6 mn, +1,244% YoY); APS increased by 49% YoY.

SMC's inventory period has been increasing since 4Q2020 and enough for two-month production in 2Q2021. Working capital was managed well as the cash conversion cycle remained 29.4 days, lower than 2018-2019 level.

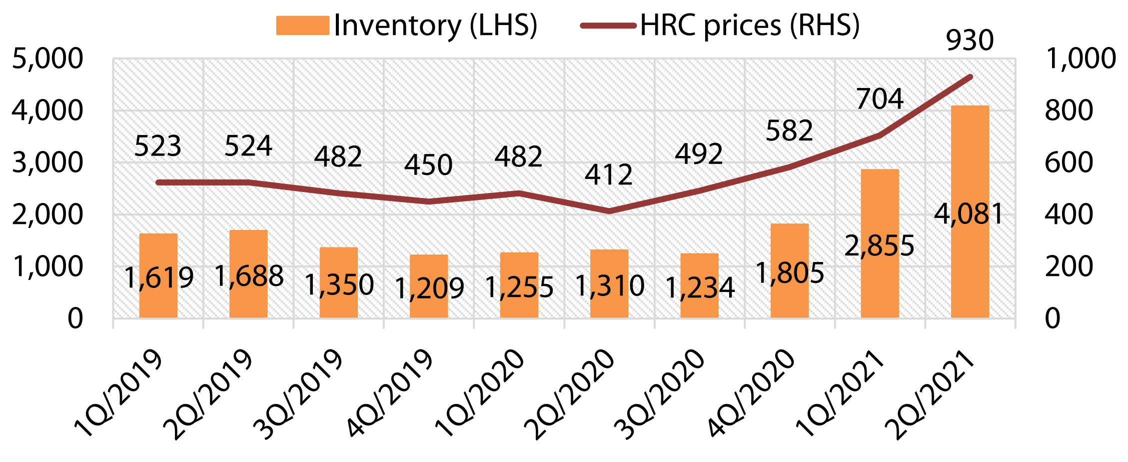
Increasing steel prices, coupled with low-price inventory, boosted gross margin

- Quarterly HRC prices rose by 20%-31% QoQ each quarter from USD 582/ton in 1Q/FY20-21 to USD 920/ton in 3Q.
- The company accumulated roughly 125,000 tons of flat steel at the average price of USD 760/ton in March. Hence, it earned large profit from the increase of steel price in 2Q, exposing on a record high gross margin of 11.5%.

Strong demand allowed SMC to run its factories at full capacity in 5M, before facing a decrease in sales due to the pandemic

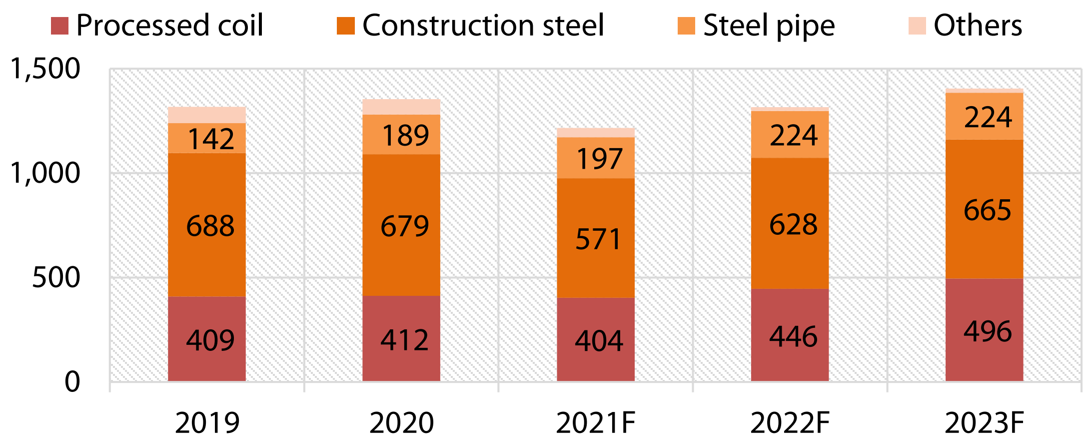
- After the pandemic's peak in 2Q2020, manufacturing, and construction activities have recovered, leading to robust demand for steel products and coil-processing services.
- Steel pipe and processed coil volume reached 103,000 tons (+20% YoY) and roughly 200,000 tons (+0% YoY) in 1H, respectively.
- Sales volume in 1H reached 646,305 tons (+4.4% YoY).

Figure 3: Inventory (VND bn) and HRC price (USD/ton)



Source: Rong Viet Securities

Figure 4: SMC's sales volume forecast (thousand tons)



Source: SMC, Rong Viet Securities

Demand can be very weak in 3Q, but it can recover fast in 4Q

- Sales activities face challenges due to the rainy season, high steel price, and Directive-16 implementation in the South. We expect sales volume can decrease by 17% QoQ in 3Q, and then grow by 34% QoQ in 4Q.
- We estimate inventory volume has increased by 10% QoQ in July. In which, flat steel inventory is sufficient for production in three months (140,000-150,000 tons), and the construction steel inventory period is roughly one month (~45,000 tons).
- GPM in in 2H can fall from a 2Q record level because HRC price is expected to be stable in 2H while increasing sharply in 1H.
- We expect NPAT in 2H will decrease to VND 120 bn (USD 120mn), -50% YoY.

New factories and recovering steel demand can bring back growth momentum, but GPM can decrease in 2022

- Coil-processing volume can increase by 10% in 2022, with 100,000 tons from new factories.
- GPM can fall to 4.4% in 2022, from 6.8% as the effect of increasing steel prices will fade. NPAT can decrease to VND 410 bn (USD 17.7 mn) in 2022, before increasing to VND 480 bn (USD 7.76mn) in 2023 as factories will ramp up steadily.

DISCLAIMER:

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Rong Viet Securities Corporation (Rong Viet), with headquarters in Ho Chi Minh City, Vietnam. Rong Viet is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Rong Viet has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Rong Viet.

Rong Viet is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

DISCLAIMER:

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at Floor 36, 444 Madison Avenue, Floor 36, New York, NY 10022. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Rong Viet. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Rong Viet is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Tellimer") provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer's conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law. This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

VIET DRAGON SECURITIES CORPORATION

Viet Dragon Tower, 141 Nguyen Du Street, Dist.1, HCMC, Vietnam

vdsc.com.vn

Ms. Lam Nguyen
Head of Research
F: + 84 28 6299 2006 (Ext: 1313)
E: lam.ntp@vdsc.com.vn

Mr. Vu Nguyen
Head of Institutional Clients
F: + 84 8 6299 2006 (Ext: 1367)
M: vu.na@vdsc.com.vn