SMC TRADING INVESTMENT JSC (HSX: SMC)

New factories to create growth potential and enhance sustainability

(VND bn)	Q1/2021	Q4/2020	+/- qoq	Q1/2020	+/- yoy
Net revenue	5,070	4,478	13%	3,448	47%
PAT	208	148	41%	10	1938%
EBIT	279	171	64%	104	169%
EBIT margin	5.5%	3.8%	17bps	3.0%	25bps

Source: SMC, Rong Viet Securities

1Q2021: NPAT reached a record level.

- Most of the factories ran at full capacity due to strong demand from manufacturing and construction activities, leading sales volume to grow by 12% YoY.
- GPM improved from 2.5% in 1Q2020 to 8.5% in 1Q2021 as HRC price increased at a higher pace, 7.0% QoQ in 1Q2020 vs. 21% QoQ in 1Q2021.
- The company's provision for long-term financial investments decreased by VND 7.6 bn (USD 0.3 mn) in 1Q2021, while increasing by VND 26.1 bn (USD 1.1 mn) in 1Q2020.
- Due to increasing sales volume and gross margin, coupled with higher net financial incomes, NPAT rose by 169% YoY.

2021 Outlook: Taking advantage from upward trend of the HRC price

We forecast that NPAT will increase by 110% QoQ in 2Q as HRC prices increased at a higher pace in the last two months and the company has stored large inventory, sufficient for production in two to three months. Regarding volume, the robust demand allows the company to run its factories at full capacity and increase trading volume by 22% QoQ.

We revise up the annual average HRC price expectation to USD 850/ton, higher compared to our forecast of USD 580/ton in the previous report. Therefore, **we raise our 2021 NPAT forecast from VND 340 bn (or USD 14.6 mn) to VND 774 bn (or USD 33.4 mn, +160% YoY),** to reflect that HRC prices are more favorable, and the company has taken advantage of that trend.

Two new coil centers will help SMC expand its processing capacity by 32.5% from 400,000 tons in 2020 to 530,000 tons in 2022, allowing the company to meet increasing demand from FDI companies. Stable GMP in this segment will also reduce overall GMP volatility.

Valuation and recommendation

Currently, SMC is one of the leading coil-processing companies in Vietnam. The company is a rare domestic coil-processor that can meet strict standards from FDI companies in terms of quality, on-time delivery, and finance. In addition, the partnership with one of the leading home appliance producers in the world will enhance SMC's position, and allow the company to seize opportunities from FDI inflows.

We believe that SMC's business has been more sustainable as the company is focusing on the coil processing segment, which has the highest profitability. New coil centers' GPM is significantly higher and less affected by steel prices compared to trading activities. Owing to these factories, we estimate the manufacturing segment's portion in total NPAT will increase from 80% in 2021 to 96% in 2022.

*With a 2021 EPS of VND 12,560, SMC is trading at a forward P/E ratio of only 3.1x, which is lower compared to other downstream flat steel producers. We raise our target price to **VND 47,100** from 38,900 per share. Together with a cash dividend in the next 12 months of VND 1,000/share, the total return is **29%,** based on the closing price as of June 08th, 2021. Hence, we recommend to **BUY** this stock.*

BUY	29%
Target price (VND)	47,100
Current market price (VND)	37,150
Cash Dividend (VND)*	1,000

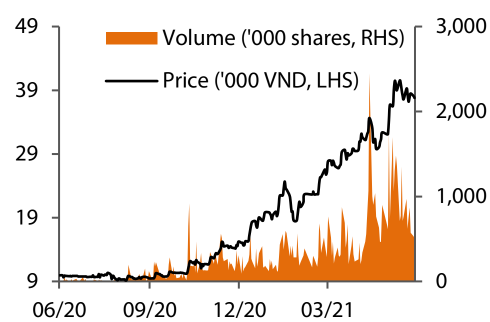
** Expected in the next 12 months.*

Stock Info

Sector	Basic Materials
Market Cap (VND billion)	2,315
Current Shares O/S	60,923,000
Avg. Daily Volume (in 20 sessions)	966,015
Free float (%)	64
52 week High	40,514
52 week Low	9,153
Beta	0.6

	FY2020	TTM
EPS	4,932	8,140
EPS Growth (%)	209	507
Diluted EPS	4,932	8,140
P/E	4.0	4.7
P/B	0.8	1.3
EV/EBITDA	3.8	5.6
Cash dividend yield (%)	5.1	2.6
ROE (%)	19.8	31.9

Price performance



Major Shareholders (%)

Hanwa Co Ltd	19.7
Nguyen Thi Ngoc Loan	14.4
Remaining ownership room (%)	26.6

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Exhibit 1: 1Q/2021 Results

(VND Bn)	1Q-FY21	4Q-FY20	+/- (qoq)	1Q-FY20	+/- (yoy)
Net revenue	5,070	4,478	13.2%	3,448	47.1%
Gross profit	432	325	33.1%	170	153.7%
SG&A	153	154	-0.7%	67	129.3%
Operating income	279	171	63.5%	104	169.3%
EBITDA	277	238	16.2%	103	170.0%
EBIT	279	171	63.5%	104	169.3%
Financial expenses	63	7	772.4%	91	-31.1%
- Interest Expenses	*50*	*35*	*43.4%*	*43*	*16.1%*
Dep. and amortization	-2	68	-103.3%	-1	104.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	262	170	54.3%	24	994.7%
PAT	208	148	40.8%	10	1937.5%
(*) Adjusted PAT	208	148	40.8%	10	1937.5%

Source: SMC, Rong Viet Securities

Exhibit 2: 1Q/2021 Performance Analysis

Particulars (*)	1Q-FY21	4Q-FY20	+/- (qoq)	1Q-FY20	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	8.5	7.2	13bps	4.9	36bps
EBITDA Margin	5.5	5.3	1bps	3.0	25bps
EBIT Margin	5.5	3.8	17bps	3.0	25bps
Net Margin	4.1	3.3	8bps	0.3	38bps
Adjusted Net Margin	4.1	3.3	8bps	0.3	38bps
Turnover *(x)					
-Inventories	8.0	10.9	-3.0	10.6	-2.7
-Receivables	10.0	10.3	-0.2	8.9	1.2
-Payables	6.4	8.4	-2.0	7.6	-1.2
Leverage (%)					
Total Debt/ Equity	334.6	321.3	133bps	295.6	390bps

Source: SMC, Rong Viet Securities. (*) annualized

Exhibit 3: 2Q/2021 Performance Forecast

Particulars (VND Bn)	2Q-FY21	+/-qoq	+/-yoy
Revenue	7,378	46%	103%
Gross profit	759	76%	737%
EBIT	597	114%	2723%
NPAT	435	109%	922%

Source: Rong Viet Securities

- We forecast that revenue will increase by roughly 103% YoY as the selling price and sales volume increase by 75% YoY and 18% YoY respectively.

- We expect gross margin to expand from 2.5% in 2Q2020 to 10.3% in 2Q2021 because the company has accumulated inventory at low prices, and can benefit from rising HRC prices, which are forecasted to increase by 30% QoQ.

Update

NPAT to surge in 2Q as the benefit from increasing HRC price will be amplified by the large accumulated inventory.

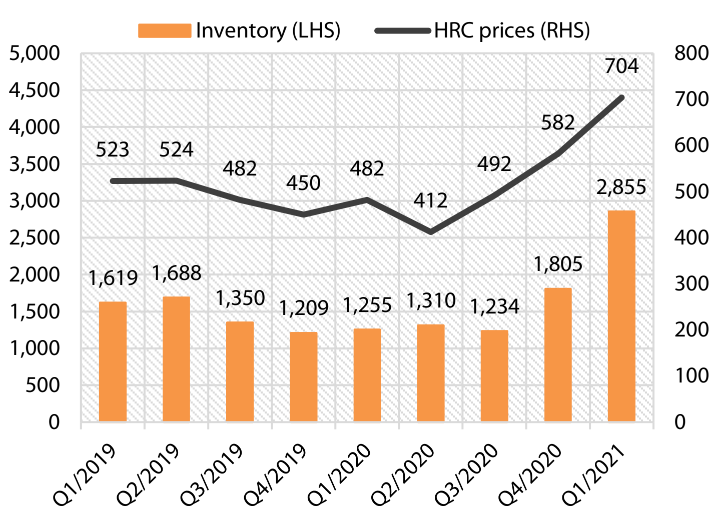
Large accumulated inventory is going to boost SMC's NPAT in the manufacturing segment. We estimate that SMC accumulated roughly 125,000 tons of flat steel at the average price of USD 760/ton in March. The remaining input steel was likely to be bought in April at a price range of USD 900-960/ton, leading the average HRC price used for production in 2Q to be roughly USD 820/ton. With an average quarterly HRC price of USD 930 ton and a selling volume of 170,000 tons in this segment, the company can earn a pretax profit of roughly VND 440 bn (or USD 18.9 mn) from accumulated HRC volume in 2Q. The gross margin in the manufacturing segment can increase from the estimated level of 11.5% in 1Q to 14.7% in 2Q.

Regarding the trading segment, we expect that increasing steel prices will still support gross margin of about 5.0%, rising slightly compared to 1Q. The company often stores enough steel for trading in roughly two to three weeks, hence, the impact of steel prices is smaller compared to the manufacturing segment.

We forecast SMC's selling volume will increase by 11% QoQ mainly due to the volume growth in the trading segment. Owing to the higher demand for construction steel in 2Q compared to 1Q, the company's trading volume is forecasted to reach 205,000 tons, increasing by roughly 20% QoQ. In the manufacturing segment, SMC has already run its factories at full capacity in 1Q owing to the robust demand from manufacturing and construction activities since 1Q. We expect that the company will sell 50,000 tons of steel pipes, 100,000 tons of processed coils, and roughly 20,000 tons of coated steel in 2Q.

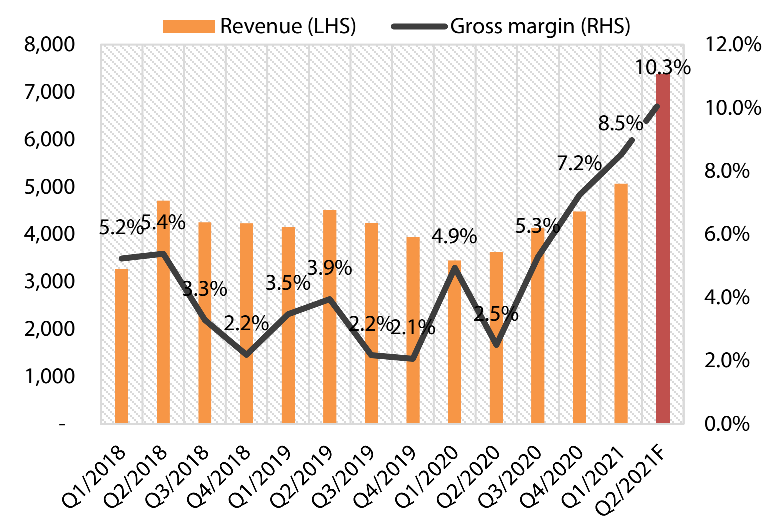
Due to increasing selling volume and steel prices, we forecast that NPAT will surge by 110% QoQ to roughly VND 435 bn (or USD 18.8 mn) in 2Q.

Figure 1: Inventory (VND bn) and HRC prices (USD/ton)



Source: SMC, Bloomberg, Rong Viet Securities

Figure 2: Revenue (VND bn) and gross margin (%)



Source: SMC, Rong Viet Securities

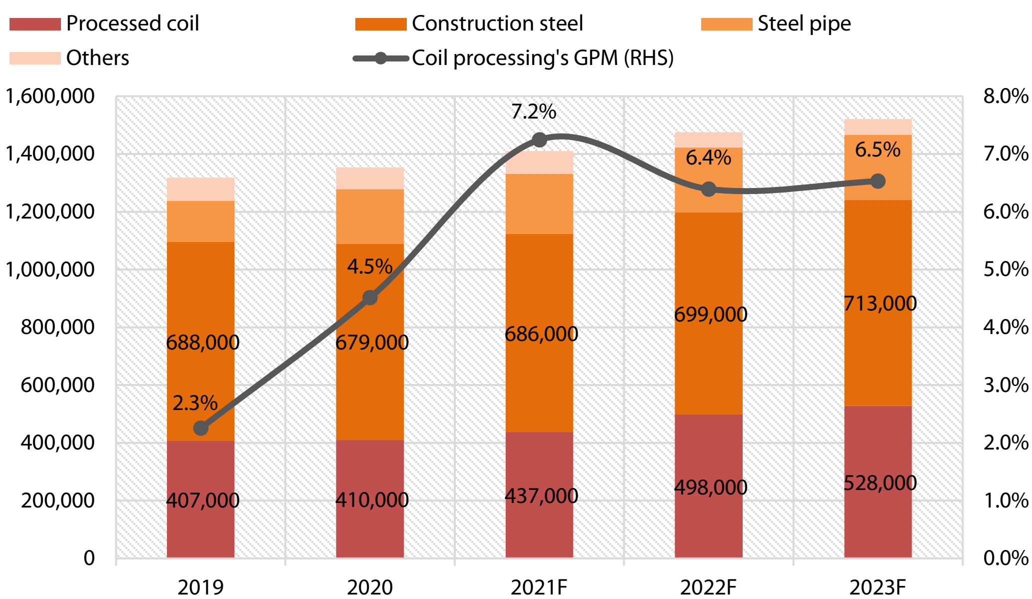
New Coil Centers will lead volume growth and enhance sustainability from 2022.

New factories will expand SMC's coil-processing capacity significantly and support sales volume growth. The company plans to complete two new coil-processing factories in 3Q, increasing processing capacity by 32.5% to 530,000 tons per year. Due to the strong demand from manufacturing activities, we expect the Phu My steel service factory to sell roughly 150,000 tons in 2022. Meanwhile, Phu My precision mechanical factory can run at full capacity of 30,000 tons of steel per year in 2022, as the company has closely co-operated with the customers to ensure consumption for its production. Hence, SMC's coil processing sales can increase by 8.0% YoY to reach 470.000 tons in 2022, boosting the company's manufacturing volume by 7.1% YoY.

The company's business will become more sustainable as the contribution from the coil processing segment is increasing. The gross margin in the processing coil segment is the most stable among its business lines, with an average level of 6%-7% for current services, higher compared to that of 1.5%-2% in the trading segment if steel prices are stable. The gross margin of Phu My precision mechanical factory will be even higher, reaching roughly 8.5%, as this factory can provide more sophisticated services. Because the gross margin is relatively stable the company can reduce its exposure to the steel price volatility. In addition, owing to new factories, the coil processing segment's contribution to total gross profit can increase significantly from 41% in 2021 to 54% in 2022. Therefore, we believe that SMC's business has been improving and is becoming sustainable.

We forecast that revenue and NPAT from these factories in 2022 will be VND 4,300 bn (or USD 184.9 mn) and VND 174 bn (or USD 7.5 mn), contributing roughly 43.5% to total NPAT. External selling volume is expected to increase from roughly 150,000 tons in 2022 to 180,000 tons in 2023 and 200,000 tons in 2024. Hence, NPAT contribution will also increase to VND 216 bn in 2023 (or USD 9.3 mn), and VND 220 bn (or USD 9.5 mn) in 2024.

Figure 3: Selling volume, by products (tons), and processing segment's GPM (%)



Source: SMC, RongViet Securities

Joint Venture with Samsung C&T can enhance SMC's credibility and capability in the coil processing segment.

SMC has become the only local processing coil company in Vietnam that can cooperate with Samsung in a Joint Venture, with a stake of 15%. Through this partnership, SMC can learn from one of the leading name. By improving quality and its brand name, the company could benefit from opportunities offered from by FDI companies production expansion in Vietnam.

Forecast

We maintain our expectation that SMC's selling volume will reach 1.4 million tons, increasing by 4.0% YoY. Steel pipe volume will increase by 10% YoY to 208,000 tons and its processed coil volume could reach 440,000 tons, up 7% YoY. Trading volume will grow by only 1% YoY to 764,000 tons.

NPAT can decrease in 2H compared to 1H. For 2H2021, we expect that HRC price can decrease to USD 800/ton in late 2021, leading the average annual HRC price to be USD 850/ton. Decreasing HRC price can negatively affect SMC's gross margin, which we expect will be 5.4% in 3Q and 3.3% in 4Q. Although NPAT (to equity shareholders) can decrease to from VND 644 bn (or USD 27.8 mn) in 1H to VND 140 bn (or USD 6.0 mn) in 2H, 2021 NPAT can increase by 160% YoY to reach roughly VND 774 bn (or USD 33.4 mn).

For the long-term, we expect SMC's gross margin will back to a normal of 4.5%, and NPAT can decrease to VND 400 bn (or USD 17.3 mn) in 2022, before increasing to VND 470 bn (USD 20.3) in 2023 owing to new factories.

SMC is undervalued compared to other downstream flat steel producers

With 2021 EPS of VND 12,560, SMC is trading at a forward P/E ratio of only 3.1x, which is significantly lower compared to other downstream flat steel producers, such as NKG (P/E forward of 5.5x, estimated 2021 NPAT of VND 1,110 bn - USD 47.8 mn), and HSG (P/E forward of 5.5x, estimated 2021 NPAT of VND 3,550 bn - USD 153.0 mn). We think SMC should be traded at a higher P/E ratio as its business is becoming more sustainable as the contribution from the coil processing segment is increasing. Besides, the robust demand for coil services allows the company to maintain sales growth in the next years. Hence, SMC's business is less volatile than downstream flat steel producers that have a large export portion.

We use a DCF and sum-of-the-parts (SoTP) method to evaluate the stock and come up with a target price of roughly VND 47,100 per share. In the SoTP valuation, to evaluate the manufacturing segment more thoroughly, we add the P/E method with multiple targets of 4.2x and a weight of 60%, besides using the P/B method with a weight of 40%.

Table 1: Valuation (VND)

	Segment	Method	Weight	Price	Contribution
DCF	Whole company	FCFF (WACC of 11.1%, exit EV/EBITDA of 6.0x)	50%	48,741	24,400
Sum of the parts			50%	45,445	22,700
	Trading	*P/E (2.8x)*		6,916	
	Manufacturing	*P/E (4.2x) & P/B (1.0x)*		38,529	
Target price					**47,100**
Cash dividend					**1,000**
Current price					**37,150**
Expected total return					**29%**

Source: RongViet Securities

Table 2: Peers' financial and valuation ratios (TTM)

Stock	Capitalization (VND bn)	Gross margin	ROA	ROE	Debt-to-Equity	P/B	P/E
SMC	**2,333**	**6.1%**	**7.7%**	**31.9%**	**155%**	**1.3**	**4.7**
NKG	5,796	9.1%	6.8%	18.0%	116%	1.7	10.3
HSG	19,252	17.0%	12.9%	34.1%	106%	2.4	8.1
VGS	846	4.0%	6.7%	16.7%	85%	1.1	6.9
HPG	241,538	22.9%	14.5%	31.1%	111%	3.7	13.3
Average						**2.0**	**8.7**
Market capital weighted average						**3.5**	**12.8**
Median						**1.7**	**8.1**

Source: Surveyed companies' FS, RongViet Securities compiled

VND Billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	**16,836**	**15,736**	**25,380**	**25,470**
COGS	16,346	14,931	23,666	24,314
Gross profit	**490**	**805**	**1,714**	**1,156**
Selling expenses	160	197	308	291
G&A expenses	125	194	293	252
Financial income	103	68	46	37
Financial expenses	167	117	161	155
Other income/loss	5	-11	0	0
Gain/(loss) from JVs	0	8	5	5
PBT	**146**	**361**	**1,003**	**500**
Tax expense	46	51	201	83
Minority interests	8	10	29	17
PAT	**92**	**300**	**774**	**401**
EBIT	204	413	1,113	613

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth				%
Revenue	2.2	-6.5	61.3	0.4
Operating Income	-29.3	87.7	117.8	-38.7
EBITDA	-39.1	102.5	169.3	-44.9
PAT	-46.6	227.6	157.5	-48.2
Total Assets	0.6	31.4	8.6	2.8
Equity	2.7	18.4	46.4	15.1
Profitability				%
Gross margin	2.9	5.1	6.8	4.5
EBITDA margin	1.8	3.5	4.7	2.9
EBIT margin	1.2	2.6	4.4	2.4
Net margin	0.5	1.9	3.0	1.6
ROA	1.8	4.5	10.6	5.3
ROE	7.1	19.8	34.8	15.6
Efficiency				(times)
Receivable Turnover	11.5	9.2	11.0	10.3
Inventory Turnover	13.5	8.3	10.6	10.2
Payable Turnover	10.1	6.0	8.3	8.4
Liquidity				(times)
Current	1.0	1.1	1.2	1.3
Quick	0.7	0.7	0.7	0.8
Finance Structure				%
Total Debt/Equity	167.6	174.9	96.4	77.2
Current Debt/Equity	162.1	171.7	76.3	59.6
Long-term Debt/Equity	5.5	3.2	20.2	17.5

VND Billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	596	1,183	271	318
Short-term investments	274	557	334	268
Account receivables	1,464	1,717	2,297	2,465
Inventories	1,209	1,805	2,237	2,380
Other current assets	318	254	267	280
Property, plant & equipment	776	665	1,345	1,240
Acquired intangible assets	138	139	138	137
Long-term investments	239	277	277	277
Other non-current assets	97	118	124	130
Total assets	**5,112**	**6,715**	**7,290**	**7,495**
Accounts payable	1,619	2,471	2,854	2,893
Short-term borrowings	2,081	2,609	1,696	1,526
Long-term borrowings	70	49	449	449
Other non-current liabilities	2	1	1	1
Bonus and Welfare fund	4	4	4	4
Technology-science, dev. fund	0	0	0	0
Total liabilities	**3,776**	**5,133**	**5,002**	**4,872**
Common stock and APIC	864	863	863	863
Treasury stock (enter as -)	0	-1	-1	-1
Retained earnings	109	272	961	1,289
Other comprehensive income	1	1	1	1
Inv. and Dev. Fund	310	385	400	408
Total equity	**1,283**	**1,519**	**2,224**	**2,560**
Minority Interest	**53**	**63**	**63**	**63**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	1,595	4,932	12,557	6,501
P/E (x)	21.8	4.0	3.0	5.8
BV (dong)	21,026	24,907	36,464	41,965
P/B (x)	1.6	0.8	1.0	0.9
DPS (dong/cp)	1,000	1,000	1,000	1,000
Dividend yield (%)	2.9	5.1	2.6	2.6

VALUATION MODEL	Price	Weight	Average
FCFF	48,700	50%	24,350
SoTP	45,400	50%	22,700
Target price			**47,100**

VALUATION HISTORY	Price	Recommendation	Period
10/07/2020	11,100	ACCUMULATE	Intermediate
11/03/2021	30,300	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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