NAM KIM STEEL JSC (HSX: NKG)

TEMPORARY FALL BEFORE RETURNING TO HIGH GROWTH

(VND bn)	Q2/FY22	Q1/FY22	+/- qoq	Q2/FY21	+/- yoy
Net revenue	7,196	7,151	1%	7,010	3%
NPAT-MI	201	507	-60%	848	-76%
EBIT	288	641	-55%	1,026	-72%
EBIT margin	4.0%	9.0%	-495bps	14.6%	-1,063bps

Source: NKG, Rong Viet Securities

Q2/2022: Domestic consumption fell during Q2, high input price squeezed profits

- HRC prices trending up in Q1 encouraged exports in Q2. Coated steel export volume rose by 7.1% YoY/11.7% QoQ to 173 thousand tons.
- Domestic consumption turned weak since April, reacting to the continuous price drop from April. Domestic volume of coated steel fell -30% YoY/-16.3% QoQ. Steel pipes volume dropped -12.1% YoY/-12.9% QoQ.
- GPM was worsened from 13.4% in Q1/2022 and 18.6% in Q2/2021 to 12.4% due to high-priced material HRC. The rise in export volume combined with high transportation costs in Q2 made selling expense surge 121% YoY.
- For 1H2022, NKG posted a revenue of VND 14,347 bn (or USD 605 mn, +21% YoY) and a NPATMI of VND 708 bn (or USD 30 mn, -39% YoY), completing 44% of its 2022 NPAT guidance.

2H2022: Gloomy outlook for Q3 NPATMI before sunshine comes from Q4

- Weak demand from overseas due to high inflation. This will result in low exports. Producers will fiercely compete in the domestic market, which will limit the selling prices growth potential. Positive market conditions would be more resilient in Q4 and pressures on profits will be milder.
- 2H coated steel exports could reach 216 thousand tons, -50% YoY. Domestic consumption of coated steel and steel pipes are 97 thousand tons (+17% YoY) and 73 thousand tons (+41% YoY), respectively, on the low base of Q3/2021.
- Lower Vietnam-US and Vietnam-EU price gaps and lower proportions of these high-margined markets in total export will worsen GPM. GPM would come at 4.3% in Q3 and recover to 9% in Q4, significantly lower than the respective levels of 17.2% and 12.1% in Q3 and Q4/2021.
- We expect the company will report a loss of VND 139 bn (or USD 5.9 mn) in Q3 and a gain of VND 111 bn (USD 4.7 mn) in Q4. For the full year of 2022, revenue is projected at VND 24.2 tn (or USD 1.0 bn, -14% YoY) and NPAT-MI will come at VND 681 billion (or USD 28.7 mn, -69% YoY). 2022 EPS will be VND 2,571.

Valuation and recommendation

*We estimate NKG's fair value at **VND 25,200/share** in a one-year vision, reflecting the prospect of global high inflation and high uncertainty of the global supply chain in the coming quarters. We believe Q3 is the trough of 2022 profits, but the growth momentum will not come back sooner than Q3/2023. For the longer term, growth engine will be enhanced from 2024 to 2027 in terms of both volume and profitability with the investment and operation of the new factory Nam Kim Phu My. At the current market price, the forward PERs are 7.5x for FY2022 and 6.0x for FY2023. Compared to the average PER of 6.5x of the last two years, it is reasonable for a **BUY** recommendation. The total return is 30%, based on the closing price as of September 27th, 2022.*

BUY +30%

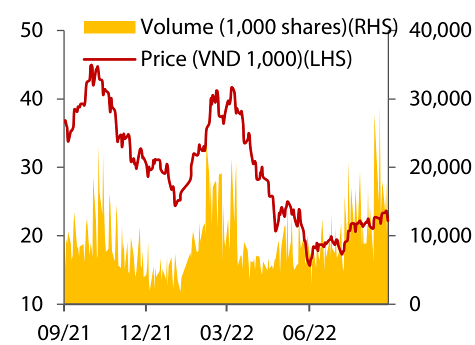
Target price (VND)	25,200
Current market price (VND)	19,300
Cash dividend in next 12 months (VND)	*0*

Stock Info

Sector	Steel
Market Cap (VND billion)	6,161
Current Shares O/S	263,277,806
Avg. Daily Volume (in 20 sessions)	15,372,786
Free float (%)	64.9
52 weeks High	47,000
52 weeks Low	15,600
Beta	1.3

	FY2021	Current
EPS	10,419	6,713
EPS Growth (%)	523	771
Diluted EPS	7,278	6,713
P/E	3.8	3.5
P/B	1.5	1.0
EV/EBITDA	3.5	2.3
Cash dividend yield (%)	1.3	4.3
ROE (%)	38.9	33.0

Price performance



Major Shareholders (%)

Ho Minh Quang (Chairman)	14.2
Unicoh Specialty Chemicals	6.9
SMC Investment Trading JSC.	5.0
Foreign ownership room (%)	43.6

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Exhibit 1: Q2/FY2022 Results

(VND Bn)	Q2-FY22	Q1-FY22	+/- qoq	Q2-FY21	+/- yoy
Net revenue	7,196	7,151	0.6%	7,010	2.7%
Gross profit	894	957	-6.6%	1,306	-31.6%
SG&A	605	316	91.5%	280	116.0%
Operating income	288	641	-55.0%	1,026	-71.9%
EBITDA	384	735	-47.8%	1,121	-65.7%
EBIT	288	641	-55.0%	1,026	-71.9%
Financial expenses	157	123	28.0%	86	82.6%
- Interest Expenses	*45*	*74*	*-39.0%*	*45*	*0.7%*
Dep. and amortization	96	95	1.3%	95	1.0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	240	591	-59.4%	977	-75.5%
NPATMI	201	507	-60.3%	848	-76.2%
(*) Adjusted PAT	201	507	-60.3%	848	-76.2%

Source: NKG, Rong Viet Securities

Exhibit 2: Q2/FY2022 Performance Analysis

Particulars	Q2-FY22	Q1-FY22	+/- qoq	Q2-FY21	+/- yoy
Profitability Ratios (%)					
Gross Margin	12.4%	13.4%	-96bps	18.6%	-621bps
EBITDA Margin	5.3%	10.3%	-495bps	16.0%	-1,065bps
EBIT Margin	4.0%	9.0%	-495bps	14.6%	-1,063bps
Net Margin	2.8%	7.1%	-429bps	12.1%	-929bps
Adjusted Net Margin	2.8%	7.1%	-429bps	12.1%	-929bps
Turnover (x)					
-Inventories	3.0	3.0	0.0	4.8	-1.8
-Receivables	10.7	12.3	-1.5	10.8	0.0
-Payables	5.2	4.7	0.6	5.4	-0.2
Leverage (%)					
Total Debt/ Equity	163.7%	162.7%	104bps	201.8%	-3,809bps

Source: Rong Viet Securities

Exhibit 3: Q3/FY2022 Performance Forecast

Particulars (VND Bn)	Q3/FY22	+/- qoq	+/- yoy
Revenue	5,277	-27%	-30%
Gross profit	225	-75%	-83%
EBIT	-138	-426	-930
NPAT	-139	-340	-746

Source: Rong Viet Securities

Key assumptions:

- Domestic market to lead sales. Weak export as a result of high global inflation. *Domestic volume (coated steel and steel pipes) jumps 57%* YoY (-7% QoQ) on the low base last year to 81 thousand tons. *Export volume (coated steel) tumbles by 48% YoY* (-32% QoQ) to 117 thousand tons. Export thrived during Q2-Q4/2021 on the back of the reduced competition from China and the surge in demand in North America and the EU.
- Higher competition in domestic market limits price growth potential. Output price levels have inched up since end-August after declining since April. ASP could drop -3.6% QoQ and -2.3% YoY.
- GPM 4.3% vs 12.4% of the previous quarter and 17.2% of Q3/2021, because of high-priced inventories.

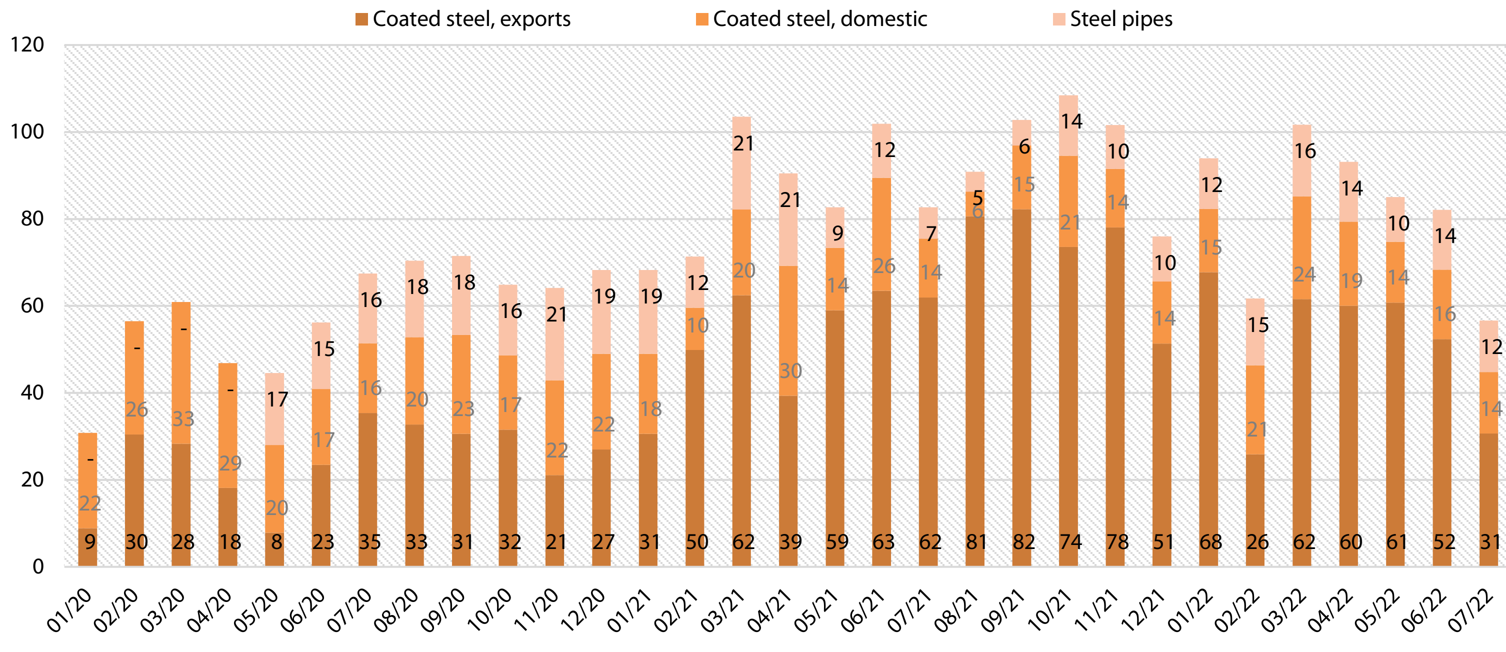
High input prices and low domestic consumption squeezed Q2 profits

In Q2, NKG experienced a deep fall in profit of -76% YoY to VND 201 bn (or USD 8.5 mn), despite a rise of 2.7% YoY in revenue to VND 7,196 bn (or USD 304 mn). The actual result was VND 200 bn lower than our forecast.

HRC Vietnam CFR price increased from USD 743/ton at the end of Jan 2022 to USD 910/ton in March before decreasing from April 2022 to USD 698/ton at the end of June 2022. That HRC prices trending up in Q1 encouraged exports in Q2, due to the lag of 2-3 months in production and transportation time. Coated steel export volume rose by 7.1% YoY and 11.7% QoQ to 173 thousand tons, accounting for 78% of total coated steel sales in the quarter, with 65-70% landing in the EU and North America.

On the contrary, as the domestic market usually reacted very quickly to price changes, domestic consumption turned weak since April. Distributors maintained a wait-and-see attitude to HRC price movements, expecting prices to drop further. They only bought from mills when there were orders from end-users. Domestic volume of coated steel in Q2 posted 49 thousand tons, equivalent to a fall of -30% YoY and -16.3% QoQ. Steel pipes volume, all consumed domestically, showed the same down trend, dropping -12.1% YoY and -12.9% QoQ.

Figure 1: NKG's consumption volume by market (thousand tons)

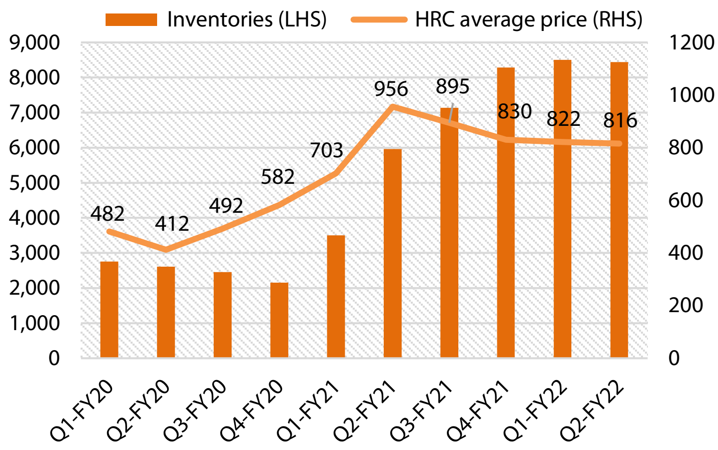


Source: Vietnam Steel Associate, Rong Viet Securities

Thanks to good exports, NKG could maintain stable domestic selling prices in Q2 compared to Q1. The estimated Q2 ASP was VND 27,600/kg, +8.5% YoY and -0.5% QoQ. Gross profit margin (GPM) was worsened from 13.4% in Q1/2022 and 18.6% in Q2/2021 to 12.4% due to high-priced material HRC.

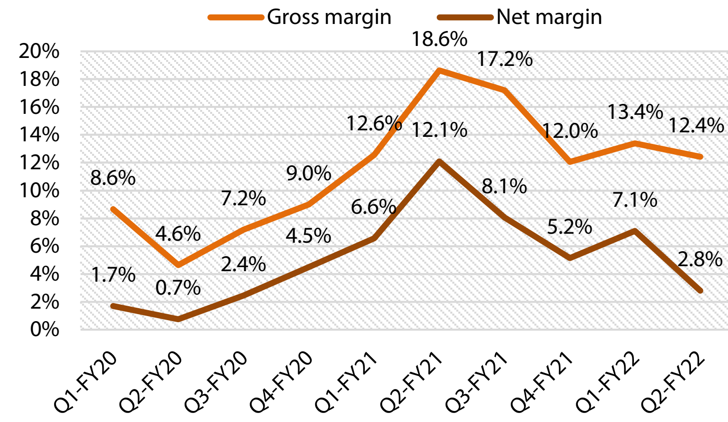
The rise in export volume combined with high transportation costs in Q2 made selling expense surge 121% YoY to VND 540 bn, being the factor that beat our Q2 profit forecast. Shipping costs rises could be blamed on the serious disruptions in transportation in the Black Sea area in the wake of the Russian-Ukrainian war and the climb of oil price in the period.

Figure 2: Inventories (VND bn) and average HRC price (USD/ton)



Source: NKG, Rong Viet Securities

Figure 3: Gross margin and net margin



Source: NKG, Rong Viet Securities

In sum, after 1H2022, NKG posted a revenue of VND 14,347 bn (or USD 605 mn, +21% YoY) and a NPAT-MI of VND 708 bn (or USD 30 mn, -39% YoY), completing 44% its 2022 PAT guidance.

Changes in trade policies of major markets such as the US and EU to be more challenged to Vietnam

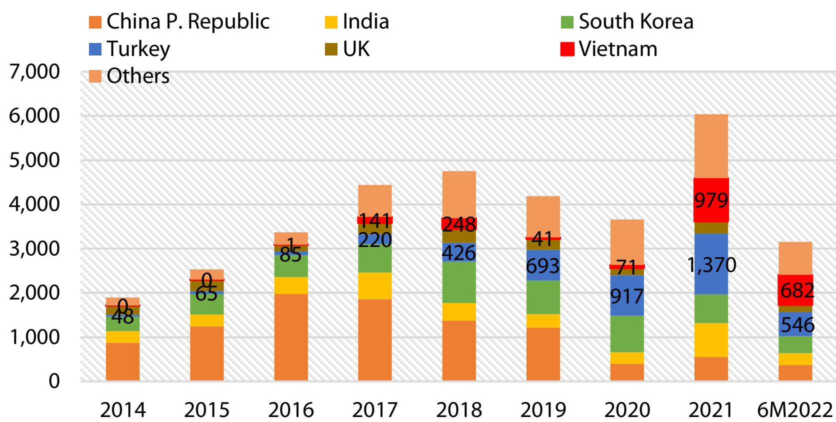
The US in late 2021 and early 2022 has relaxed tariff quotas on Japanese, EU and UK steel.

The EU recently increased protection measures for Vietnamese coated steel. From July 1, 2022 to June 30, 2024, Vietnam's metal coated steel sheet (group 4A) is managed according to quotas. The tariff-free quota of the group of "Other countries", including Vietnam, is 1.8 million tons for the period July 1, 2022 to June 30, 2023 and increases by 4% in the following year. If the quota is exceeded, the import tax to be paid for the excess is 25%.

- In 2021, Vietnam sold 979 thousand tons of coated steel to the EU, a sharp increase compared to previous years in the context of supply shortage in the EU, low exports from China combined with quota exemption incentives for Vietnam from July 1, 2020. This was the reason why the EU has increased barriers to Vietnam's coated steel.
- Apart from India, Korea and the United Kingdom who are subjected to separate quotas, Turkey is Vietnam's biggest rival. Turkey has the advantage of transport distance to the EU and offer prices (including shipping costs) of Turkey to the EU are not significantly higher than Vietnam's, so it would be difficult for Vietnam to maintain high exports to the EU.

Vietnamese coated sheet manufacturers will have to increase their exports to ASEAN, to offset the decline in Europe-North America demand, but profit margins will be lower.

Figure 4: EU's imports of galvanized steel from third parties (thousand tons)



Source: EUROFER, Rong Viet Securities

Table 1: Newest tariff-free import quotas of EU for galvanized steel (group 4A, thousand tons)

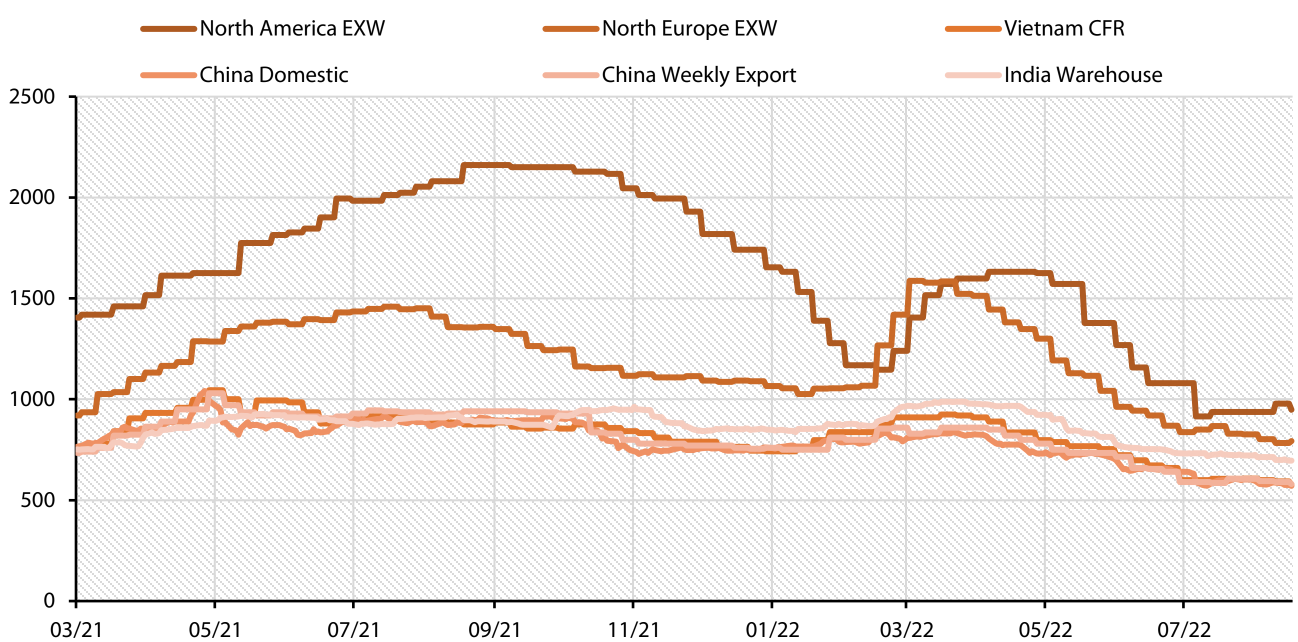
Country	From 7/1/2022 to 6/30/2023	From 7/1/2023 to 6/30/2024
Korea	143.3	149.0
India	204.8	213.0
UK	135.0	140.4
Other countries	1,802.5	1,874.6

Source: EC, Rong Viet Securities

Overseas prices have stopped falling; domestic prices started to regain. Higher competition to come.

In overseas markets, price declines seem to level off during the last two months. The Vietnam-US and Vietnam-EU HRC price gaps were stable at USD 330-380/ ton and USD 200-250/ton, respectively, for the last four weeks. However, prices have shown few signs of recovery, amid China's sluggish economy reopening and the fear of recession in Western countries.

Figure 5: HRC prices (USD/ton)



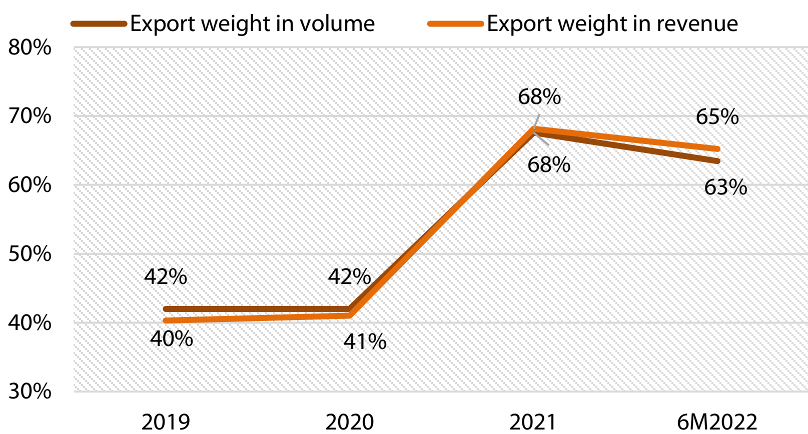
Source: Bloomberg, Rong Viet Securities

In recent weeks, Russia cutting gas supply to the EU has caused electricity prices in the area to shoot up. To deal with the situation, some steel mills in the area have cut a part or stopped all production. Mills have also been pushing for higher HRC price offers but buyers are in wait-and-see mood due to weak end-user demand. Looking forward to the year end and next year, the EU ban on Russian oil imports from December is going to worsen the electricity shortage and steel production cut. Given that the EU's shift to alternative sources of energy will take significant time, we think EU steel buyers would soon need to look for sources of cheaper HRC. However, sourcing from far markets in

Asia could be limited because of long lead times during a current highly volatile period. Sourcing from Asia will be more certain when there are firm signs of end-user demand recovery, which we think would start from end-Q2/2023.

In the domestic market, some coated steel producers have increased selling prices since the early of September. Although the VND 200-300/kg increase was not significant compared to the deep fall in the previous months, it has stimulated distributors to restock. NKG announced an official price rise of VND 300/kg on September 16.

Figure 6: Proportion of NKG's export volume and revenue



Source: NKG, VSA, Rong Viet Securities

Outlook and forecast

2H2022 – Gloomy outlook for the bottom line in Q3 before sunshine comes from Q4

We keep a cautious view on both price and volume rises of individual producer, including NKG, as demand from overseas is still weak and producers will have to compete in the domestic market to lower their high-priced inventories stocked in Q2. Many coated steel producers have increases stockpiling of HRC in the wake of the Russian-Ukrainian war (March-April, 2022), anticipating that the war would cause shortages in steel and materials for steel production. Stronger competition in a small-sized market seems to limit the rise in selling prices, thus limiting the possibility of profit margin recovery. Positive market conditions are expected to be more resilient in Q4, so that pressures on profits will be milder.

Particularly for NKG, in 2H2022, coated steel exports may reach 216 thousand tons (-50% YoY) due to the decline in global demand. Domestic consumption of coated steel and steel pipes are 97 thousand tons (+17% YoY) and 73 thousand tons (+41% YoY) on the low base of the Southern region lockdown in Q3/2021.

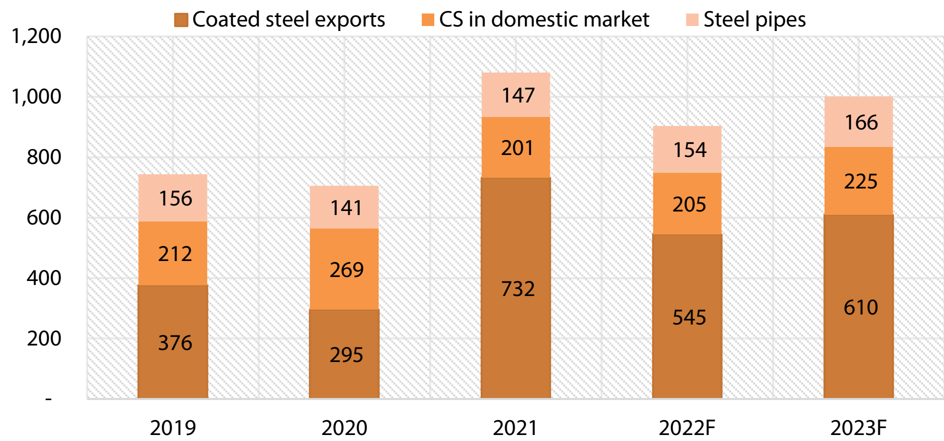
Lower Vietnam-US and Vietnam-EU price gaps and lower proportions of these high-margined markets in total export, compared to Q2, will worsen GPM. GPM would come at 4.3% in Q3 and recover to 9% in Q4, significantly lower than the respective levels of 17.2% and 12.1% in Q3 and Q4/2021.

The 2H2022 revenue is projected at VND 9,834 billion (or USD 415 mn, -40% YoY, -31% HoH) and the bottom line will record a loss of VND 28 billion (or USD 1.2mn), with a loss of VND 139 bn in Q3.

2023 – Slight consumption recovery

China's economic reopening will be more resilient, backed by the country's government supports. Global inflation is likely to cool down from mid-2023. These factors will encourage the demand for flat steel. Although export competition with many other countries will rise, the China's policy of cutting steel capacity and carbon emission and the steel supply shortage in the EU still bring chances for the recovery of volumes. Volume may increase by 10.8%, selling price will decrease following HRC prices. Gross profit margin could reach 9.3%, roughly the same as 9.0% of 2022, excluding the effect of the reversal of provision for inventory devaluation in Q1/2022.

Figure 7: Consumption forecast (thousand tons)



Source: NKG, Rong Viet Securities

Double capacity from 2027 to support growth quality in mid- and long-term

The construction of Nam Kim Phu My factory (capacity of 1,200 thousand tons/year) will start in Q4/2022. Phase 1 is expected to operate from 2024, adding 400 thousand tons/year to the current capacity of 1,100 thousand tons/year. Phase 2 and phase 3 (400 thousand tons/year) will operate from 2025 and 2027, respectively. The new factory is targeted to serve overseas markets with coated steel for household electrical appliances, which requires higher production techniques for durability, functionality, corrosion resistance, sturdiness and safety. Given the current applications of NKG products are mostly in construction, we value the investment of the new capacity in terms of expanding into a higher quality segment. It will help NKG enhance its competitiveness and profitability, by taking advantage of domestic steel production costs and stabilize profit margin. Revenue and PAT in the period 2022-2027 are estimated to grow at compound rates of 6.4%/year and 20.4%/year. However, the capacity increase won't come any earlier than 2024 and, therefore, is unlikely to support the stock price in the short term.

VND Billion

INCOME STATEMENT	FY2020	FY2021	FY2022F	FY2023F
Revenue	**11,560**	**28,173**	**24,182**	**23,390**
COGS	10,690	23,904	21,696	21,208
Gross profit	**869**	**4,270**	**2,485**	**2,182**
Selling Expense	268	1,398	1,388	862
G&A Expense	92	123	176	136
Finance Income	89	199	347	300
Finance Expense	281	397	446	366
Other profits	4	11	0	0
PBT	**321**	**2,562**	**823**	**1,117**
Prov. of Tax	25	337	141	201
Minority's Interest	0	0	0	0
PAT to Equity S/H	**295**	**2,225**	**681**	**916**
EBIT	509	2,749	922	1,183
EBITDA	886	3,128	1,279	1,556

%

FINANCIAL RATIO	FY2020	FY2021	FY2022F	FY2023F
Growth (%)				
Revenue	-5.1	143.7	-14.2	-3.3
Operating Income	75.5	253.2	-59.1	21.6
EBITDA	710.8	439.7	-66.5	28.4
PAT	524.1	653.3	-69.4	34.5
Total Assets	-6.5	103.9	-22.8	7.9
Equity	5.4	79.9	3.9	11.3
Profitability (%)				
Gross margin	7.5	15.2	10.3	9.3
EBITDA margin	7.7	11.1	5.3	6.7
EBIT margin	4.4	9.8	3.8	5.1
Net margin	2.6	7.9	2.8	3.9
ROA	3.9	14.5	5.7	7.1
ROE	9.3	38.9	11.5	13.8
Efficiency				(times)
Receivable Turnover	8.0	14.8	12.6	14.4
Inventory Turnover	5.0	2.9	4.5	4.5
Payable Turnover	8.1	4.1	7.8	7.0
Liquidity				(times)
Current	1.1	1.3	1.5	1.4
Quick	0.6	0.4	0.7	0.7
Finance Structure (%)				
Total Debt/Equity	94.4	66.7	51.5	46.3
Current Debt/Equity	79.2	65.9	51.5	46.3
Long-term Debt/Equity	15.2	0.8	0.0	0.0

VND Billion

BALANCE SHEET	FY2020	FY2021	FY2022F	FY2023F
Cash and cash equivalents	219	751	502	485
Short-term investments	370	448	828	962
Accounts receivable	1,439	1,905	1,919	1,622
Inventories	2,150	8,281	4,794	4,672
Other current assets	95	833	917	1,008
Property, plant & equipment	2,936	2,706	2,460	3,599
Acquired intangible assets	249	241	234	228
Long-term investments	23	8	8	8
Other non-current assets	63	209	219	230
Total assets	**7,544**	**15,383**	**11,880**	**12,815**
Accounts payable	1,317	5,780	2,787	3,023
Short-term borrowings	2,520	3,773	3,065	3,065
Long-term borrowings	482	46	0	0
Other non-current liabilities	2	11	12	13
Bonus and Welfare fund	41	49	69	97
Technology-science, dev. fund	0	0	0	0
Total liabilities	**4,362**	**9,659**	**5,933**	**6,197**
Common stock and APIC	2,586	2,970	2,970	2,970
Treasury stock (enter as -)	-78	0	0	0
Retained earnings	576	2,636	2,826	3,451
Other comprehensive income	37	43	43	43
Inv. and Dev. Fund	60	75	109	154
Total equity	**3,181**	**5,723**	**5,947**	**6,618**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	FY2020	FY2021	FY2022F	FY2023F
EPS (VND)	644	7,278	2,522	3,391
P/E (x)	9.2	3.8	9.1	7.3
BV (VND)	13,044	23,467	22,693	25,251
P/B (x)	0.9	1.5	1.0	0.9
DPS (VND/share)	0	0	0	1,000
Dividend yield (%)	0.0	0.0	0.0	4.3

VALUATION MODEL	Price	Weight	Average
FCFF	40,100	50%	20,050
P/E	10,300	50%	5,150
Target price (VND)			**25,200**

VALUATION HISTORY	Price*	Recommendation	Period
10/2021	51,600	BUY	1-year
12/2021	42,200	ACCUMULATE	1-year
8/2022	25,100	ACCUMULATE	1-year

*Adjusted for stock dividend

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%

ABOUT US

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