

Hoa Phat Group (HPG – HSX)

Sustainable Development

Particulars (VND bn)	Q1-FY14	Q4-FY13	+/- qoq	Q1-FY13	+/- yoy
Net Revenues	6,515.5	6,460.3	0.9%	3,934.3	65.6%
EBIT	870.4	489.6	77.8%	456.9	90.5%
PAT	1,191.7	749.3	59.0%	653.6	82.3%
EBIT margin (%)	18.3%	11.6%	669bps	16.6%	168bps

Sources: HPG

- 2013 revenue in line with Rong Viet Securities forecast
- Good growth in steel segment, realizing 32% of revenue from Mandarin project in Q1/2014
- Gross profit margin of steel segment expected to be positive due to the decline in raw materials price
- Growth effort of HPG by expanding “core business activities” is supported by the recovery of construction sector

Outlook and Valuation: Releasing Q1/2014 earnings has lifted worries on consumption of the output from the Integrated Steel Complex – Phase 2, operated in Oct 2013. Consuming volume in Q1/2014 increasing by 26% affirmed HPG’s position as well as the effectiveness of its expanding strategy to the Central and the South. In addition, the consumption of HPG’s steel billet also enjoy advantageous for both volume and sale price.

Another important note is that the raw materials price movement is still in the down-trend due to the global overwhelming supply, while HPG’s selling price will stay stable. Thus, gross profit margin of steel segment is expected to be favorable this year.

Therefore, we recommend **ACCUMULATE** in the **INTERMEDIATE TERM** for HPG, and raise our target price to **VND55,100/share** from **VND46,600/share***, in 22nd Nov 2013 Result Update. This year, HPG’s NPAT is forecasted to enjoy more from the contribution of the Integrated Steel Complex – Phase 2 and 65% of Mandarin’s revenue. Moreover, HPG has significantly proved its management capabilities as well as its certainty in expanding core business activities. This will be the base for investors to trust HPG’s long-term plan in developing the Integrated Steel Complex – Phase 3.

*Adjustment price after dividend is VND39,200/share

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	3M/FY2014	FY2014E	FY2015F
Net Revenues	16,826.9	18,934.3	6,515.5	24,849.1	24,017.1
% chg	-5.7%	12.5%	65.6%	31.2%	-3.3%
PAT	994.0	1,954.2	870.4	2,514.4	2,525.2
% chg	-19.6%	96.6%	90.5%	28.7%	0.4%
EBIT margin (%)	5.9%	10.3%	13.4%	10.1%	10.5%
ROA (%)	5.4%	9.3%		10.8%	10.9%
ROE (%)	12.8%	22.2%		23.8%	20.7%
EPS (VND)	2,386	4,663		5,217	5,240
Adjusted EPS (VND)	2,073	4,055		5,217	5,240
Book value (VND)	16,646	22,671		24,212	26,451
Cash dividend (VND)	2,000	1,500		2,000	3,000
P/E (x)	8.8	8.8		9.0*	9.0*
P/BV (x)	1.3	1.8		1.9*	1.8*

Sources: HPG, (*) Reference price as of 24/04/2014

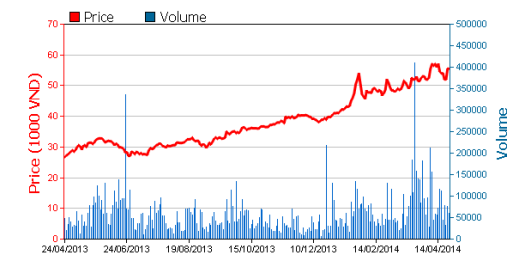
ACCUMULATE

HPG (VND)	46,900
Target Price (VND)	55,100

Investment Period Intermediate

Stock Info

Sector	Industrial Metals
Market Cap (VND bn)	23,257
Current Shares O/S	481,928,433
Beta	1.46
Free float (%)	35.65
52 weeks High	57,500
52 weeks Low	25,165
Avg. Daily Volume (in 20 sessions)	894,834



Performance (%)

	3M	1Y	3Y
HPG	17.6	109.4	66.7
Industrial Metals	13.3	68.1	NA
VN30 Index	0.5	18.3	32.1
HSX Index	2.9	20.2	24.7

Major Shareholders (%)

Tran Dinh Long	27.73
Vu Thi Hien	8.49
Deutsche Bank AG London	6.94
VOF investment, ltd	5.83
Foreign Investor Room (%)	4.75

My Tran

(084) 08- 6299 2006 – Ext 348

my.tth@vdsc.com.vn

Exhibit 1: Q4-FY2013 and FY2013 Results

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)	2013	+/- (yoy)
Net Revenues	6,460.3	4,194.8	54.0%	4,235.5	52.5%	18,934.3	12.5%
Gross profits	1,091.3	657.0	66.1%	706.4	54.5%	3,283.8	32.1%
SG&AC	396.7	-14.7	-2,795.1%	445.0	-10.8%	669.8	-22.2%
Operating Income	694.6	671.7	3.4%	261.4	165.7%	2,613.9	60.9%
EBITDA	963.8	841.9	14.5%	457.0	110.9%	3,485.5	48.9%
EBIT	711.9	677.4	5.1%	306.0	132.7%	2,765.4	58.5%
Financial expenses	147.1	105.4	39.6%	102.1	44.0%	528.4	-9.7%
- Interest Expenses	124.4	79.4	56.5%	88.5	40.5%	370.9	-29.6%
Dep. and amortization	-251.9	-164.5	53.1%	-151.0	66.8%	-720.2	20.8%
Non-recurring Items (*)	227.0					227.0	
Extraordinary Items (**)	39.9	164.0	-75.7%	32.2	23.8%	269.9	
PBT	624.9	598.0	4.5%	217.4	187.4%	2,394.4	96.6%
PAT	489.6	496.1	-1.3%	175.1	179.5%	1,954.2	96.6%
(*) Adjusted PAT	319.4	373.1	-14.4%	148.8	114.7%	1,262.2	54.1

Sources: HPG, RongViet Securities

(*) VND 227 billion profit from Mandarin project (4QFY13)

(**) Provision reverse of VND 164 billion (3QFY13) and transfer subsidiary share of VND105.9 billion (1QFY13)

2013 revenue in line with Rong Viet Securities forecast

2013 is a successful year for HPG with the focus point in steel segment being the operation of the Integrated Steel Complex – Phase 2 in Oct 2013. HPG's manufacturing capability increased by 77% to 1.15 million tons, as well as output consumption increased in the end of year. In 2013, the consumption of HPG's construction steel reached over 698,000 tons (+14.2% compared to previous year), market share increased from 13.7% to 15.2%.

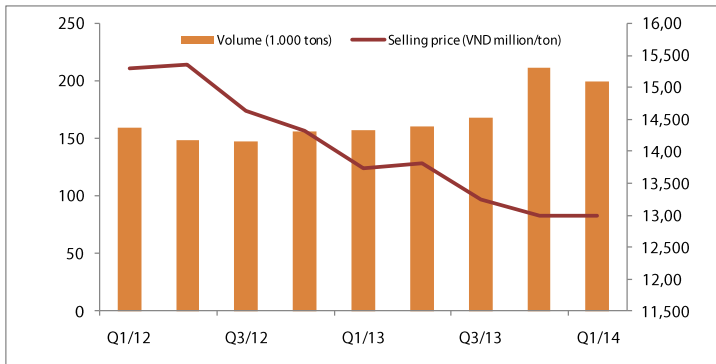
Besides the success of the Integrated Steel Complex – Phase 2, Mandarin Garden project is initially recognized ~ VND1,300 billion in revenue and ~ VND200 billion in NPAT in Q4/2013. Furthermore, supporting factors such as the decline in operating expense (-22%), interest (-30%), and the reversal of provision (~VND164 billion) related to the dispute between ACB Ha Noi and HPG's subsidiary helped HPG's profit to surge. Revenue in 2013 reached VND18,900 billion (+12.52% yoy), PAT reached 1,954 billion (+97% yoy), in line with our forecast in 22nd Nov 2013 Result Update.

Good growth in steel segment in Q1/2014

Revenue from steel segment was recorded as VND4,345 billion (+31.3% compared to same period 2013), and NPAT (including internal sales) was posted as VND1,378 billion, 2.5 times higher than same period last year.

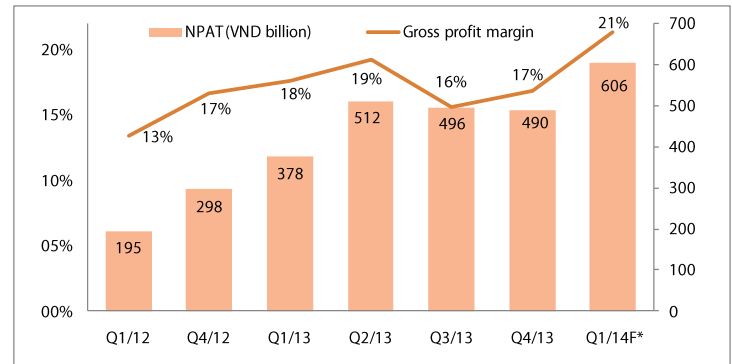
The consumption of finished steel products in Q1/2014 approached ~ 200,000 tons, a 26% increase compared to same period 2013 and a slight decrease of 6.4% compared to Q4/2013. Q1 is often the period with the lowest consumption, so this result should be favorite. Especially when the steel sector is still not really stable despite some positive signals. According to Vietnam Steel Association (VSA), the consumption of construction steel in the first 3 months 2014 reached ~1.2 million tons, a 5.8% increased compared to same period 2013. The inventory recorded up to end of Q1 is approximately 324,000 tons, a 13.8% increase compared to same period last year. HPG maintained the leading position in market share in Q1 (excluding VNSteel), reaching 17%. Pomina stepped down to the 2nd position with only 15.3% in market share.

HPG's quarterly volume and selling price chart



Sources: VSA, RongViet Securities

HPG's quarterly GPM and NPAT chart

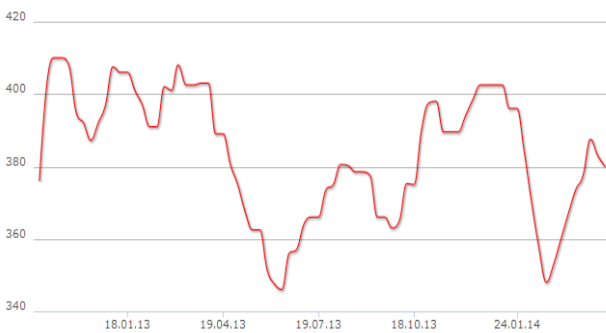


Sources: HPG, RongViet Securities, (*) NPAT were excluded profit from Mandarin

Contrary to the fear that HPG has to sacrifice its gross margin to boost sale volume, we notice that HPG's steel selling price was kept stable in Q1/2014, at around VND13 million/ton. The input price (scrap steel and hard-coking coal) is still in the down trend, so the gross margin of steel segment is positive.

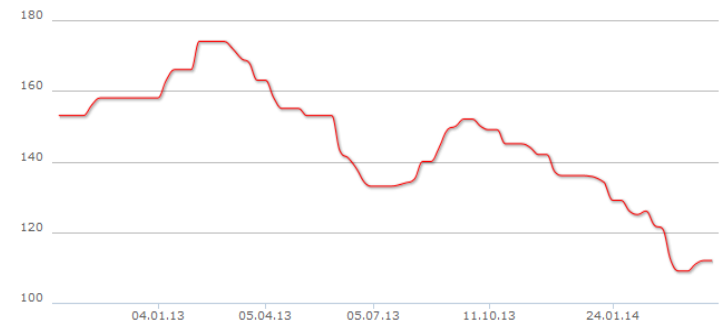
In Q1/2014, steel pipe consumption increased 30% over the same period last year and the company also sold over 40,000 tons of billets (1/2 of which is exported). HPG is boosting its billets exporting with ASEAN countries being the focal market (mainly Philippines) with exporting volume of approximately 20,000 tons/month. HPG's selling price of billets for domestic and foreign market is at around VND11 million/ton (not including VAT). The above price is VND1-2 million slightly lower than the price of finished steel products, so, even when HPG must sell both semi-finished and finished steel products at the same time, we believe that HPG's gross profit margin remains at a good level compared to other listed companies in the same industry.

The scrap steel price chart



Source: Metal expert

The hard-coking coal price chart



Source: Metal expert

The company realized 32% of revenue from Mandarin project in Q1

Up to now, HPG has sold 900/1,000 apartments of Mandarin Garden projects. In 2013, the company has recorded approximately 26% of revenue from this project (~VND1,300 billion). The apartment handover process during the early months of this year is very positive, so that 32% of revenue (~VND1,600 billion) was recorded in Q1. With a net profit margin of 22%, this project contributed VND260 billion to HPG's PAT, equivalent to approximately 29% of HPG's total profit in Q1/2014.

The consolidated revenue in Q1/2014 reached VND6,576 billion (+66% compared to same period last year) and PAT for company shareholders reached VND870 billion (+78% compared to same period last year).

Exhibit 2: 1QFY2014 performance analysis

Particulars	Q1-FY14	Q4-FY13	+/- (qoq)	Q1-FY13	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	21.3%	16.9%	444bps	17.6%	375bps
EBITDA Margin	2.2%	14.9%	-1274bps	20.5%	-1829bps
EBIT Margin	10.9%	11.0%	-9bps	16.6%	-569bps
Net Margin	13.4%	7.6%	578bps	11.6%	174bps
Adjusted Net Margin	10.7%	5.7%	507bps	11.6%	-89bps
Turnover *(x)					
-Inventories	2.8	2.7	0.1	1.9	0.9
-Receivables	16.6	16.9	-0.3	9.2	7.4
-Payables	20.7	16.2	4.5	37.3	-16.6
Leverage (%)					
Total Debt/ Equity	1.1	1.4	-0.3	1.2	-0.1

Source: Rong Viet Securities (*) Annualized turnover

Growth effort by expanding “core business activities” of HPG is supported by the recovery in construction sector

According to VSA, different from the gloomy state of steel market in the first two months of this year, the steel consumption in March grew significantly to reach 487,000 tons, a 33% increase compared to February and a 3.7% increase compare to same period 2013. We appreciate that this is positive signal for the recovery of construction sector, in general, and opportunities for steel segment, in specific. Therefore, the above recovery process is expected to help HPG boost its market share and revenue.

During this year, HPG will continue to invest in improving the manufacturing capability of its Integrated Steel Complex – Phase 1 from 350,000 tons/year to 400,000 tons/year. The repairing and upgrading period is expected to begin in Q3/2014 with an investing capital of VND100 billion. The company said that the repairing process will temporarily decrease HPG’s capacity by 120,000-150,000 tons this year. We slightly lower our forecast of billets consumption and finished steel products to 220,000 tons and 839,000 tons, a decrease of 12% and 1.3% respectively compared to the previous forecast. The current selling price of billet is kept stable and the average selling price of steel will slightly decrease by around 5% compared to the average level of 2013. For other business lines (furniture, industrial machines), HPG sets a target of 15%-20% increase in revenue, we assume that gross margin of those will be maintained compared to 2013.

For Mandarin project, the recording of revenue depends on the apartment handover process. Up to end of Q1/2014, the proceeds from Mandarin project in Payables is VND755 billion. We assume that HPG will record 64% more of revenue from this project in 2014. PAT will reach VND520 billion and the remaining (~10% of revenue) will be posted in 2015.

2014 revenue and NPAT is accordingly estimated at VND24,849 billion (+31% yoy) and VND2,514 billion (+29% yoy).

Outlook and valuation

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Exhibit 5: Key Assumptions

Particular	Earlier Estimates		Revised Estimates	
	FY2013E	FY2014E	FY2013E	FY2014E
Revenue growth (%)	39.4	-15.0	31.2	-3.3
Steel volume growth (%)	21.6		20.0	
Billet volume growth (5)			587.5	
Gross margin (%)	17.7	17.8	16.6	17.6
EBIT margin (%)	14.2	15.4	13.7	14.5

Source: RongViet Securities

Exhibit 6: Changes in Estimates

Particular (VND bn)	FY2014E			FY2015E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues	26,388.2	24,849.1	-5.8%		24,017.1	
Gross profits	17.7%	16.6%	108bps		17.6%	
SG&AC	1,075.0	866.7	-19.4%		936.7	
Operating Income	3,702.9	3,260.7	-11.9%		3,279.2	
Financial expenses	530.0	492.7	-7.0%		557.2	
PBT	3,342.9	3,034.2	-9.2%		3,058.4	
PAT	2,702.3	2,514.4	-7.0%		2,525.2	
EBITDA	4,741.1	4,413.2	-6.9%		4,479.2	
EBIT	3,760.0	3,413.2	-9.2%		3,487.0	
EPS (VND)	6,449	5,217	-19.1%		5,240	

Source: RongViet Securities

VND Billion

INCOME STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Revenue	16,826.9	18,934.3	24,849.1	24,017.1
COGS	14,341.6	15,650.5	20,721.7	19,801.3
Gross profit	2,485.2	3,283.8	4,127.4	4,215.9
Selling Expense	274.0	253.7	320.0	360.3
G&A Expense	587.0	416.2	546.7	576.4
Finance Income	164.6	276.3	227.6	291.7
Finance Expense	585.0	528.4	492.7	557.2
Other profits	14.9	32.9	38.5	44.7
PBT	1,218.2	2,394.4	3,034.2	3,058.4
Prov. of Tax	187.7	384.0	455.1	458.8
Minority's Interest	36.5	56.2	64.7	74.4
PAT to Equity Shareholder	994.0	1,954.2	2,514.4	2,525.2
EBIT	1,745.2	2,765.4	3,413.2	3,487.0
EBITDA	2,341.4	3,485.5	4,413.2	4,479.2

%

FINANCIAL RATIO	FY2012	FY2013	FY2014E	FY2015F
Growth				
Revenue	-5.7%	12.5%	31.2%	-3.3%
Operating Income	-27.9%	60.9%	24.7%	0.6%
EBITDA	-16.3%	48.9%	26.6%	1.5%
EBIT	-22.6%	58.5%	23.4%	2.2%
PAT	-19.6%	96.6%	28.7%	0.4%
Total Assets	8.5%	21.4%	2.1%	-3.7%
Equity	9.1%	17.5%	22.8%	9.2%
Internal growth rate	0.3%	15.1%	14.6%	8.8%
Profitability				
Gross profit/Revenue	14.8%	17.3%	16.6%	17.6%
Operating profit/ Revenue	9.7%	13.8%	13.1%	13.7%
EBITDA/ Revenue	13.9%	18.4%	17.8%	18.6%
EBITDA/ Revenue	10.4%	14.6%	13.7%	14.5%
Net margin	5.9%	10.3%	10.1%	10.5%
ROAA	5.4%	9.3%	10.8%	10.9%
ROIC or RONA	15.5%	23.4%	26.4%	24.6%
ROAE	12.8%	22.2%	23.8%	20.7%
Efficiency				
Receivable Turnover	9.5	11.6	13.9	12.9
Inventory Turnover	2.2	2.1	2.4	2.4
Payable Turnover	6.2	4.0	4.3	5.5
Liquidity				
Current	1.4	1.1	1.5	1.7
Quick	0.5	0.4	0.5	0.8
Solvency				
Total Debt/Equity	129.1%	142.0%	101.2%	77.3%
Current Debt/Equity	60.0%	60.5%	46.8%	40.7%
Long-term Debt/ Equity	18.0%	19.3%	18.2%	11.9%

VND Billion

BALANCE SHEET	FY2012	FY2013	FY2014E	FY2015F
Cash and equivalents	1,294	2,125	2,611	4,309
Short-term investment	220	388	349	454
Receivables	1,646	1,629	1,955	1,760
Inventories	6,822	8,030	9,225	7,434
Other current assets	238	230	242	254
Total Current Asset	10,221	12,403	14,382	14,210
Tangible Fixed Assets	4,296	8,864	8,254	7,544
Intangible Fixed Assets	166	189	184	180
Construction in Progress	2,545	134	250	250
Investment Property	67	62	58	54
Long-term Investment	26	21	32	35
Other long-term assets	843	831	401	421
Commercial Interest	852	573	473	373
Long-term Asset	8,795	10,674	9,179	8,483
Total Asset	19,016	23,076	23,561	22,694
Payables	1,708	2,394	2,279	1,782
Other current liabilities	804	3,005	1,875	1,305
Current Debt	4,850	5,744	5,456	5,184
Long-term Debt	1,456	1,832	2,127	1,520
Other long-term liabilities	1,620	515	65	65
Total Liability	10,438	13,489	11,803	9,856
Owner's Equity	8,085	9,500	11,668	12,748
Capital	4,191	4,191	4,819	4,819
Retained Earnings	1,393	2,643	4,144	5,173
Funds & Reverses	290	459	498	548
Others	0	0	0	0
Total Equity	8,085	9,500	11,668	12,748
Minority's Interest	492	87	90	90
TOTAL RESOURCES	19,016	23,076	23,561	22,694
CASH FLOW STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Profit before tax	1,218.2	2,394.4	3,034.2	3,058.4
-Depreciation	596.2	720.2	900.0	892.2
-Adjustments	616.2	268.2	48.2	64.4
+/- Working capital	-161.2	-148.9	-3,233.7	448.0
Net Operating CFs	2,269.4	3,233.8	748.7	4,462.9
+/- Fixed Asset	-1,776.7	-2,909.7	-397.8	-172.9
+/- Deposit, equity investment	134.1	-46.9	-41.5	-33.2
Interest, dividend, cash profit received	-17.2	-295.9	0.0	0.0
Net Investing CFs	-1,659.7	-3,252.5	-439.3	-206.0
+/- Capital	100.5	0.6	628.8	0.0
+/- Debt	-118.3	1,269.4	72.0	-833.9
Dividend and others paid	-361.8	-420.5	-524.7	-1,725.1
Net Financing CFs	-379.6	849.5	176.0	-2,559.0
+/- cash & equivalents	230.1	830.9	485.4	1,697.9
Beginning cash & equivalents	1,064.4	1,294.5	2,125.3	2,610.8
Impact of exchange rate	0.0	-0.1	0.0	0.0
Ending cash & equivalents	1,294.5	2,125.3	2,610.8	4,308.6

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 which 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.

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Ratings \ Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate-term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to -5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006 Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District
– Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

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