RONG VIET SECURITIES

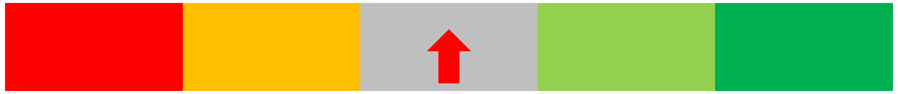
STEEL

DIVERGENCE IN RECOVERY

Lam Do – lam.dt@vdsc.com.vn
Trinh Nguyen – trinh.nh@vdsc.com.vn

STEEL - DIVERGENCE IN RECOVERY

Investment Rating



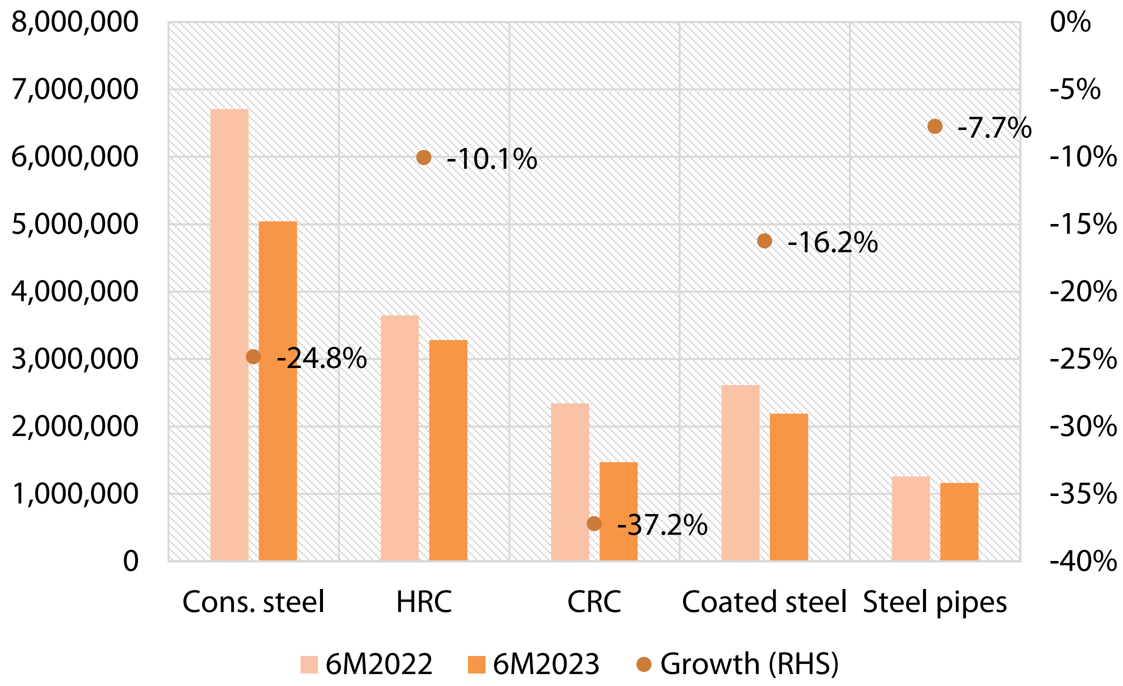
Negative **Neutral** **Positive**

Overview	2H2023 will remain challenging for all industry participants since domestic and international demand stay unmotivated while input prices are highly unstable. With consensus wrapping around an economic recovery in 2024 following the government's stimulating policies, many steelmakers are going to start improving their bottom line, from which one can select a long-term target based on respective companies' potential profitability.
Highlights	**1H market demand bottomed out from late-2022 but it was not enough to ignite bottom-line recovery for industry participants** • The lack of investments from major property developers was one of the main cause for the slow recovery among material producers. • Global and domestic macroeconomic conditions, which include high borrowing rates and inflation, are unfavorable for housing demand growth. **Recovery factors are not clearly presented, which is going to last at least until end of 2023, but with expectation to recover in 2024** • Domestic steel demand is going to continue to be sluggish in 2H due to weak construction and industrial activities. Overseas steel demand will still be affected by inflation, macroeconomic policies and trade intervention. • With the expectation that real estate market will recover in late 4Q23, the demand for construction steel may explode in 2024. **Fluctuating prices in the global market are continuing to challenge Vietnamese steelmakers in many aspects** • The new market conditions will require Vietnamese producers to tighten control over their purchasing policies and inventory management, alongside with many other challenges including sales push and pricing during market turmoil.
Valuation	• Since the beginning of the year, the price movements among steel stocks have seen a strong recovery, as they were oversold during the market downturn at the end of 2022. The price increase in the latter half of the year depends significantly on the corresponding profit recovery pace of the companies, along with other factors.
Stocks Recommendation	HPG (NEUTRAL, TP: VND 24,600), NKG (HOLD, TP: VND 20,100), HSG (NEUTRAL, TP: VND 18,100).
Risks	• **Exposure to global input prices might cause risks including commodity price and exchange rate risks.** • **Trade interventions such as anti-dumping and countervailing duties might cause unprecedented impact on both sales and profitability.**

Steel demand was impacted because of the real estate market distress in 2023, but with expectation to recover in 2024

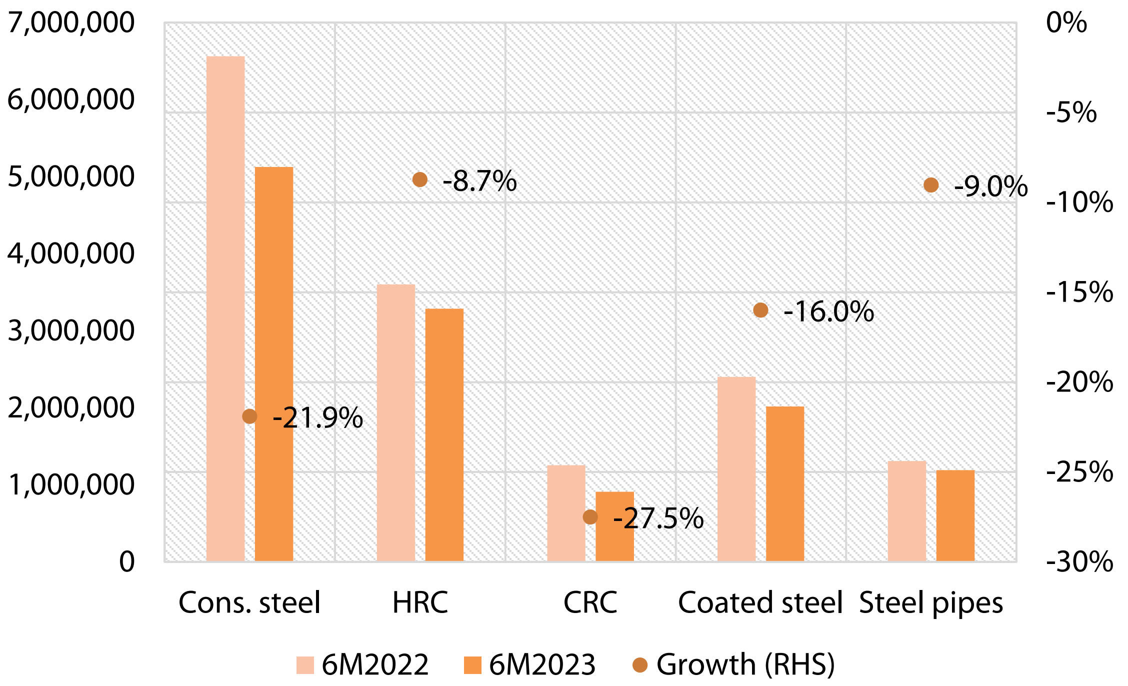
- Construction steel went down by the most because of the sudden distress among domestic property developers in 2H2022, which will last throughout 2023. However, with the expectation that the real estate market will recover in late 4Q23, the demand for construction steel may explode in 2024 and the cost leader – Hoa Phat group (HPG) – can record significant growth in term of consumption volume.
- Sales of hot rolled coil (HRC) and its downstream products (coated steel, steel pipes) was also affected by the downturn, but with lower negative growth, thanks to demand from foreign markets (ASEAN and European countries). We, as the result, prefer companies with significant contribution from exporting products (including Nam Kim Group - NKG).

Figure 1: Steel production volume (tons)



Source: VSA, RongViet Securities

Figure 2: Steel consumption volume (tons)

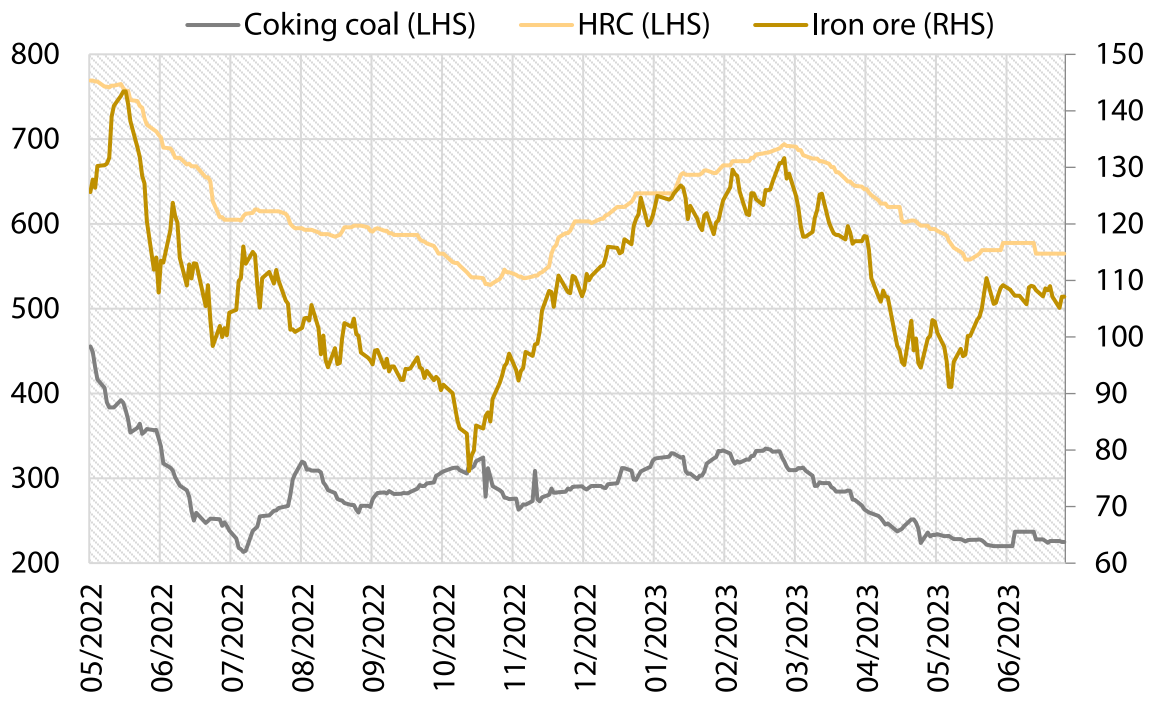


Source: VSA, RongViet Securities

Highly fluctuating prices in the global market are continuing to challenge Vietnamese steelmakers in many aspects

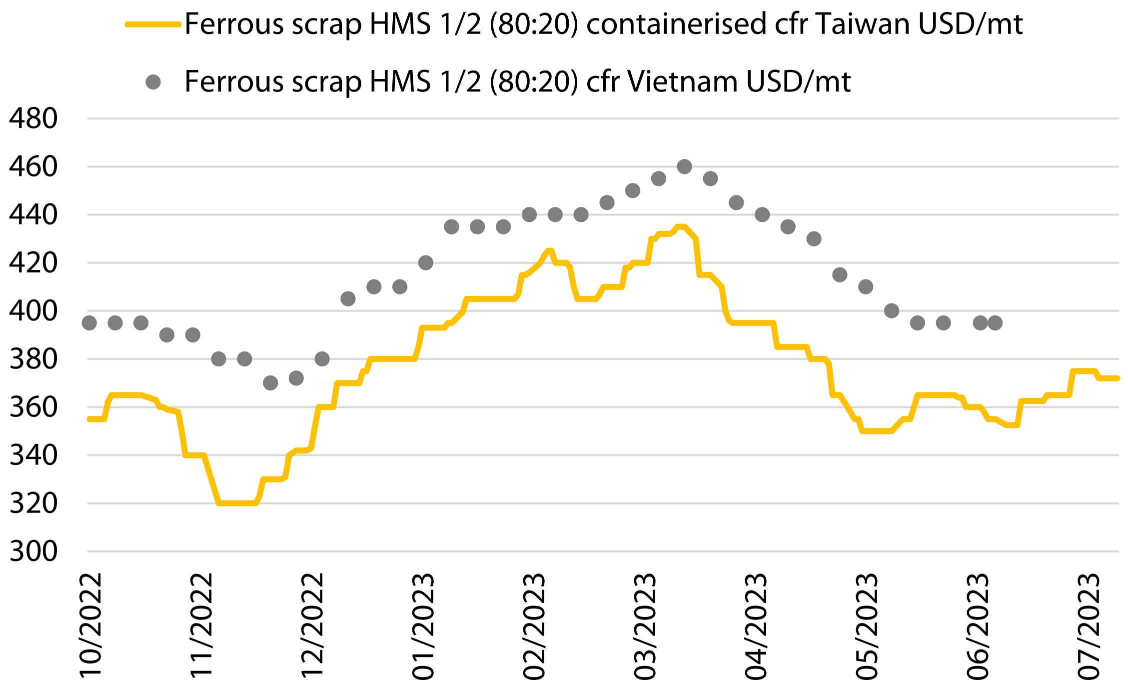
- YTD, iron ore has fluctuated within a wide range of -21% to +14%, coking coal -25% to +14%, HRC -9% to +14%, scraps -8% to +14%, most of which can deteriorate producer's gross margin quickly. We believe such strong fluctuations might as well reoccur, until China's residential market - the main customer – begin the recovery phase (expected to be in 2024).
- The new market conditions will require Vietnamese producers to tighten control over their purchasing policies and inventory management, along side with many other challenges including sales push and pricing during market turmoil.

Figure 3: Global input prices (USD per ton)



Source: Bloomberg, RongViet Securities

Figure 4: Global and local input prices (USD per ton)



Source: VSA, RongViet Securities

1H23 results - the market's difficulties remained, but there are signal of a recovery

- Compared with the period 2021-2022, the consumption volume of listed companies are still at low-level which illustrates the market's difficulties. However, it recorded growth in 2Q23 (QoQ, in term of revenue and gross profit margin), thanks to: 1/ Demand from foreign markets, 2/Material prices plummeted in 2Q.
- Steel companies lowered their days of inventories on hand, in order to reduce risk from material prices volatility.

Figure 5: Revenue of listed steel companies (bn VND)

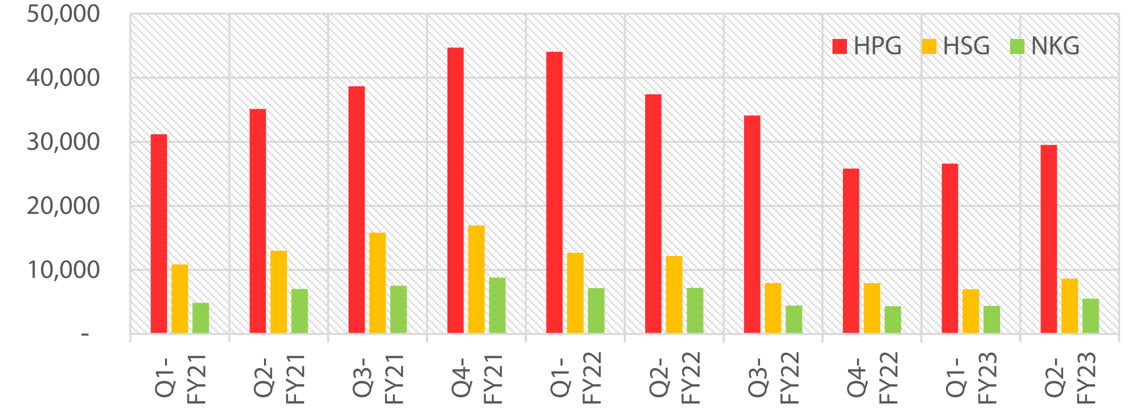


Figure 6: GPM of listed steel companies

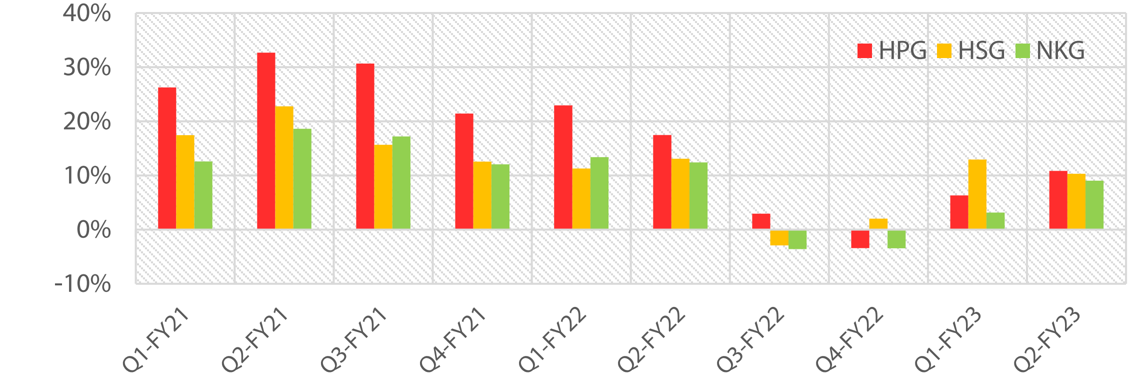
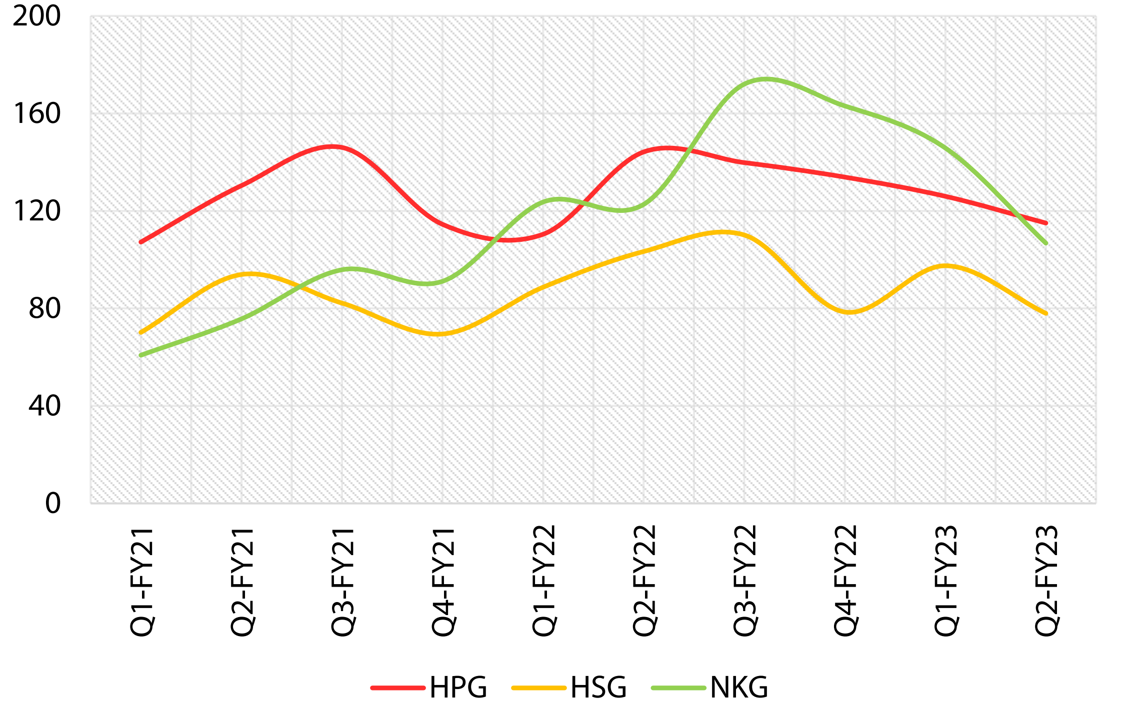


Figure 7: Days of inventories on hand are kept at low-level



Source: Finnpro, RongViet Securities

INDUSTRY COMPARABLE (TTM)

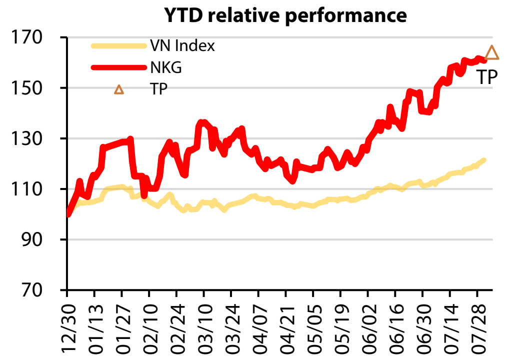
Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2023 's Profitability		P/E		P/B	
	($mn)	(VND)	(07/31/2023)			2022A	2023F	2024F	2022A	2023F	2024F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
HPG	6,922	24,600	28,200	0	22.7	-5.5	-25.1	29.0	-73.4	-14.3	93.3	7.3	4.1	22.6	9.2	1.6	1.7
HSG	501	18,100	19,250	0	29.6	2.0	-36.1	6.1	-94.4	-255.4	-197.9	-3.8	-2.6	-30.4	14.0	1.1	1.1
NKG	219	20,100	19,700	0	39.3	-18.1	-20.8	10.3	-105.6	-564.7	39.0	6.0	2.4	16.7	N.A	1.2	0.8
POM	90	N.R	7,630	n.a	42.0	-7.0	n.a	n.a	-702.5	n.a	n.a	-55.5	-11.7	n.a	N.A	0.9	0.7
TVN	220	N.R	7,700	n.a	48.9	-5.1	n.a	n.a	-207.0	n.a	n.a	-8.5	-3.0	n.a	N.A	0.6	0.7
SMC	42	N.R	13,550	n.a	0.0	8.8	n.a	n.a	-166.3	n.a	n.a	-57.4	-11.5	n.a	N.A	0.7	0.7
TLH	41	N.R	8,600	n.a	47.3	14.6	n.a	n.a	-94.7	n.a	n.a	-3.9	-1.7	n.a	N.A	0.5	0.5
DTL	64	N.R	25,200	n.a	49.0	16.8	n.a	n.a	-383.9	n.a	n.a	-29.2	-12.2	n.a	N.A	1.8	1.7

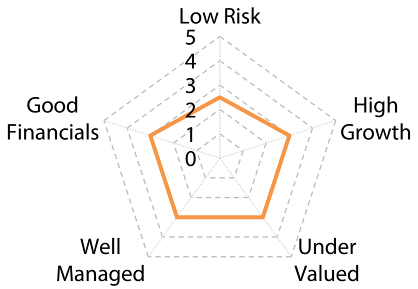
Source: Bloomberg, RongViet Securities. Data was updated as of 07 31th ,2023.
**For covered stocks: ROE, ROA, P/B, and P/E are estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

DEPENDING ON FOREIGN MARKET'S CONSUMPTION

HSX: NKG

HOLD: +2% **MP: 19,700** **TP: 20,100**





STOCK INFO

Sector	Basic Resources
Market Cap ($ mn)	215
Current Shares O/S (mn shares)	263
3M Avg. Volume (K)	9,705
3M Avg. Trading Value (VND Bn)	166
Remaining foreign room (%)	39.3
52-week range ('000 VND)	6,89 - 23,95

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	23,071	18,272	20,161
NPATMI (VND bn)	-67	310	431
ROA (%)	-0.5%	2.5%	3.5%
ROE (%)	-1.2%	6.0%	7.7%
EPS (VND)	(181)	953	1,324
Book Value (VND)	18,292	16,308	17,632
Cash dividend (VND)	0	0	0
P/E (x)	(48.3)	20.7	16.0
P/B (x)	0.6	1.2	1.1

INVESTMENT RATIONALE

Domestic demand for GI/GL and steel pipes is unconvincing, while foreign markets signal a recovery

- Monthly GI/GL and steel pipes consumption in the domestic market averaged 156,000 and 171,000 tons in the first five months of 2023, which were still less than those of previous years. Domestic demand for coated steel and steel pipes may need to wait until 2024 to fully recover.
- Nevertheless, foreign markets had better sales volume in recent months, which is a positive signal for consumption volume in 2H23.

Global HRC price remained unstable throughout the year, which led to tightening inventory policy

- Global HRC price has been in a highly unstable period post-COVID as it is under the impact of international macroeconomic uncertainty and different policies implemented by large economies. During 1H2023, HRC price ranged from 558 to 692 USD per ton, making it difficult for Vietnamese steelmakers in terms of purchasing decisions, which we believe will last in the near future.
- As the result, NKG has decreased its days of inventory on hand to 107 in 2Q, to avoid the risk of HRC price instability.

Business nature features a thin gross margin, hence a low predictability in terms of mid-term profits

- While most Vietnamese GI/GL sheet and pipe producers' gross margin hovers around 10%, HRC price volatility exposes NKG's short-term profit to a high price lagging risk.

2024: strong financials is the backbone for firm recovery

- NKG's liquidity ratio has been kept over 1.2x for the last two years and still improving, quick ratio kept around 0.5x. Total liabilities/Total assets is around 60% with no long-term debts.

RISKS TO OUR CALL

- Our HOLDING call could become obsolete quickly because of HRC price instability.

- In 1H23, NKG recorded unfavorable revenue and profit, gross profit margin and net profit margin reached 6.4% and 0.8%, respectively. However, there has been an improvement compared to the toughest phase of the industry (2H22).
- The company proactively reduces inventory days to mitigate raw material price fluctuations. However, high financial costs (around VND120 bn per quarter) continue to negatively impact the company's net profit margin.

Figure 1: NKG's revenue and profit margin in the period 2021-2023

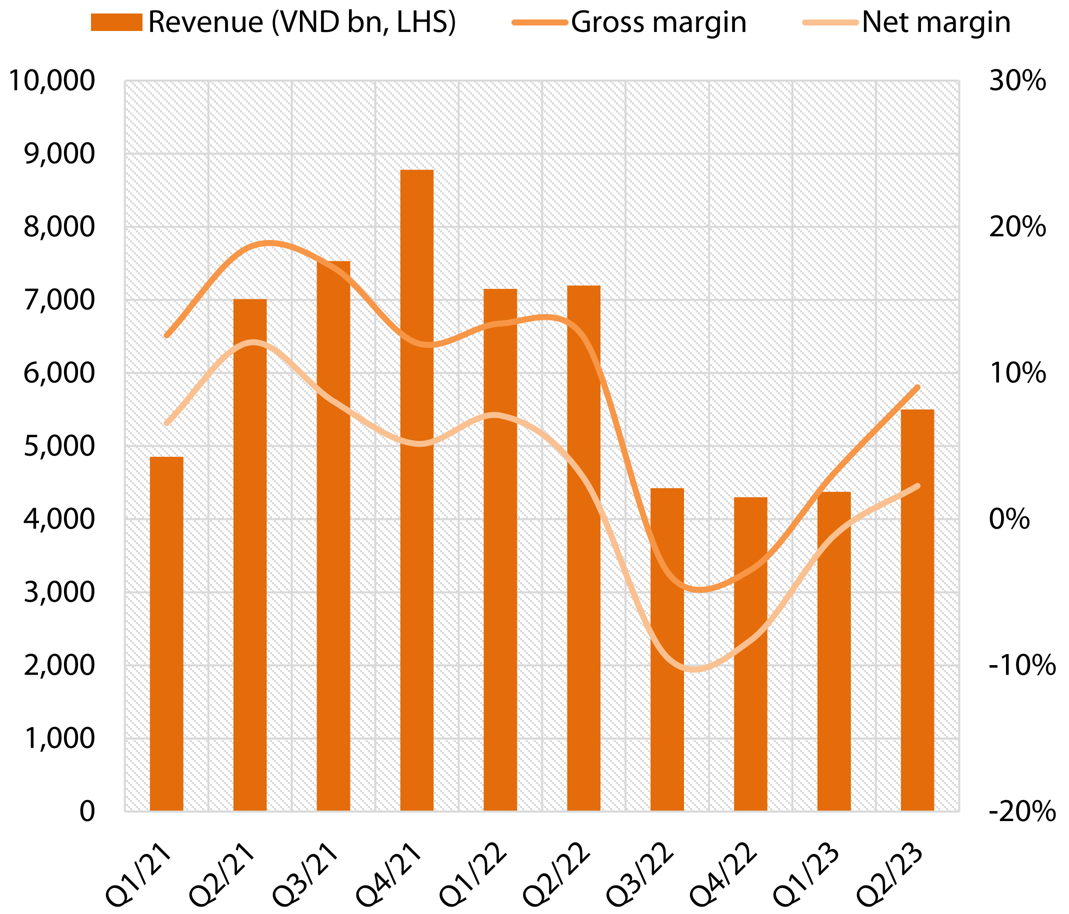


Figure 2: NKG's inventory in the period 2021-2023

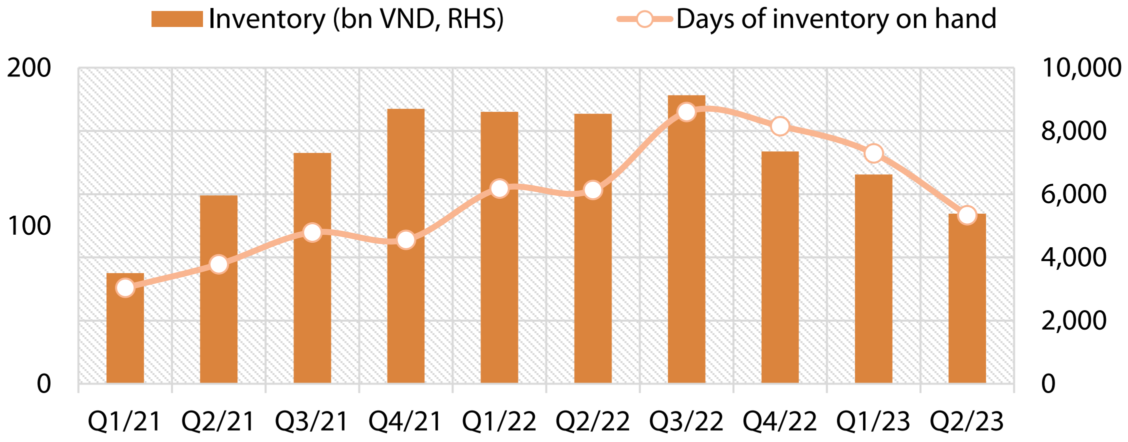
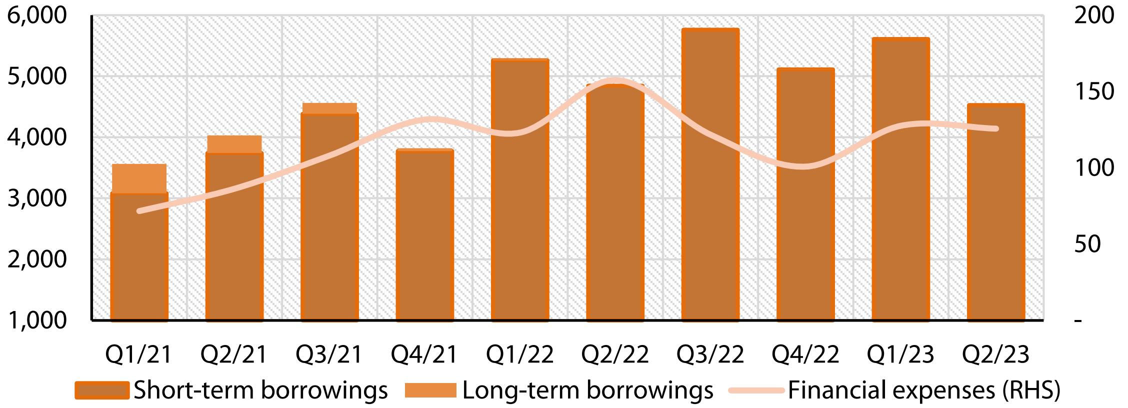


Figure 3: NKG's debt structure in the period 2021-2023 (bn VND)



Souces: Bloomberg, NKG, RongViet Securities

Figure 4: NKG's sales volumes – with significant contribution from foreign market (thousand tons)

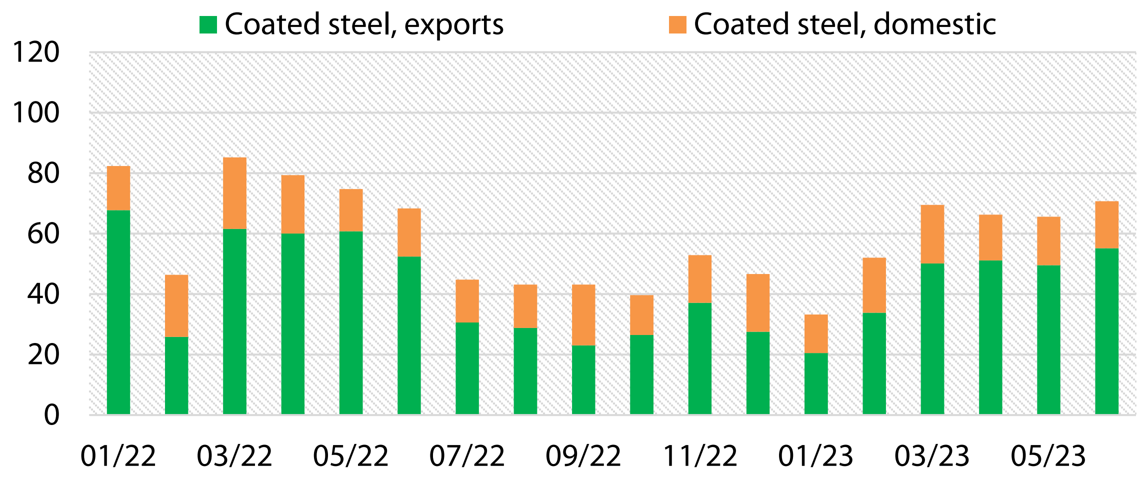


Figure 5: Pipe sales cannot be a growth driver (thousand tons)

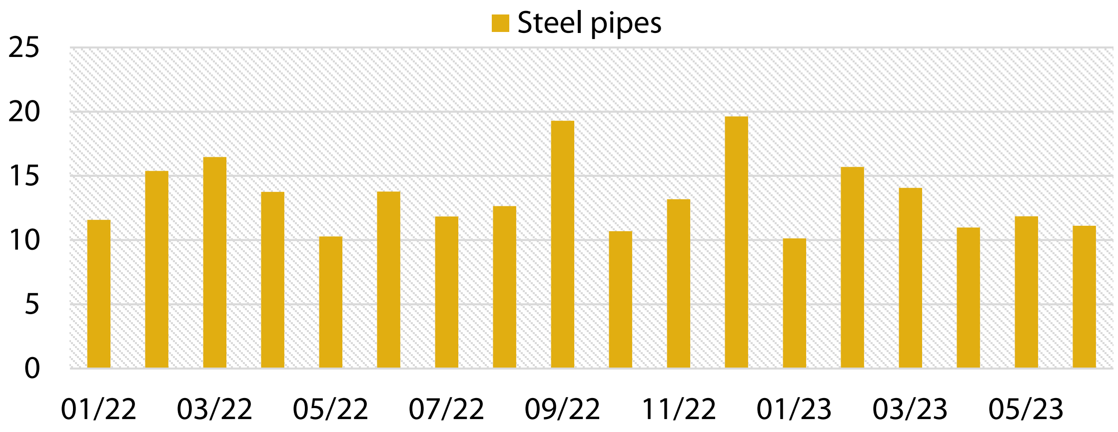


Figure 6: Business nature makes profitability sensitive to HRC price

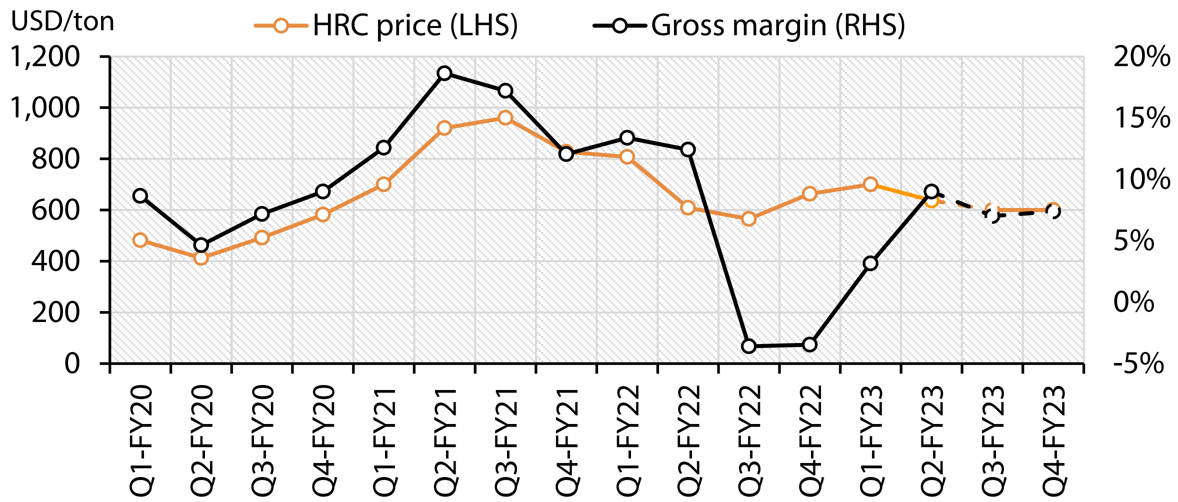
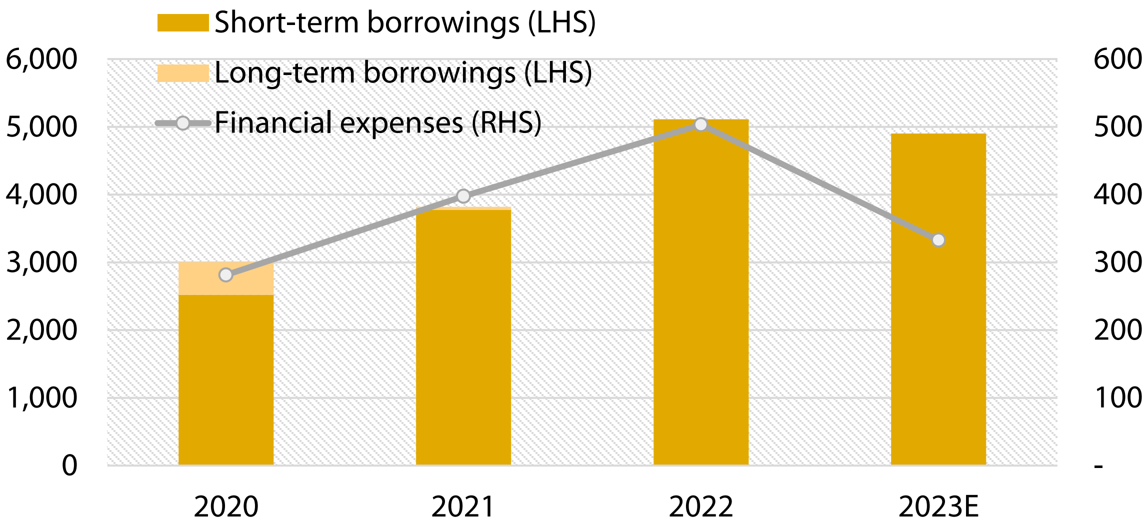


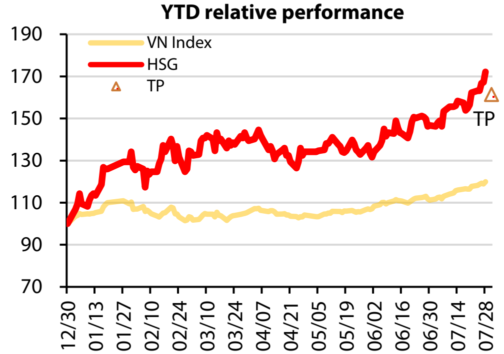
Figure 7: Strong liquidity, no long-term debts are a plus (VND billion)

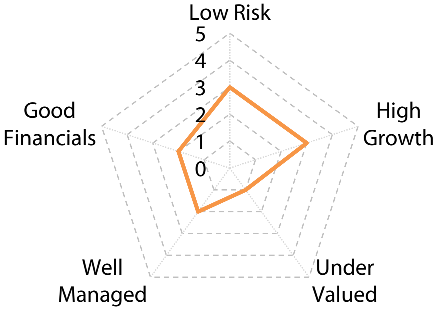


Souces: Bloomberg, NKG, VSA, RongViet Securities

SLOW VOLUME RECOVERY PUTS IMMENSE PRESSURE ON BOTTOM LINE

NEUTRAL: -6% **MP: 19,200** **TP: 18,100**





STOCK INFO

Sector	Basic Resources
Market Cap ($ mn)	488
Current Shares O/S (mn shares)	616
3M Avg. Volume (K)	15,726
3M Avg. Trading Value (VND Bn)	258
Remaining foreign room (%)	30.6
52-week range ('000 VND)	6,65 - 19,3

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	49,711	31,775	33,702
NPATMI (VND bn)	251	-390	382
ROA (%)	1.5%	-2.6%	2.5%
ROE (%)	2.4%	-3.8%	3.6%
EPS (VND)	420	-607	595
Book Value (VND)	17,857	17,251	17,845
Cash dividend (VND)	0	0	0
P/E (x)	35.3	-31.1	31.8
P/B (x)	0.8	1.1	1.1

INVESTMENT RATIONALE

As the leading GI/GL manufacturer and retailer, HSG bears the most impact from the slowdown in domestic demand

- For the 1h23, domestic GI/GL sales volume went down by 21%, in-line with the industry average was down 18% in the same period.
- Longer value chain might have been partly responsible for slower price change, hence reduced competitiveness against other producers especially during market turmoil.

Global HRC price remained unstable throughout the year, posing upcoming challenges for the recovery

- Global HRC price has been in a highly unstable period post-COVID because of international macroeconomic uncertainty and different policies implemented by large economies.
- During 1H2023, HRC price ranged from 558 to 692 USD per ton, making it difficult in terms of purchasing decisions, which we believe will last in the near future.

SG&A expenses erode net profit, even though financial expenses are under control by reducing debts

- Selling expenses usually varies between 6-8% of revenue, mostly due to HSG's retailing franchise, which can be overwhelming on the bottom line during unfavorable market conditions.
- Minimizing long-term debts and controlling short-term debts are strategically appropriate given the current interest rate environment.

RISKS TO OUR CALL

- Earning results can affect HSG shares in terms of margin trading. FY22-23 accumulated earnings are currently negative.

- In the first 9 months 2023, HSG recorded unfavorable revenue and profit (with gross profit margin and net profit margin reached 8.3% and -1.8%, respectively). In 3Q23, the company recorded a decline in profit margin due to the sustained high selling expenses (selling expenses-to revenue ratio at around 8%, higher than industry peers, due to the maintenance of the Hoasen Home system).
- The company proactively reduces inventory days to mitigate raw material price fluctuations, and concurrently lowering the debt ratio has also helped the company decrease financial costs to a low level in the 2021-2023 period.

Figure 1: HSG's revenue and profit in the period 2021-2023

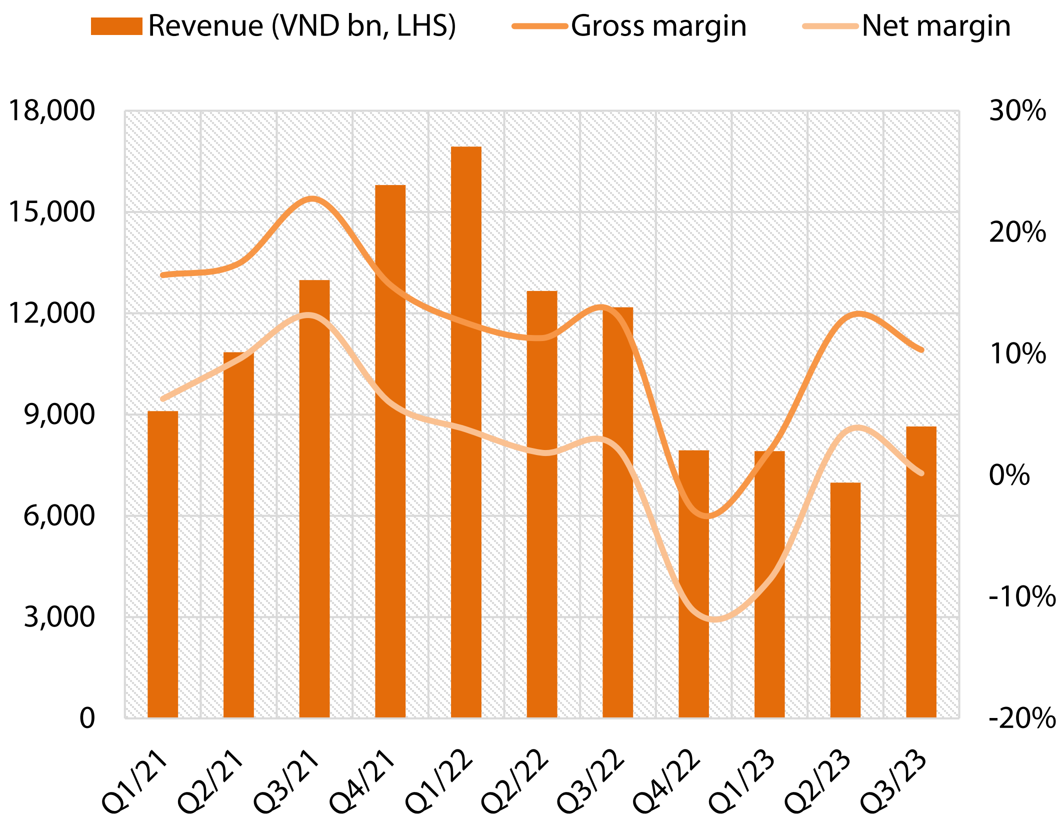


Figure 2: HSG's inventory in the period 2021-2023

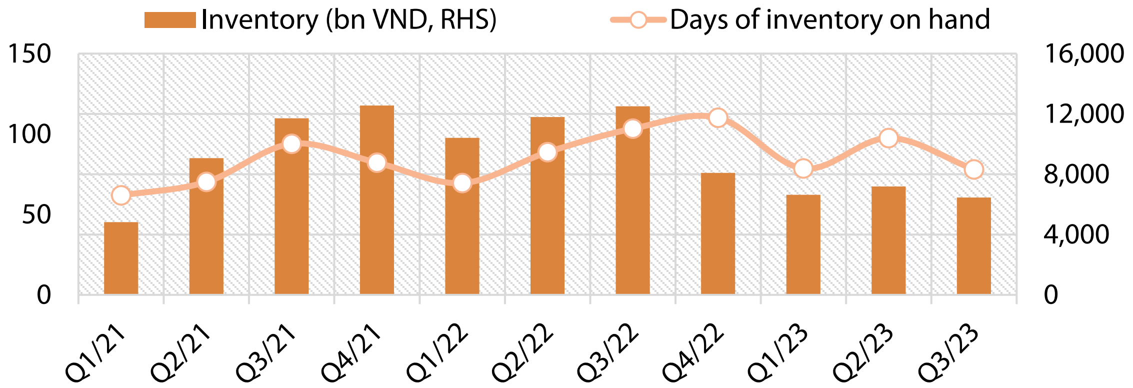
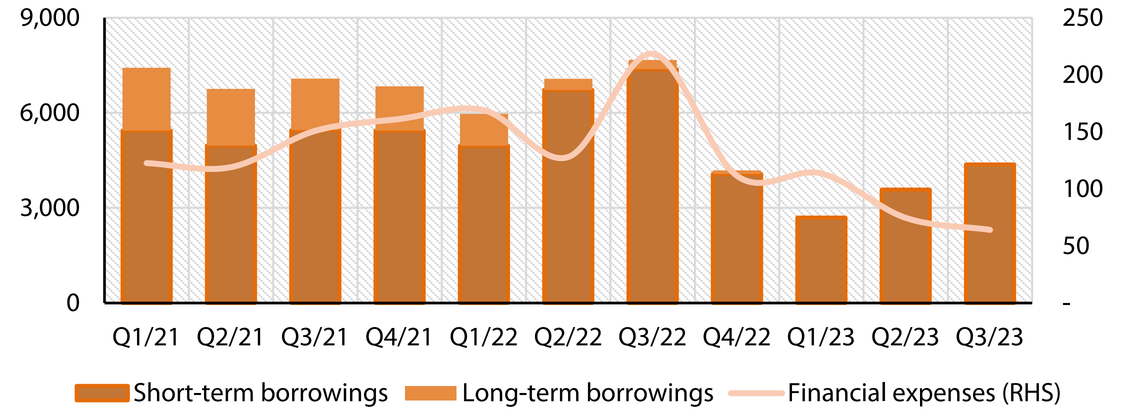


Figure 3: HSG's debt structure in the period 2021-2023 (bn VND)



Souces: HSG, RongViet Securities

THE DOMESTIC MARKET STILL HAS LOW CONSUMPTION DEMAND

Figure 4: Both markets have not recovered fully (thousand tons)

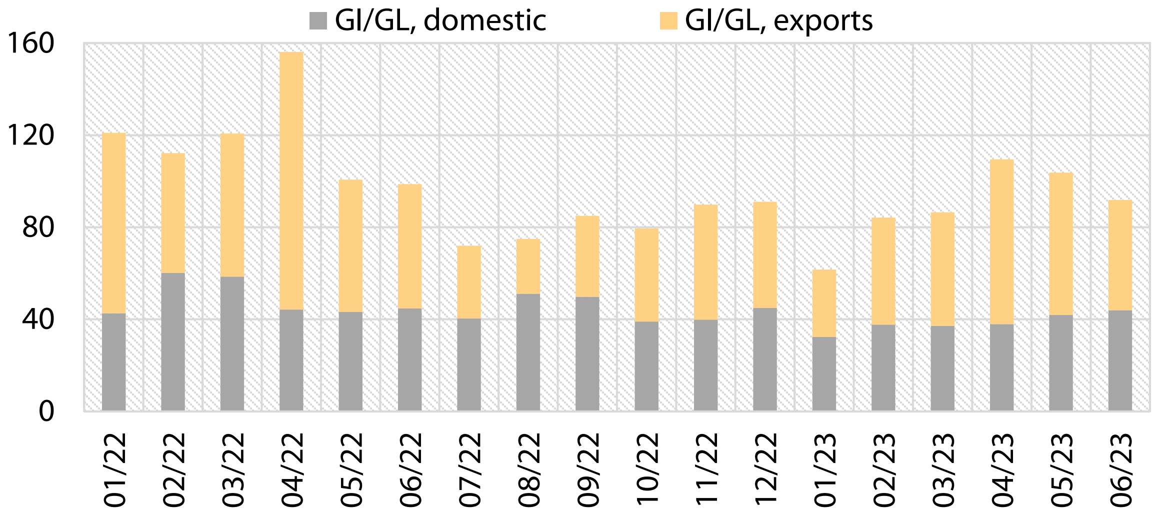


Figure 5: Pipe sales cannot be a growth driver (thousand tons)

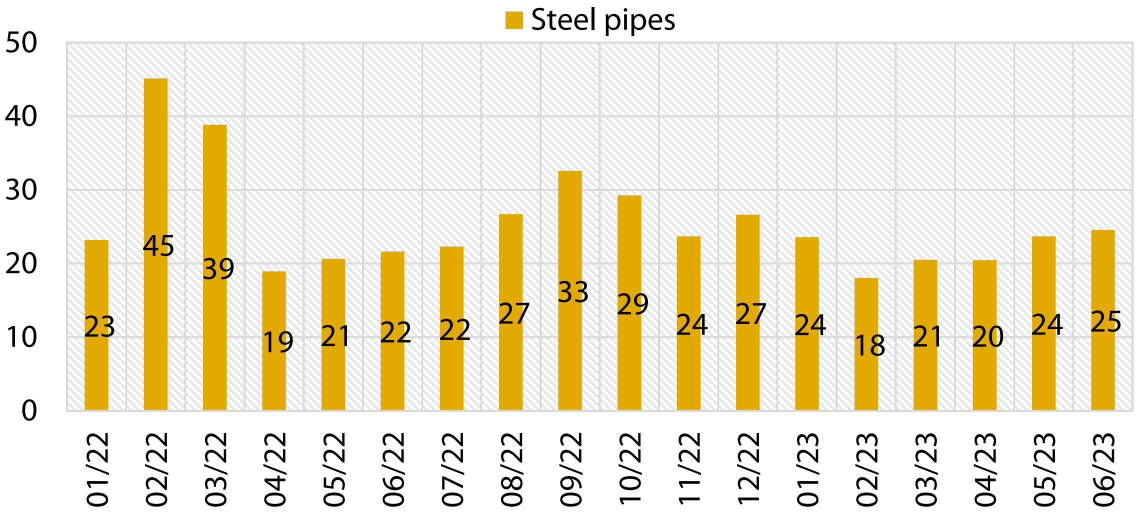


Figure 6: Business nature makes profitability sensitive to HRC price (USD/ton)

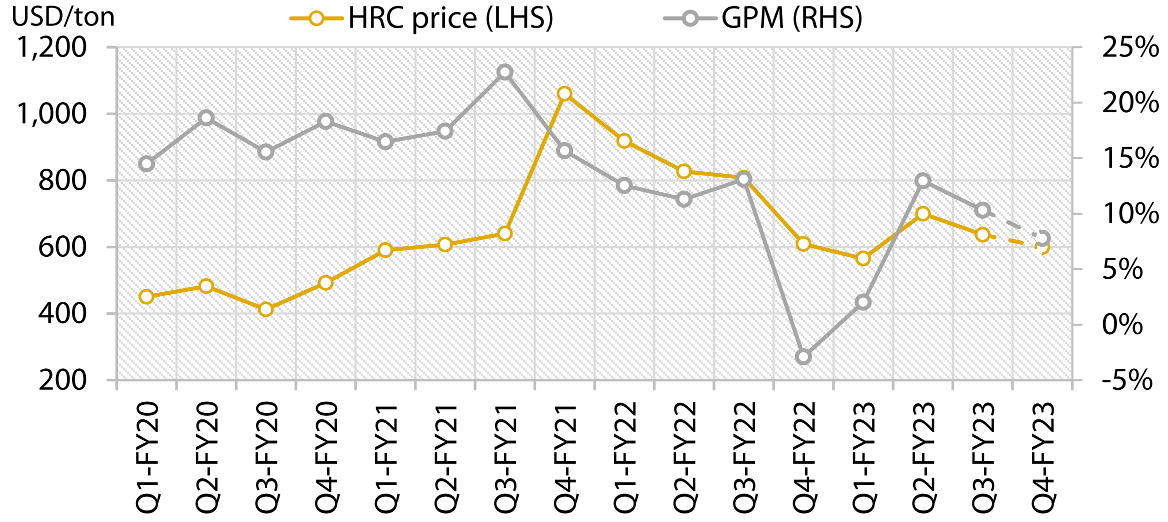
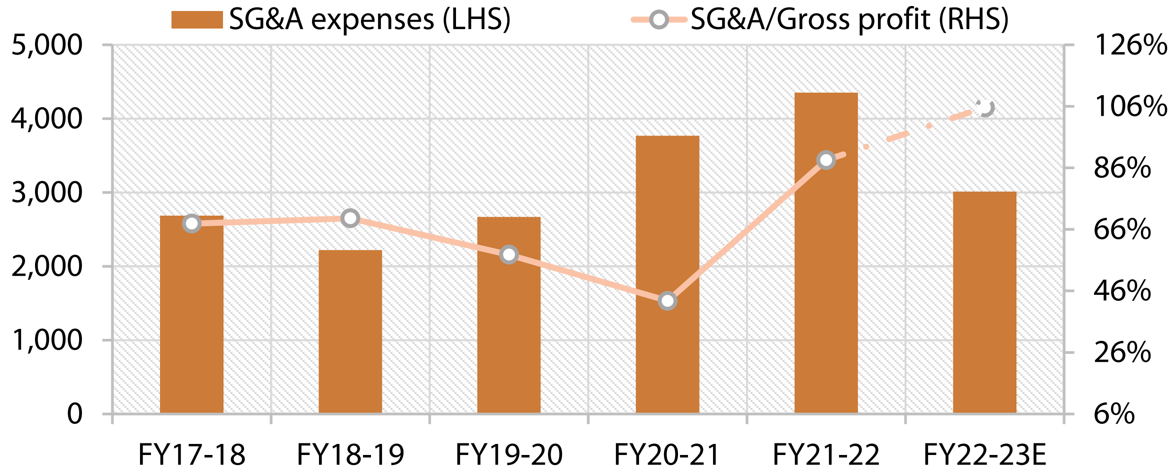


Figure 7: SG&A expenses can erode profit due to retail activities

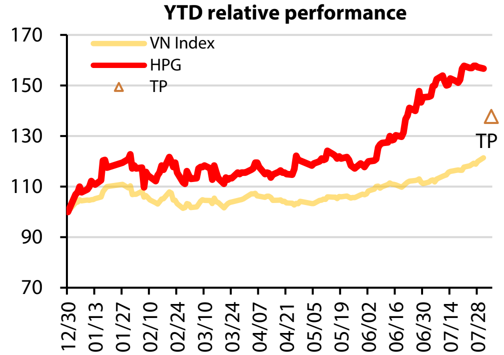


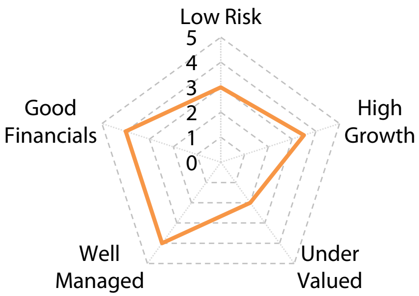
Souces: VSA, HSG, RongViet Securities

LONG-TERM POTENTIAL RECOVERY HAS BEEN PRICED-IN

HSX: HPG

NEUTRAL: -12% **MP: 28,200** **TP: 24,600**





STOCK INFO

Sector	Basic Resources
Market Cap ($ mn)	6,828
Current Shares O/S (mn shares)	5,815
3M Avg. Volume (K)	21,637
3M Avg. Trading Value (VND Bn)	531
Remaining foreign room (%)	22.7
52-week range ('000 VND)	11,8 - 28,7

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	141,409	105,915	136,641
NPATMI (VND bn)	8,484	7,267	14,048
ROA (%)	5.0	4.1	7.5
ROE (%)	8.8	7.3	13.1
EPS (VND)	1,371	1,175	2,271
Book Value (VND)	16,511	17,184	18,455
Cash dividend (VND)	0	0	0
P/E (x)	12.3	20.9	10.8
P/B (x)	1.1	1.4	1.3

INVESTMENT RATIONALE

Construction steel – Demand is slowly recovering

- In 1H23, the construction steel volume reached 1.7mn tons (-34%YoY), as demand continues to be sluggish with the cooling-off in the real estate market (~70% of total units are absorbed by the real estate market). However, there is positive signal for recovery, when: 1/The volume has been stable at ~280,000 tons/month in recent months, and 2/Residential projects in tier-I cities (Hanoi, HCMC) have received deposit from customers, which will push the construction stage in following quarters and raise the demand for materials (including construction steel).
- For 2H23,we forecast that the production volume will rise to 1.7 mn tons (equivalent to the first half); and to 4.6 million tons in 2024 (a 28% growth YoY, with a capacity utilization of around 90%), as the property market recovers and HPG captures more market share - due to its cost advantage.

HRC – Export market support for the restart of blast furnaces in Dung Quat Steel Complex

- The company plans to resume operations of the last furnace at Dung Quat Steel Complex in 3Q in order to meet the export needs of Hot Rolled Coil (HRC) for Europe and Southeast Asia. The company has already produced 1.2 million tons of HRC in 1H2023, and we expect it could produce another 1.1 mn tons in 2H (totaling 2.3 mn tons for 2023 with an 80% capacity utilization).

Profit margin recovers from 3Q23 as low-cost materials have been put into operation

- The material price dropped sharply in 2Q2023 (with coking coal and iron ore down 19% and 11%, respectively), while the output price fell less (down 10% in the same quarter). As we expect prices of materials to fluctuate in a narrow range around the current price level due to the low stockpiling demand, the gross profit margin can be improved to 13.1% (2023) and 15.7% (2024). Therefore, we estimate that the net profit for 2023/2024 will be 7.3 tn/14.1 tn VND (-14%/+99% YoY), respectively. The stock is trading at a forward P/E of 12.1 for 2024, reflecting the recovery outlook.

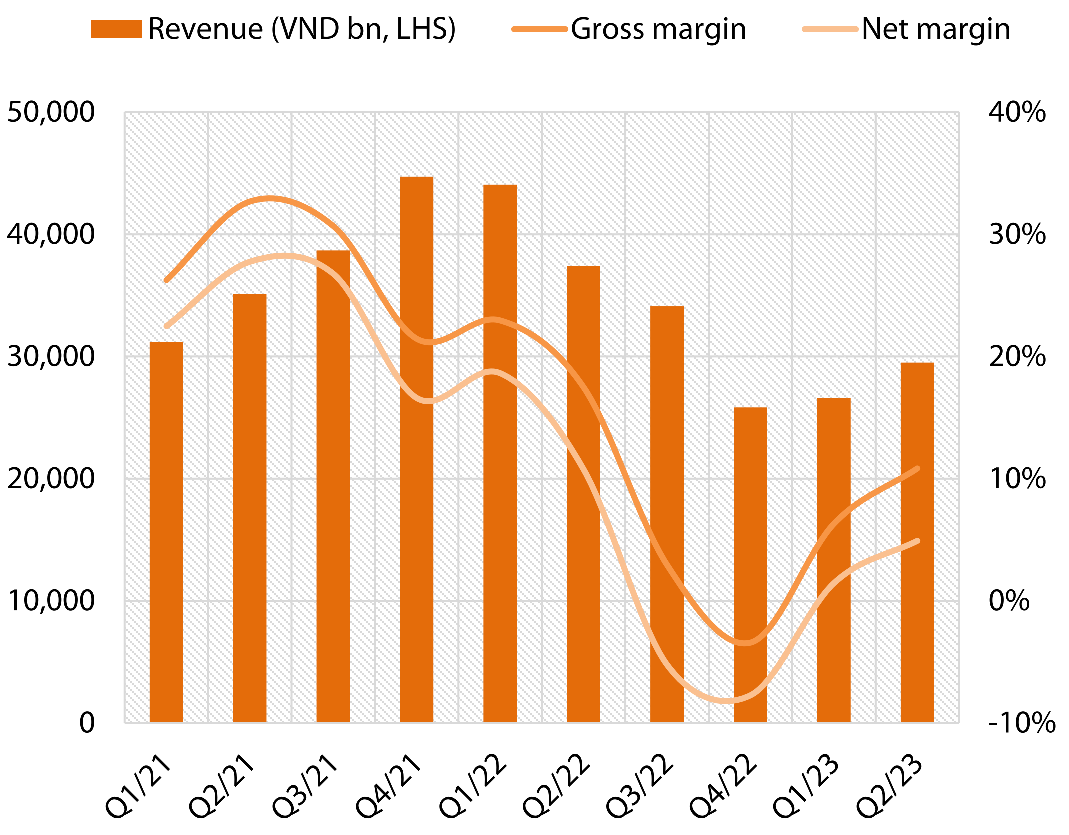
RISKS TO OUR CALL

- Higher-than-expected volatility in the material price; lower-than-expected demand for construction steel.

PROFIT MARGIN IMPROVED, TOGETHER WITH INVENTORY CONTROL

- In 1H23, HPG recorded unfavorable revenue and profit, with gross profit margin and net profit margin reached 8.7% and 3.3%, respectively. However, there has been an improvement compared to the toughest phase of the industry (2H22).
- The company has a sensible inventory policy (reducing inventory days to mitigate raw material price volatility), and stable exchange rates have helped the company avoid losses due to currency fluctuations.

Figure 1: HPG's revenue and profit margin in the period 2021-2023



Source: HPG, RongViet Securities

Figure 2: Inventory of HPG in the period 2021-2023

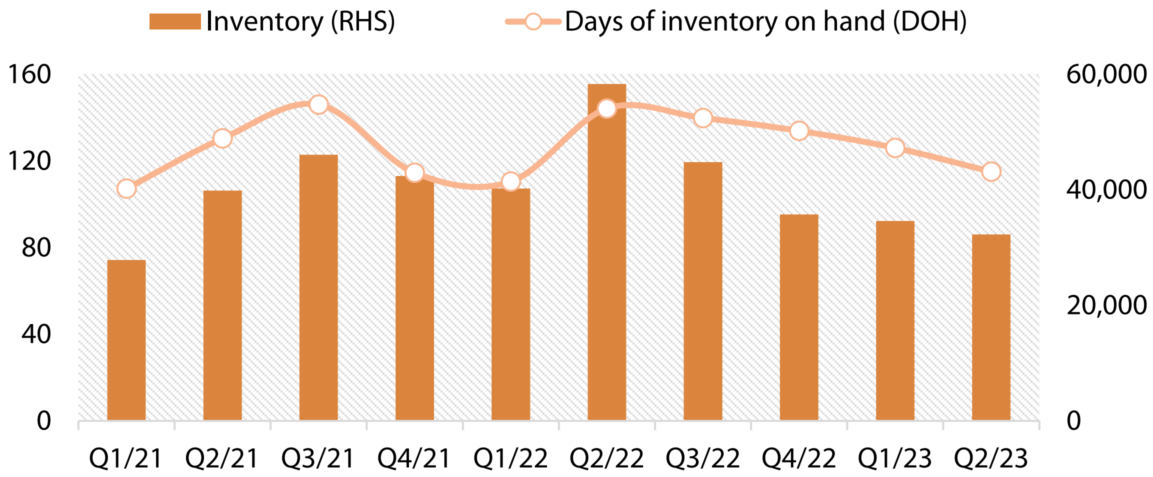


Figure 3: HPG's debt structure in the period 2021-2023 (billion VND)

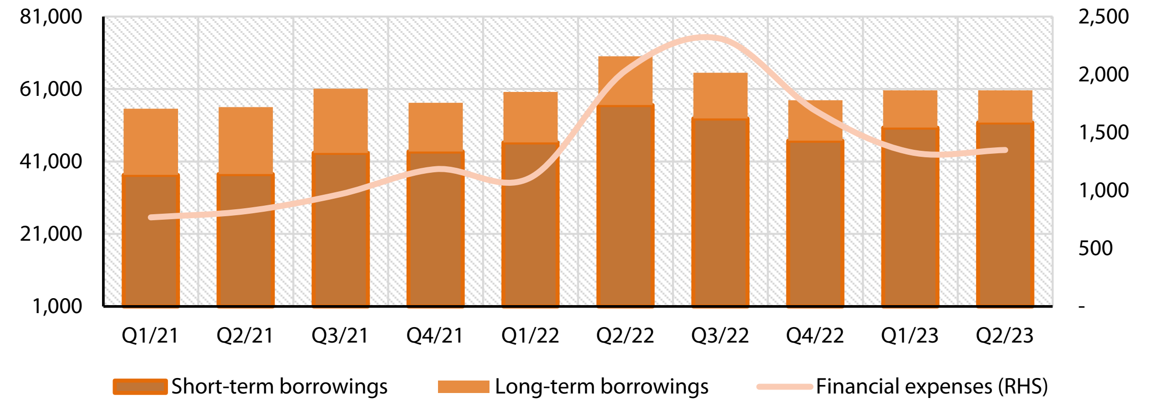


Figure 4: Material price in the period 2022-2023 (USD/ton)

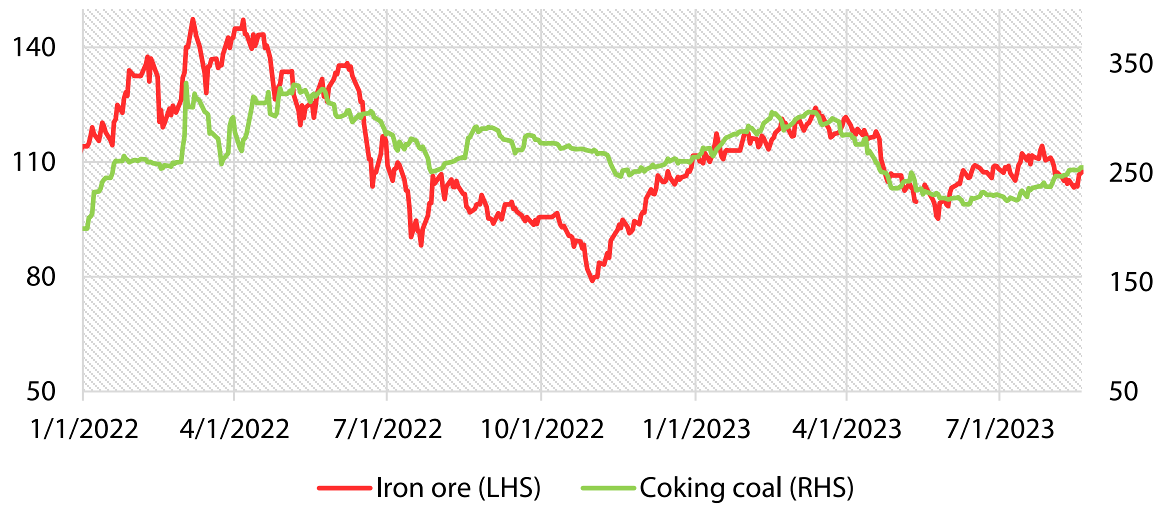


Figure 5: HPG sales volume in 2022-2023 (ton) – The output of construction steel and HRC signal a recovery

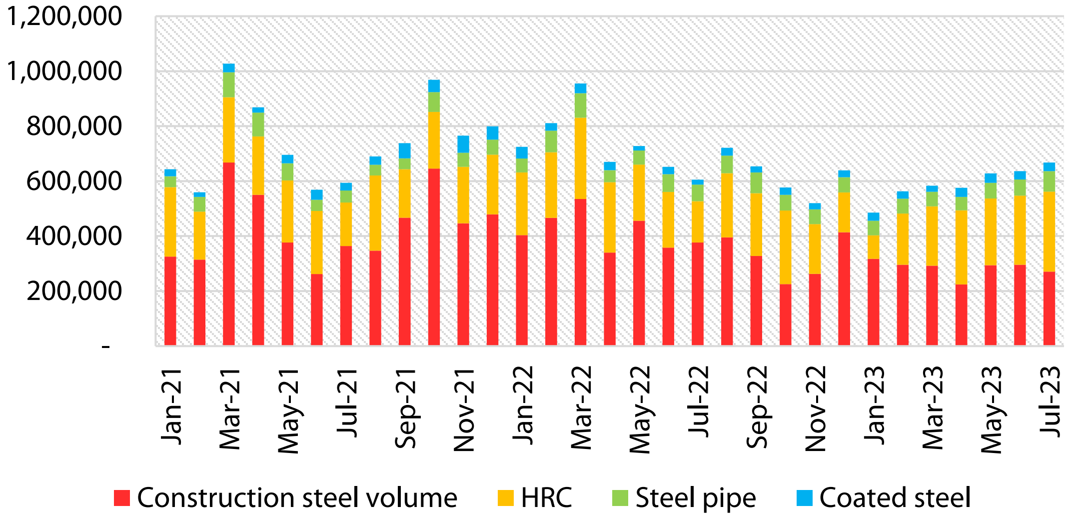


Figure 6: HPG's rebar price in the period 2022-2023 (VND mn/ton)

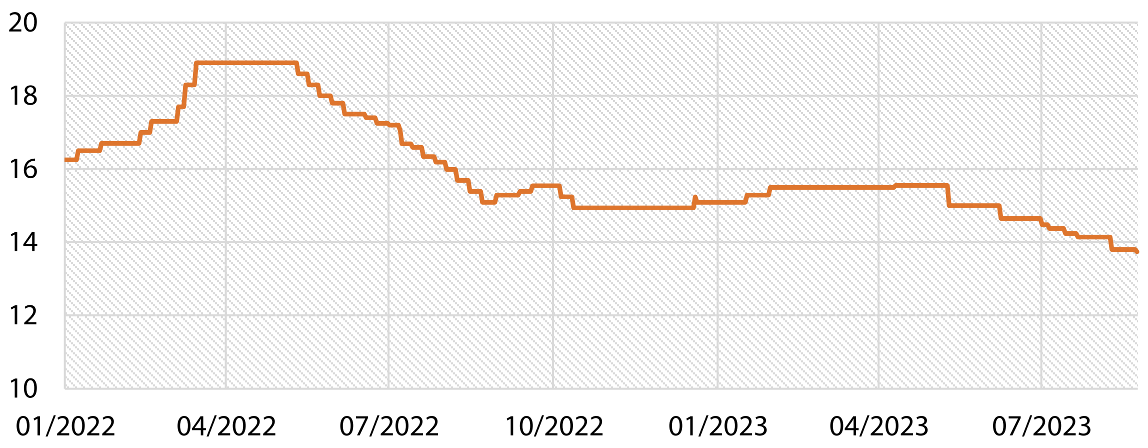
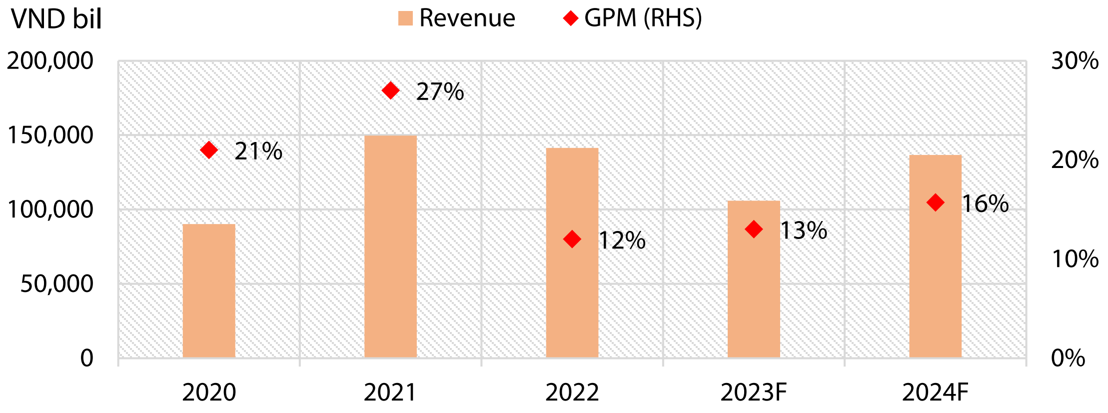


Figure 7: HPG's revenue and GPM in the period 2020-2024



Source: VSA, HPG, RongViet Securities

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

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

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Aviation
- Logistics
- Market Strategy

An Nguyen
Senior Analyst
an.ntn@vdsc.com.vn
+ 84 28 6299 2006 (1526)
Food & Beverage
Automotive & Spare parts

Lam Do
Senior Analyst
lam.dt@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Real Estate

Hung Le
Analyst
hung.ltq@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Industrial RE
- Market Strategy

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1526)
- Retail
- Fishery
- F&B

Chinh Nguyen
Analyst
chinh.nd@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank

Hoai Trinh
Analyst
hoai.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Utilities
- Textiles

Quan Cao
Analyst
quan.cn@vdsc.com.vn
+ 84 28 6299 2006 (2223)
- Seaport
- Pharmaceutical

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Trinh Nguyen
Senior Consultant
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006

Ngan Le
Analyst
ngan.lk@vdsc.com.vn
+ 84 28 6299 2006
- O&G
- Fertilizer

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Khanh Dang
Assistant
khanh.bdc@vdsc.com.vn
+ 84 28 6299 2006

RONG VIET SECURITIES

VIET DRAGON SECURITIES CORPORATION

Floor 1 to Floor 8, Viet Dragon Tower, 141 Nguyen Du Street., Dist.1, HCMC, Vietnam

www.vdsc.com.vn