RONG VIET SECURITIES

Steel Industry – Benefits from the after effects of the pandemic

Positive

Steel exporters can seize opportunities in the coated steel segment. The coated steel consumption in Europe and North America has been stronger in 1Q2021 due to the expectation that economies will recover due to available COVID-19 vaccines. Besides, flat steel prices are highly different between Vietnam and these markets, leading to higher profitability for exporters. Many domestic producers will run their factories at full capacity until June to meet the robust demand from these markets.

Public investment in infrastructure projects can support steel demand. Since mid-2020, Vietnam's public investment disbursement has been accelerating to support the economy after COVID-19. Higher demand from infrastructure projects, especially bridges, can support steel producers' sales in 2021.

FDI inflows can bring some growth potentials in the long run. Vietnam has advantages in order to compete against other Asian countries and become a destination for many foreign manufacturers. We expect that the shift of manufacturers to Vietnam can boost the demand for steel pipes, coated steel, and coil service in the next 1-3 years.

The new capacity will lead to harsh competition and put pressure on small-and-medium producers. In the construction steel segment, the large additional capacity from Dung Quat plant and Pomina's BOF mill is equivalent to roughly 90% of the South's consumption in 2020. Small EAF mills will face great challenges to survive in the following years. In the flat steel segment, running HRC production lines commercially at full capacity in 1Q2021 is going to help HPG to increase its competitiveness against other producers.

We believe that the steel market's consolidation will only benefit HPG in the long run. In the short run, as commodity prices have been rallying due to various reasons, other Vietnamese steel producers including HSG, NKG, and SMC can have some outperforming quarterly results. Investors need to monitor steel prices closely to make investment decisions on these mid and down-stream producers who are highly dependent on commodity price fluctuations.

Steel stocks rating and valuation

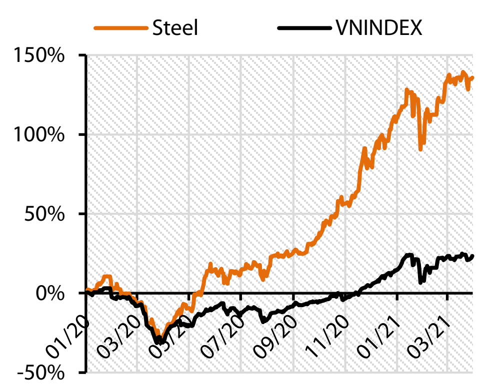
Ticker	Rating	Mkt. Cap (VND bn)	Avg. Daily Volume (20 sessions)	Target Price (VND)	Upside potential (%)	PER 2021F (x)	EV/EBITDA 2021F (x)	ROE (%)	ROA (%)	Div Yield (%)
HPG	BUY	155,062	16,640,585	55,200	20.0	7.2	4.8	29.7	16.6	1.1
SMC	ACCUMULATE	1,840	437,855	30,200	3.3	5.5	3.0	10.4	2.6	3.3
NKG	ACCUMULATE	4,111	5,472,270	24,700	4.6	7.4	3.8	4.9	1.9	1.3
HSG	MONITOR	12,627	7,530,315	N/A	N/A	10.6	3.5	22.1	6.5	0.0
Average		**32,003**	**8,944,461**	**38,700**	**9.0**	**7.7**	**3.8**	**16.8**	**6.9**	**1.4**

Sector	Basic materials
Sub-sector	Steel
Mkt. Cap (VND bn)	183,500
% of Total Mkt. Cap	4.1

Share Price Performance

%	1M	3M	12M
HPG	2.6	12.9	239.5
SMC	17.7	54.9	189.1
HSG	35.4	59.3	454.2
NKG	7.2	28.2	555.4
Basic materials (steel segment)	2.5	12.8	226.9
VNIndex	2.0	7.9	79.8

Price Performance



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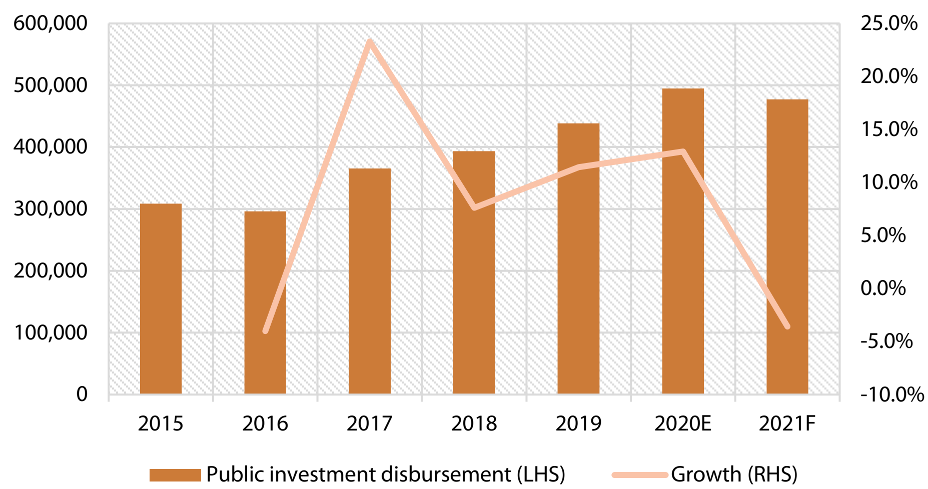
High public infrastructure spending and a possible shift of manufacturers to Vietnam are key growth drivers for steel demand

We expect that steel consumption will be supported by large infrastructure projects. Eight sections of the North-South Expressway and other transportation projects are likely to start in 2021. Meanwhile, there is a large backlog from projects that were under construction from last year. The construction of the My Thuan 2 Bridge to connect the Southern provinces of Tien Giang and Vinh Long began in 1Q2020 at a cost of VND 5 trillion (USD 216 million) and will be completed by 2023. Meanwhile, My Thuan-Can Tho Expressway, which costs VND 4.92 trillion (USD 212 million), started in 2020 and will finish by 2023. The four of eleven North-South Expressway sections will cost over VND 100 trillion (USD 4.3 billion). Several projects were started in 4Q 2020, such as three North-South Expressway sections, Noi Bai and the upgrade of Tan Son Nhat airport, My Thuan-Can Tho Expressway. Higher demand from infrastructure projects, especially bridges, can support steel producers' sales in 2021, including HPG, POM, and TIS.

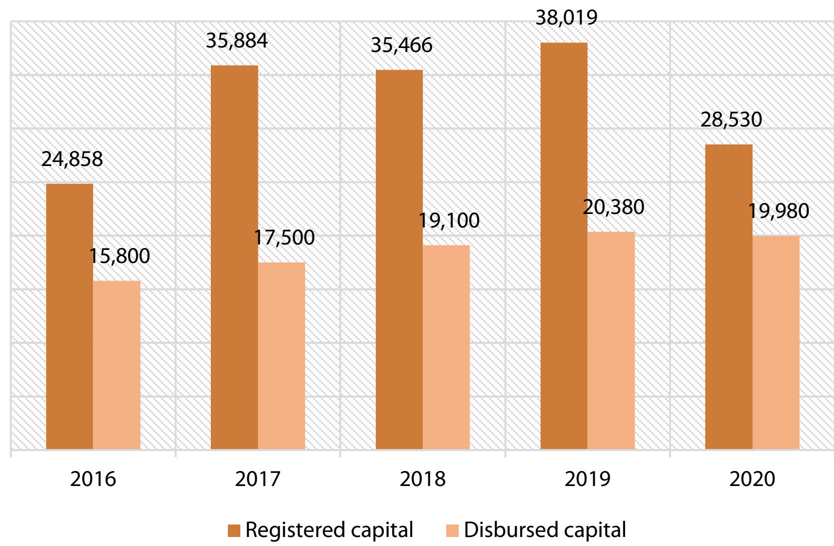
Figure 1: Public investment disbursement (VND billion)



Source: Ministry of Planning and Investment, Rong Viet Securities

Vietnam can compete against other Asian countries to become a destination for many foreign manufacturers, who want to move their production lines, in part or whole, out of China. The country has strong competitiveness to attract FDI, including the ability to control COVID-19, FTAs, large consumption market and low labor costs. In a recent report, the Economist Intelligence Unit (EIU), rated Vietnam higher than India and Indonesia in almost all categories, including FDI policy, foreign trade & exchange controls, and labor market. EIU also forecasts that Vietnam will maintain wage competitiveness against India, Indonesia, and China in the 2021-2024 period. Besides, Vietnam is one of Japanese companies' favorite countries to expand business. 37 of 81 Japanese companies, which were financed by the Government of Japan to move out of China, chose Vietnam to open new factories.

Figure 2: Registered and disbursed FDI (USD million)



Source: Ministry of Planning and Investment

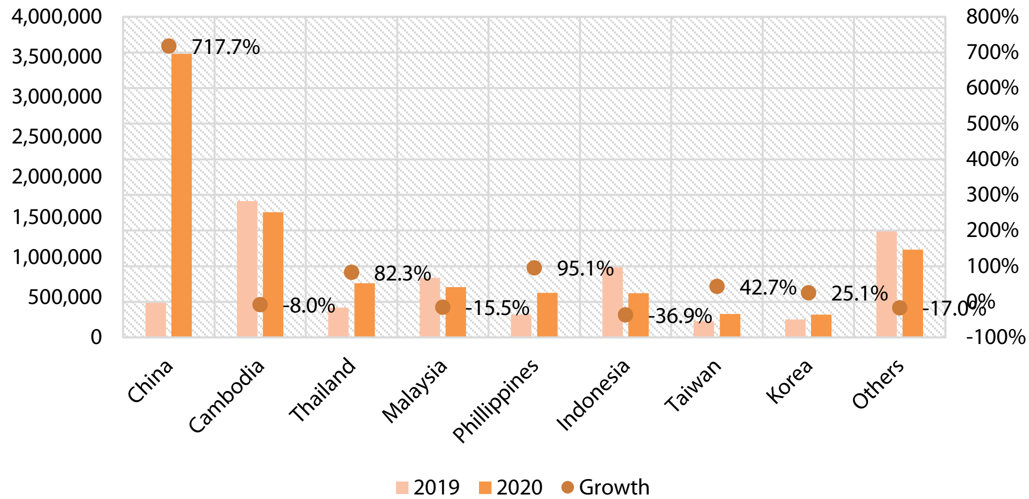
The shift of manufacturers to Vietnam can boost the demand for steel pipes, coated steel and processed coils. Domestic manufacturers would benefits from selling coated steel and steel pipe to build new factories and providing coil services to manufacturers, who produce automobiles, washing machines, refrigerators, etc. SMC is a company with experience doing O&M for such supply chains and we think the company can benefit from this trend.

Coated steel producers will benefit from the robust demand from overseas

The strong steel demand from the EU and North America will be the key driver to boost export volume growth in 2021. The coated steel consumption in these markets has been stronger in 1Q2021 due to the expectation on COVID-19 vaccines. According to WSA, the EU's steel demand is forecasted to increase by 11.0% in 2021, after dropping by 15.2% in 2020. EU's quotas on steel imports from Turkey and China has made room for Vietnamese producers since 2H2020. Besides, flat steel prices are highly different between Vietnam and these markets, leading to higher profitability for exporters. Several domestic manufacturers, such as Nam Kim Group, Hoa Sen Group, received sufficient orders, mainly from the EU, for production until June 2021. We think Vietnamese producers can seize opportunities in the short-term. For the longer term, export volume is highly dependent on trade policies and supply's recovery in these markets.

Vietnamese coated steel producers will face more difficulties exporting to ASEAN. Malaysia has announced that it will officially impose tariffs on Zn-Al coated steel products from Vietnam with a margin of 3.1% -37.1% at the end of 2020. Meanwhile, Indonesia is likely to impose an anti-dumping tax on several flat steel product lines.

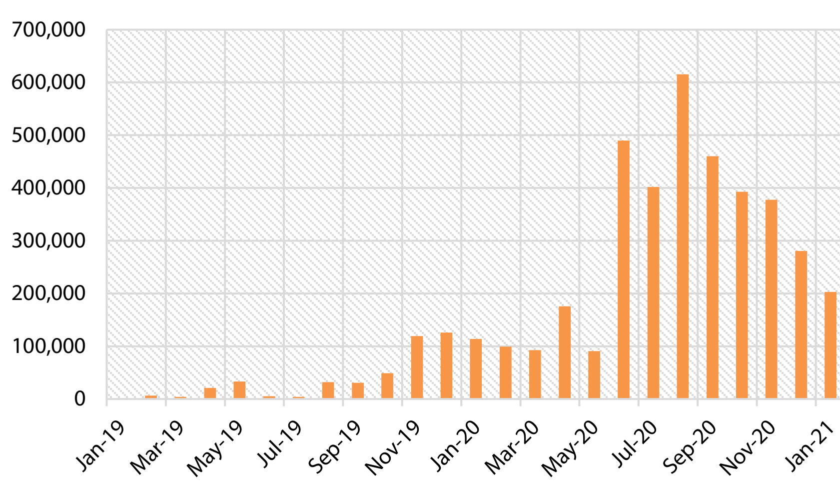
Figure 3: Vietnam's steel export volume, by country (tons)



Source: Vietnam's Customs

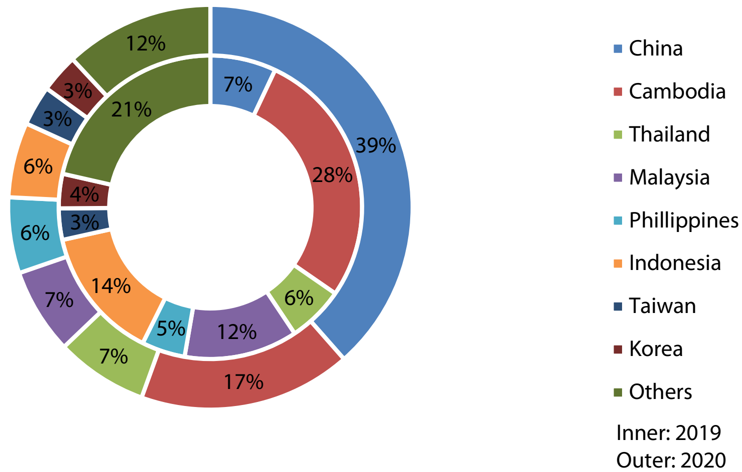
The supply recovery in China could lead to a decrease in steel billet exports, but demand can be stronger in other countries, which may support finished construction steel exports. Vietnamese producers' export volume increased sharply by 48% YoY to roughly 9.9 million tons in 2020. Noticeably, steel billet exports grew from 0.7 million tons in 2019 to 3.2 million tons in 2020. The surge in export volume was caused by a high demand for steel due to the large investment in the construction industry and the increasing production costs. The demand-supply has become more balanced, leading to a decrease in steel exports to China since 4Q2020. For 2021, due to the large capacity, China's steel supply can recover and meet the domestic needs, hence, the demand for imports is likely to decrease. On the contrary, we expect that the demand from ASEAN countries for construction steel will be stronger due to higher infrastructure investments to boost economies after the pandemic. According to the World Steel Association (WSA), ASEAN's steel demand is forecasted to grow by 5.8% in 2021, after decreasing by 6.0% in 2020. This can support Vietnam's exports and offset partially the negative effect from China.

Figure 4: Export volume to China (tons)



Source: Vietnam's Customs

Figure 5: Vietnam's steel export structure



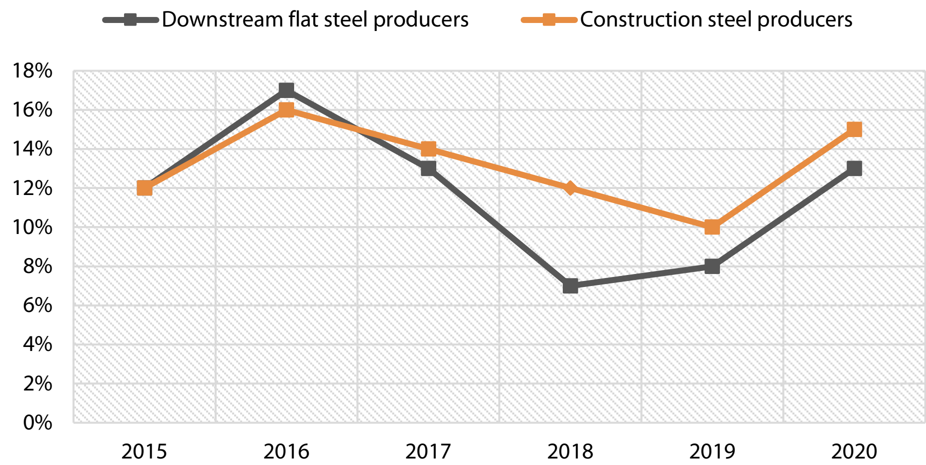
Source: Vietnam's Customs

New capacity makes oversupply more serious and puts pressure on "weaker" producers.

Regarding construction steel, several large new mills began operation during 2019-2020. HPG's Dung Quat plant provides roughly two million tons of construction steel to the market. In addition, Pomina's new BOF mill, having capacity of one million tons per year, began to run in July 2020. Currently, the national construction steel capacity increased by 24% from 12.3 million tons per year in 2018 to 15.3 million tons per year in 2020. Due to the new capacity, the competition is likely to be harsh, especially for small producers who are weaker in terms of both economies of scale and production technology.

The oversupply in the coated steel and steel pipe segments is serious and it could be worst due to new capacity from HPG's factories. Currently, the whole coated steel supply side can produce roughly 7.1 million tons of product per year, while the consumption volume was just 3.9 million tons in 2020, equivalent to a 55% utilization rate. Meanwhile, steel pipe producers are running at a utilization rate of 75% on average. After completing the HRC production lines, HPG will be equipped to boost coated steel production volume and open new steel pipe factories in the South. Becoming the first local mill to produce coated steel and pipe from upstream, the company is capable of sacrificing 1-2 percentage points in gross margin in the short-term to reduce competition in the long-term. In the coated steel market, HPG's market share increased to 6% in 2M2021.

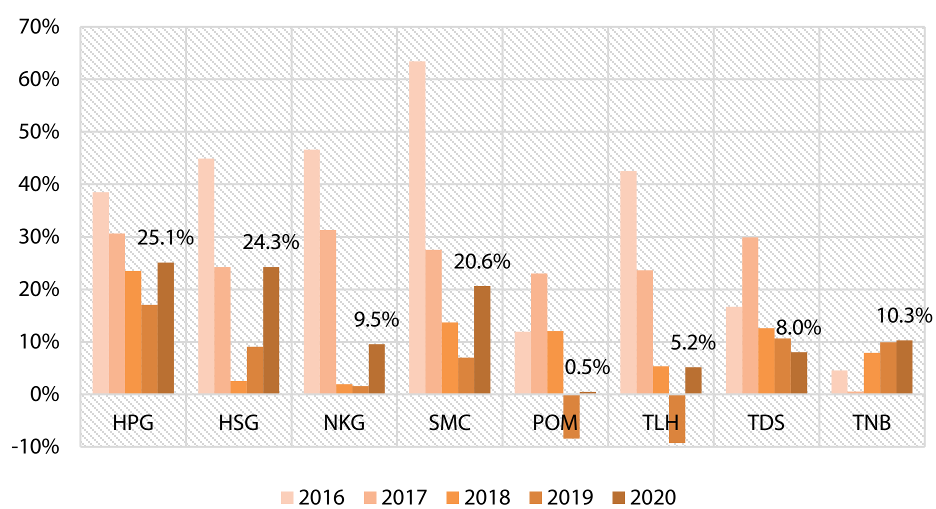
Figure 6: Gross margin in flat steel and construction steel segments



Source: Surveyed companies' financial statements, Rong Viet Securities

In recent years, competition in the steel industry has derived from large producers getting bigger. Taking into account the fact that steel is a capital-intensive industry and that incentives for opening new steel-making factories are strictly limited, some companies have become remarkably bigger in both size and depth. For instance, HPG achieved a 23.4% 5-year CAGR and its ROE ranged from 16% to 33% recently. In contrast, small-scale steel mills and those who operate downstream e.g. rolling, galvalume/galvanizing have been increasingly struggling to retain profits, let alone finding multiple year CAGR.

Figure 7: Leading steel producers' return-on-equity ratio



Source: Surveyed companies' financial statements, Rong Viet Securities

Vietnam's steel producers benefit as China's environmental policies and the tension with Australia have been harming the Chinese steel industry's competitive ability.

We expect domestic steel producers to have bright prospects as the competition from Chinese steel manufacturers is going to be moderate. One of the main reason is that its government applied a higher pollutant emission standard for the Chinese steel producers, which required higher scrap use and ultralow emission controls. Due to the higher environmental costs, China's steel prices increased at a higher pace compared to other Asian countries. Vietnam's steel imports from China in 2019 and 2020 decreased by 18% YoY and 32% YoY respectively. Besides, China's ban on coal imports from Australia, the largest coal supplier in the world, will also affect negatively Chinese steel producers' competitiveness. This will lead Chinese producers to face higher costs for alternatives, transport difficulties, and a drop in quality. The weaker competitiveness of Chinese steel manufacturers can create opportunities for Vietnamese firms overseas and earn a higher margin in the domestic market.

The downside risks to HRC and construction steel prices are significant.

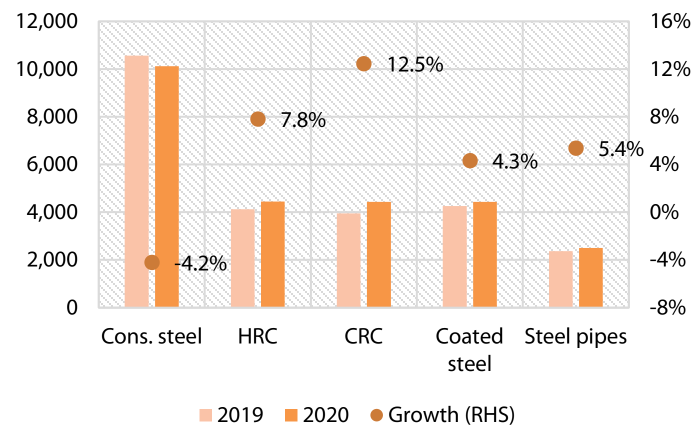
We think steel prices can go into a downtrend in 2H after staying high in the short-term. Steel prices increased sharply in 2H2020 and 1Q2021 mainly due to disruption of the production chain worldwide and the strong demand in China, which was supported by the government infrastructure stimulus and a robust property market. Temporary expensive freight costs also boosted material and steel prices. Besides, iron ore supplies continue to be weak in Brazil due to the severe pandemic. This country still records an increasing number of COVID-19 cases. We think these supportive factors are short-term and their impact on steel prices will fade. For 2021, China's government plans to reverse its stimulus policy to cool down the construction sector as the economy showed a solid recovery. The country set a lower fixed-asset investment in infrastructure and restrictive debt growth targets in the property market. Steel producers and iron ore miners' high profitability can lead to a robust production growth in the coming years. Besides, available COVID-19 vaccines can support the recovery in both steel and iron ore production volume. Therefore, we expect that HRC price can decrease from USD 700 per ton in 1Q2021 to the bottom of USD 590 per ton in late-2021. Hence, flat steel producers' gross margin can decrease by 1-2 percentage points compared to 2020. Regarding construction steel, because the additional capacity from HPG's Dung Quat plant and Pomina's new BOF mills are large and iron ore prices are going to go down, Vietnam's construction steel price can decrease in late-2021.

We prefer HPG and SMC because of their stable long-term prospects while investors can find short-term opportunities in NKG and HSG.

Due to a well-controlled pandemic, Vietnam's steel production has not decreased and it has benefited from the demand recovery worldwide. Besides, several temporary factors, such as material and steel shortages in many areas, expensive freight costs, have boosted steel prices. Therefore, Vietnamese steel producers can enjoy both higher profitability and selling volume. In the steel industry, HPG is our top pick owing to its strong competitiveness and large growth potential from the HRC segment. Investors can consider accumulating SMC. The company can earn a higher gross margin caused by opportunities from high demand for processed coil owing to new Coil Centers. Meanwhile, we think there are short-term opportunities to invest in NKG and HSG as their businesses benefits from robust demand for coated steel in developed markets.

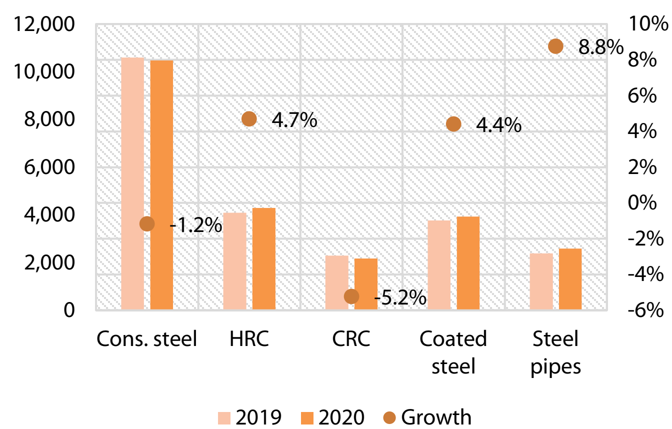
Appendix 1: The Steel Industry in Brief

Figure 1: Steel Production (thousand tons)



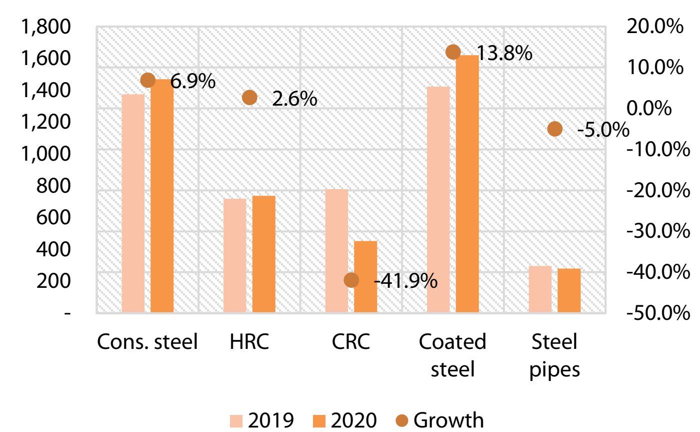
Source: VSA

Figure 2: Steel Consumption (thousand tons)



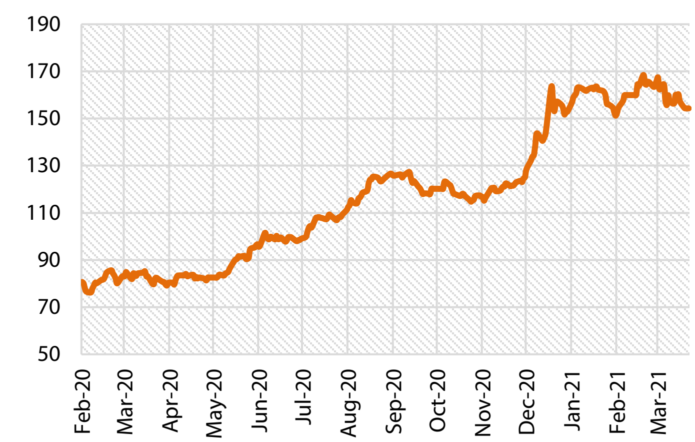
Source: VSA

Figure 3: Steel Exports (thousand tons)



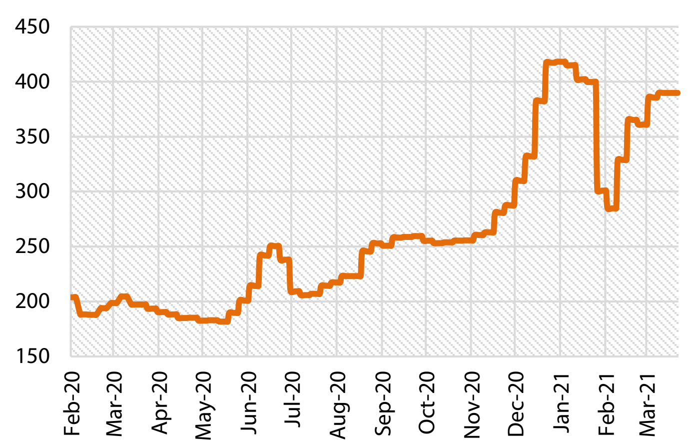
Source: VSA

Figure 4: Iron ore prices (USD/ton)



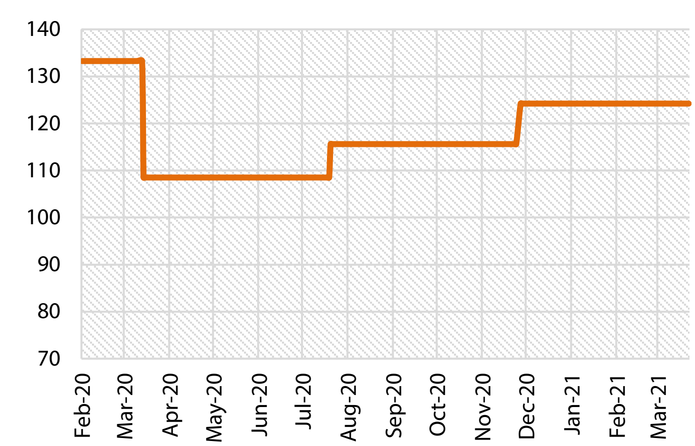
Source: VSA

Figure 5: Scrap Price (USD per ton)



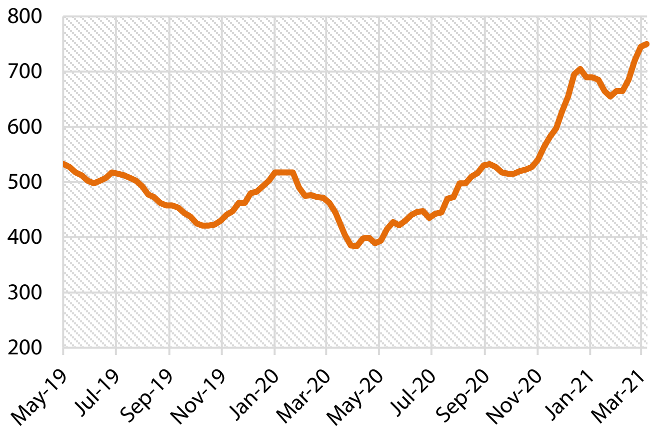
Source: VSA

Figure 6: Coking Coal Price (USD per ton)



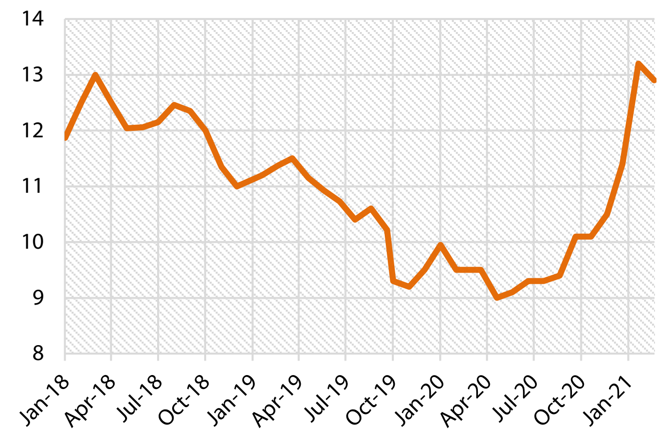
Source: VSA

Figure 7: Vietnam HRC Price (CFR, USD per ton)



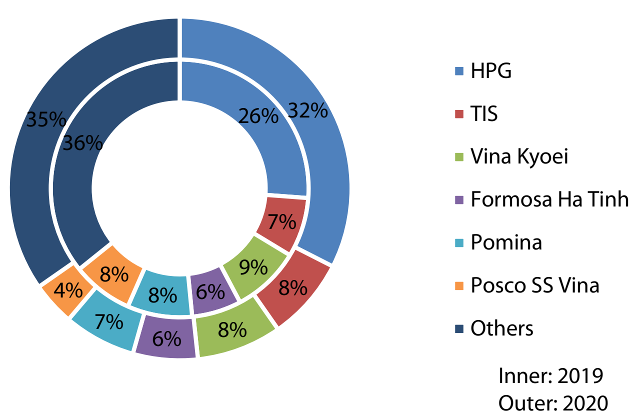
Source: VSA

Figure 8: Billets Price (million VND per ton)



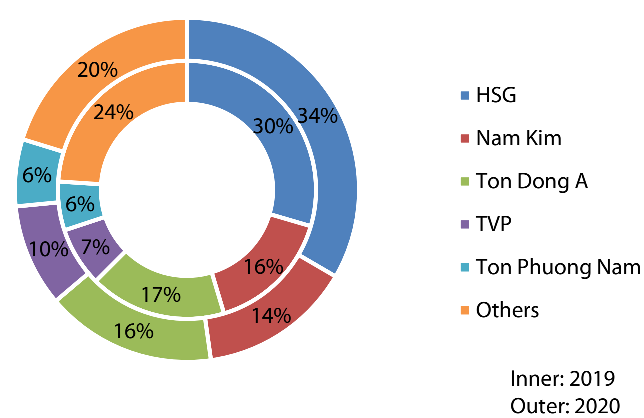
Source: VSA

Figure 9: Construction Steel Market Share



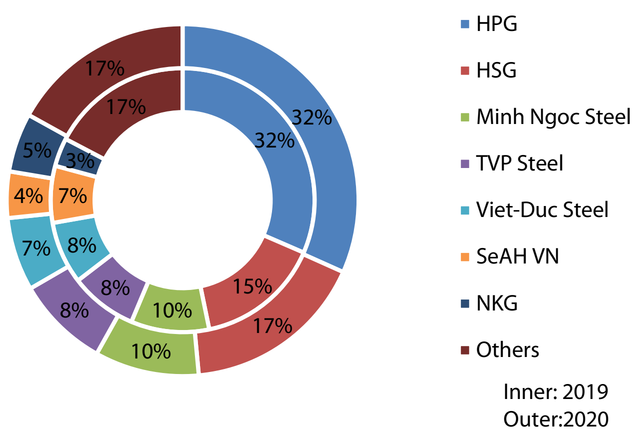
Source: VSA

Figure 10: Coated Steel Market Share



Source: VSA

Figure 11: Steel Pipe Market Share



Source: VSA

March, 2021

HOA PHAT GROUP JSC (HSX: HPG)

Maintaining high NPAT growth due to the HRC segment

(VND bn)	4Q-FY20	3Q-FY20	*+/- qoq*	4Q-FY19	*+/- yoy*
Net revenue	25,778	24,686	4%	17,975	43%
PAT	4,638	3,773	23%	1,917	142%
EBIT	5,770	4,707	23%	2,460	135%
EBIT margin	22.4%	19.1%	331bps	13.7%	870bps

Source: HPG, Rong Viet Securities

2020: A successful year in key segments

- HPG's revenue, and NPAT increased by 42% and 79% respectively owing to the additional construction steel and HRC capacity from Dung Quat Steel Complex, and the strong demand for steel billets and HRC.
- Finished construction steel, HRC, and steel pipe volumes came at 3.4 million tons (+22.5% YoY), 580,000 tons, and 821,800 tons (+9.5% YoY) respectively. HPG's market share in construction steel increased from 26.2% in 2019 to 32.5% in 2020.
- Steel billet selling volume surged by 700% YoY to roughly 1.8 million tons due to the strong demand from China.
- Agriculture segment's NPAT reached roughly VND 1,700 billion, growing by 250% YoY.

2021: Flat steel segment will boost NPAT growth

We expect that HPG's revenue and NPAT will increase by roughly 60% and 70% respectively mainly owing to the strong growth in HRC sales. HPG's HRC and construction selling volumes are forecasted to increase by 330% and 10%, reaching 3.0 million tons and 3.8 million tons respectively. Due to the strong demand, HPG's coated steel factory can run at full capacity, producing roughly 400,000 tons of products (+120% YoY).

HPG's GPM can improve slightly from 21.0% in 2020 to 21.4% in 2021, based on the high profitability of the steel segment in 1H. For 2H, we think a possible correction in steel prices can harm HPG's GPM. In the base case, we expect yearly average HRC and construction steel prices will be USD 645/ton and VND 13.5 mn/ton respectively. Besides, yearly average iron ore and coking coal prices will be USD 153/ton and USD 118/ton respectively.

Valuation and recommendation

We think HPG can maintain strong NPAT growth momentum in 2021 mainly due to the favorable market condition in the HRC segment. Currently, steel demand has been recovering quickly in large markets, such as China, India and the EU. Besides, weak iron ore supply and expensive transportation costs for steel imports led to increasing imported HRC price. This brings a higher gross margin for domestic HRC manufacturers, including HPG. Besides, we expect that the company's steel pipe and coated steel sales can grow strongly owing to the internal HRC capacity. Hence, the flat steel segment can contribute half of the total gross profit in 2021 and be the most profitable segment. In the construction steel segment, HPG can maintain its price competitiveness and increase its selling volume at a higher pace compared to the industry.

Using FCFF, PE, and PB methods, we come up with a fair value of VND ***55,200*** *per share (+19% from our TP in the 2021 strategy report). Together with a cash dividend in the next 12 months of VND 500/share,* ***the total return is 20%****, based on the closing price as of March 31st, 2021. Hence, we reiterate our* ***BUY*** *recommendation.*

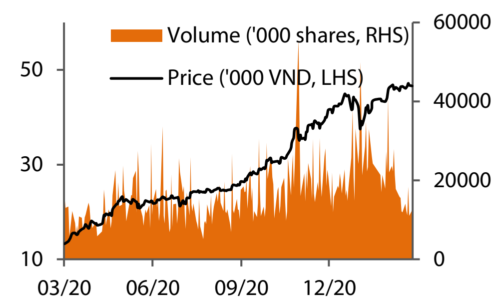
BUY	20%
Target price (VND)	55,200
Current market price (VND)	46,800
Cash Dividend (VND)*	500

** Expected in the next 12 months*

Stock Info	
Sector	Basic Materials
Market Cap (VND billion)	150,589
Current Shares O/S (million)	3,313
Avg. Daily Volume (in 20 sessions)	17,454,395
Free float (%)	52
52 week High	47,150
52 week Low	13,253
Beta	1.2

	FY2019	TTM
EPS	2,556	3,813
EPS Growth (%)	-32.6	49.2
Diluted EPS	2,023	3,813
P/E	8.6	6.6
P/B	1.4	2.3
EV/EBITDA	7.7	7.7
Cash dividend yield (%)	0.0	1.2
ROE (%)	15.8	22.8

Price performance



Major Shareholders (%)	
Tran Dinh Long	26.1
Vu Thi Hien	7.3
Remaining ownership room (%)	18.7

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Exhibit 1: 4Q/2020 Results

(VND Bn)	4Q-FY20	3Q-FY20	+/- (qoq)	4Q-FY19	+/- (yoy)
Net revenue	25,778	24,686	4.4%	17,975	43.4%
Gross profit	6,267	5,169	21.2%	2,836	121.0%
SG&A	497	462	7.7%	376	32.4%
Operating income	5,770	4,707	22.6%	2,460	134.6%
EBITDA	7,156	5,889	21.5%	3,263	119.3%
EBIT	5,770	4,707	22.6%	2,460	134.6%
Financial expenses	787	709	11.1%	312	152.1%
- Interest Expenses	*662*	*541*	*22.4%*	*270*	*145.0%*
Dep. and amortization	1,386	1,181	17.4%	803	72.6%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	5,330	4,272	24.8%	2,285	133.3%
PAT	4,638	3,773	22.9%	1,917	141.9%
(*) Adjusted PAT	4,638	3,773	22.9%	1,917	141.9%

Source: HPG, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particulars	4Q-FY20	3Q-FY20	+/- (qoq)	4Q-FY19	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	24.3%	20.9%	337bps	15.8%	854bps
EBITDA Margin	27.8%	23.9%	391bps	18.2%	961bps
EBIT Margin	22.4%	19.1%	331bps	13.7%	870bps
Net Margin	18.0%	15.3%	271bps	10.7%	733bps
Adjusted Net Margin	18.0%	15.3%	271bps	10.7%	733bps
Turnover *(x)					
-Inventories	3.3	3.7	-0.4	3.2	0.1
-Receivables	17.2	19.6	-2.4	19.4	-2.1
-Payables	6.2	7.1	-0.9	7.7	-1.5
Leverage (%)					
Total Debt/ Equity	122.1%	113.6%	844bps	113.0%	907bps

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

Exhibit 3: 1Q/2021 Performance Forecast

Particulars (VND Bn)	1Q-FY21	+/-qoq	+/-yoy
Revenue	34,582	34%	80%
Gross profit	8,092	29%	115%
EBIT	7,316	27%	118%
NPAT	6,389	38%	180%

Source: Rong Viet Securities

- We expect revenue to increase by 80% YoY due to both higher selling volume and surging steel prices. HRC's selling volume will be roughly 670,000 tons, contributing 29% to HPG's total revenue. Meanwhile, we predict steel prices to increase by roughly 30% YoY.

- Gross margin is forecasted to expand from 19.6% in 1Q2020 to 22.4% in 1Q2021 because of the high profitability of the steel segment, which is supported by surging selling prices.

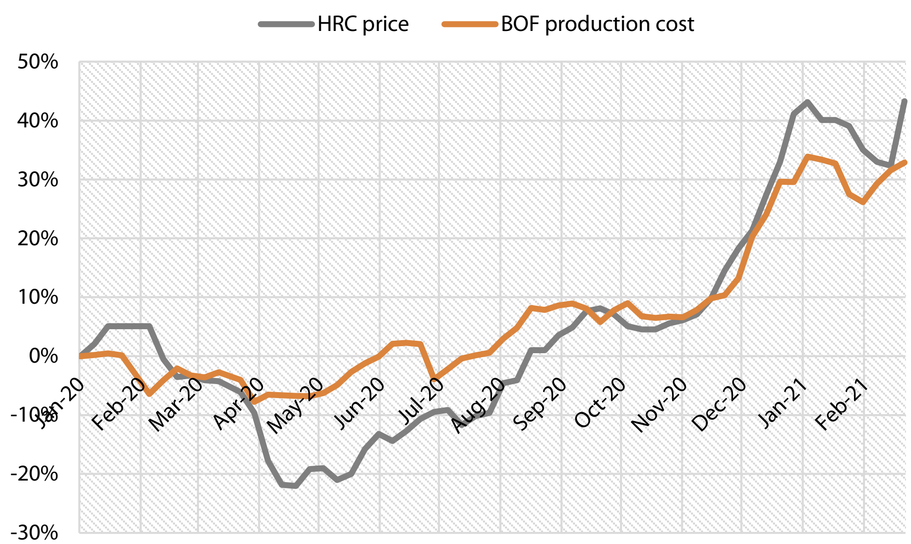
Update

Commodity prices have rallied globally.

HRC prices have risen by 10% from the beginning of 2021 due to the recovery in many regions, while iron ore supplies continue to stagnate in Brazil, and transportation costs become expensive. Car sales in China and India continued to rise, leading to increased demand for flat steel. On the contrary, iron ore supplies continue to be weak in Brazil due to the severe pandemic. This country still records an increasing number of COVID-19 cases. Iron ore supply-demand is relatively fragile as it depends on two countries, Australia, and Brazil. Hence, a drop in supply, such as the Vale dam disaster or the pandemic outbreak in Brazil, can lead to surging iron ore prices. Coupled with recovering steel demand, iron ore prices maintained a strong uptrend from 2H2020 and reached USD 170 per ton. Finally, the freight cost of some important sea routes has risen sharply, causing imported HRC prices in the domestic to increase strongly. For instance, steel freight from India to Vietnam has risen by USD 8-10 per ton to more than USD 45 per ton. Therefore, domestic HRC manufacturers can earn a higher gross margin due to their geographical positioning.

Increasing selling price and the strong demand for HRC will boost HPG's gross profit in the flat steel segment.

Figure 1: Changes in HRC price and BOF steelmaking costs



Source: Bloomberg, Rong Viet Securities

Due to a strong upward trend in HRC prices, we expect that HPG's gross profit margin will reach roughly 28% in 1H2021 and can decrease to about 23% in 2H. Because HPG usually stores enough raw materials to produce for the next 2-3 months, the increase in raw material prices will have a slow impact on the cost of its products. Meanwhile, HRC price has increased significantly compared to the BOF steelmaking cost (figure 1). We believe that the gross margin in the HRC steel segment will gradually stabilize at 22% - 23% as the supply and demand of HRC becomes more balanced by the end of the year.

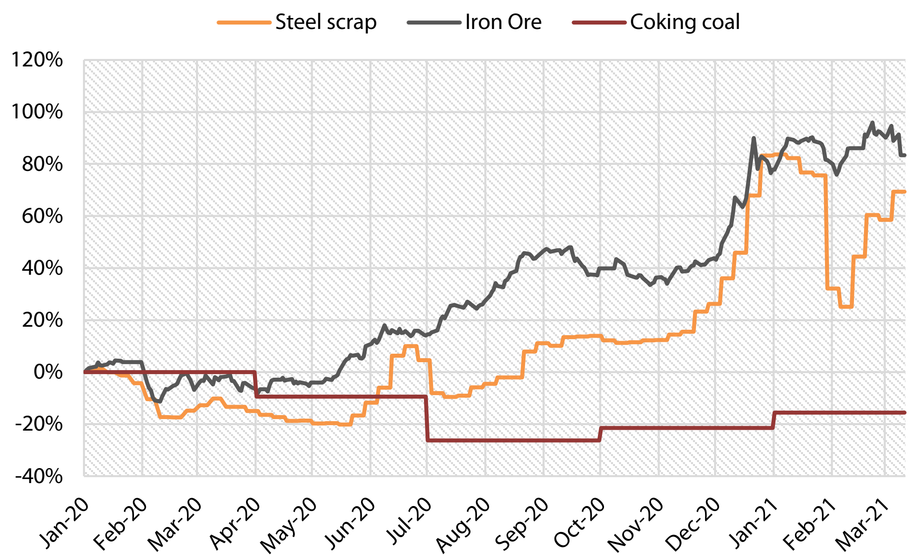
Regarding consumption, we think HPG will not face difficulties owing to both the high external demand and internal downstream capacity. The demand for domestic HRC from downstream manufacturers is strong in 2021 due to high orders from European and North American markets, which have strict rules of origin. Besides, HPG's coated steel pipe factories can consume roughly 1.4 million tons of HRC, equivalent to 47% of its HRC production volume this year. Therefore, we expect that HPG can sell roughly three million tons of HRC in 2021 (both internal and external), contributing to 31% of total revenue.

HPG's competitiveness in the construction steel segment is still strong, allowing the company to gain more market share in the South.

The sharp increase in steel scrap price has led the steel production cost using electric arc furnaces (EAF) to rise faster than using blast furnaces. Iron ore costs account for only 50% of BOF steelmaking costs, while steel scrap constitutes roughly 80% of EAF steelmaking costs.

Hence, although iron ore and steel scrap prices rise at a similar pace (figure 2), we estimate that EAF steelmaking cost was 20%-30% higher than BOF in the 4Q2020-1Q2021 period. Therefore, HPG has room to increase its selling price to support its gross margin and continue gaining market share.

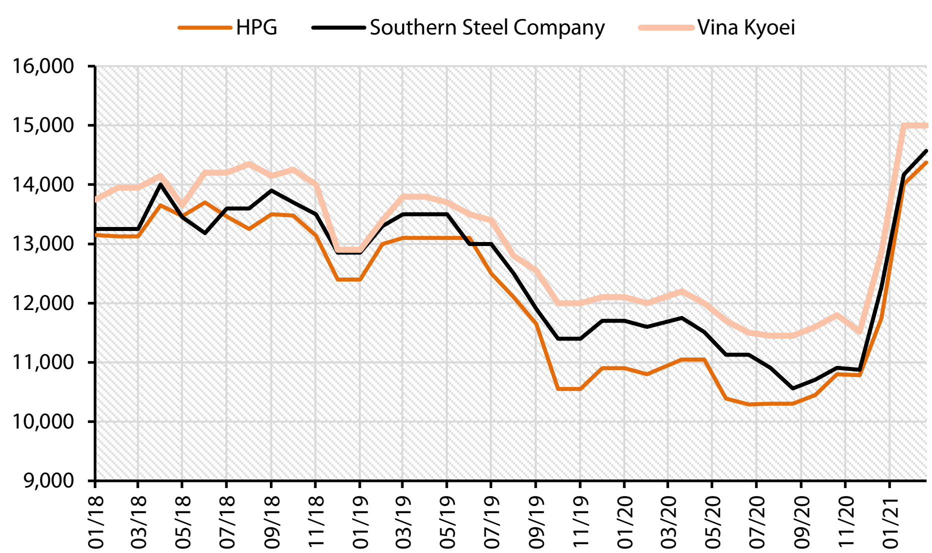
Figure 2: Change in material prices



Source: Bloomberg, Rong Viet Securities

We expect construction steel selling volume to recover from March onward, after two months affected by the pandemic and the Tet holiday. Infrastructure projects will play the main supportive role to stabilize the demand for construction steel. In addition, the company's steel prices are competitive in the Southern market, supporting its market share. HPG's steel price has often been 4%-10% lower than Vinakyoei's and 1%-7% lower than Pomina's. We forecast that the company's market share in the Southern market will increase from 23% to 27% in 2021, equivalent to roughly one million tons. Meanwhile, HPG's market share in the Northern and Central markets is likely to be stable. Export volume can grow by 10% owing to the higher demand in the construction sector to boost economies in overseas markets. For 2021, we expect the company to sell 3.8 million tons of finished construction steel, increasing by 10% YoY.

Figure 3: Construction steel prices in Southern Vietnam (VND/kg)



Source: HPG, Southern Steel Company and Vina Kyoei

Forecast

We expect HPG's revenue and NPAT to increase by roughly 60% and 70% respectively mainly because of the strong growth in HRC sales. Steel and agriculture will contribute roughly 90% and 8% of total revenue

We expect the HRC sub-segment to surpass the construction steel sub-segment in terms of gross profit, and boost steel pipe and coated steel sales. HPG will sell roughly 3.0 million tons of HRC (+330% YoY) and 3.8 million tons of construction volumes (+10% YoY). The shortage in the HRC market has been leading to the higher gross margin of HRC compared to construction steel (24% vs. 18%). HRC and construction steel can contribute VND 10,700 billion, and VND 8,300 billion to total gross profit, respectively. HPG has advantages to compete in the domestic market and export to developed markets. We forecast that HPG's coated steel and steel pipe sales will increase by 122% and 24% YoY to reach 400,000 tons and 1.0 million tons respectively in 2021.

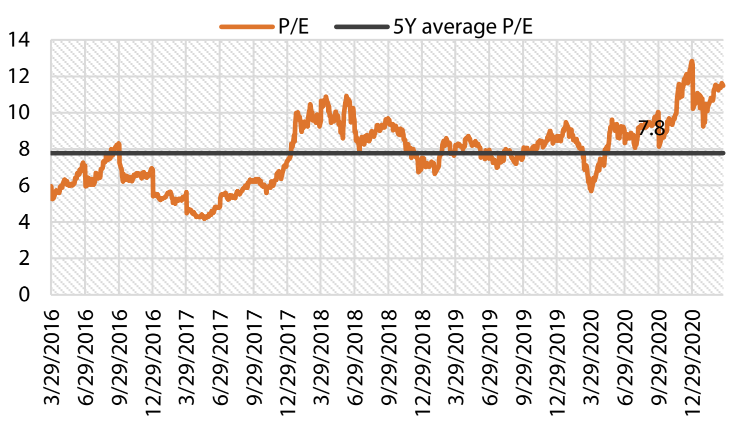
In the real estate segment, the company can increase its revenue by 60% YoY to VND 1,157 billion since monetizing its Pho Noi A Industrial Area project (92.5 ha) and Pho Noi Urban housing project. However, we forecast that the real estate segment will constitute only 1% of the company's revenue in 2021.

After a year of benefiting from surging hog prices, the agriculture segment's role in HPG's business will become minor. We forecast that pork and beef prices will decrease by 10% YoY in 2021, leading the gross margin in this segment to fall from 19.5% in 2020 to 15.3% in 2021. HPG is predicted to sell 440,000 hogs (+20% YoY), 167,000 cows (+12% YoY), 206 million eggs (+30% YoY), and 350,000 tons of animal feeds (+20% YoY) in 2021. Hence, the agriculture segment's revenue can increase by 10% YoY. We expect this segment's NPAT will be roughly VND 1,364 billion, equivalent to 6% of total net income in 2021 and lower than the portion of 12% in 2020.

Valuation

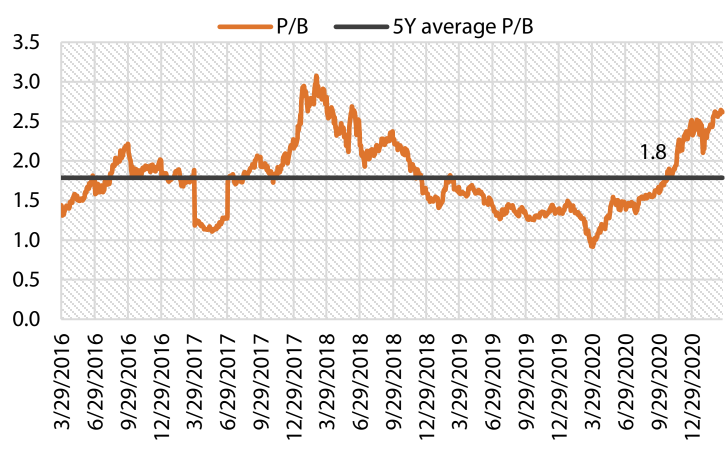
We use three methods to evaluate the stock, including FCFF, PE, and PB. In the FCFF method, we apply a WACC of 9.7% and exit EV/EBITDA of 6.7x. We apply a P/E ratio of 9.5x, equivalent to the peers' average. Besides, we think HPG's synergy has been larger as its value chain is becoming completed. Hence, we use a P/B ratio of 1.9x, which is higher than the industry's average of 1.0x and its 5-year average PB ratio of 1.8. Our fair value comes at **VND 55,200 value per share**, implying **a total return of 20%** as of the closing price on **March 31st, 2021**.

Figure 4: Historical P/E ratio



Source: Bloomberg, Rong Viet Securities

Figure 5: Historical P/B ratio



Source: Bloomberg, Rong Viet Securities

VND Billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	63,658	90,119	142,096	143,066
COGS	52,473	71,214	111,668	113,160
Gross profit	**11,185**	**18,905**	**30,429**	**29,905**
Selling expenses	873	1,094	1,895	1,868
G&A expenses	569	690	1,294	1,486
Financial income	471	991	747	654
Financial expenses	1,182	2,824	3,115	2,366
Other income/loss	66	66	66	66
Gain/(loss) from JVs	*-1*	*2*	*2*	*2*
PBT	**9,097**	**15,355**	**24,939**	**24,907**
Tax expense	1,518	1,849	1,854	1,894
Minority interests	71	67	71	74
PAT	**7,508**	**13,439**	**23,014**	**22,938**
EBIT	9,743	17,120	27,240	26,551

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	14.0	41.6	57.7	0.7
Operating Income	-3.5	77.0	46.9	-2.3
EBITDA	-7.6	75.7	59.1	-2.5
PAT	-12.4	79.0	71.3	-0.3
Total Assets	29.5	29.2	6.4	1.8
Equity	17.6	24.1	31.0	19.3
Profitability (%)				
Gross margin	17.6	21.0	21.4	20.9
EBITDA margin	19.4	24.3	22.7	22.0
EBIT margin	15.3	19.0	19.2	18.6
Net margin	11.8	14.9	16.2	16.0
ROA	7.4	10.3	16.6	16.2
ROE	15.8	22.8	29.7	24.8
Efficiency				(times)
Receivable Turnover	17.8	14.7	11.4	12.5
Inventory Turnover	2.7	2.7	2.9	2.8
Payable Turnover	5.6	5.1	5.3	5.3
Liquidity				(times)
Current	1.2	1.1	1.5	2.0
Quick	0.4	0.6	0.6	0.9
Finance Structure (%)				
Total Debt/Equity	77.1	91.7	46.2	26.4
Current Debt/Equity	35.4	62.3	29.4	15.8
Long-term Debt/Equity	41.7	29.4	16.8	10.6

VND Billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	4,565	13,001	4,688	7,052
Short-term investments	1,374	8,822	7,940	8,734
Accounts receivable	3,575	6,125	12,461	11,475
Inventories	19,412	26,287	38,945	40,031
Other current assets	1,546	2,566	3,079	3,694
Property, plant & equipment	68,242	71,201	68,867	67,104
Acquired intangible assets	331	297	282	269
Long-term investments	26	171	173	175
Other non-current assets	1,971	2,124	2,464	2,858
Total assets	**101,041**	**130,593**	**138,899**	**141,392**
Accounts payable	9,340	14,043	21,236	21,520
Short-term borrowings	16,838	36,798	22,735	14,619
Long-term borrowings	19,842	17,343	13,007	9,756
Other non-current liabilities	7,163	2,973	2,379	951
Bonus and Welfare fund	820	1,133	1,941	1,935
Technology-science, dev. fund	0	0	0	0
Total liabilities	**54,003**	**72,292**	**61,298**	**48,781**
Common stock and APIC	30,822	36,344	36,335	36,335
Treasury stock (enter as -)	0	0	0	0
Retained earnings	15,858	21,783	40,103	55,039
Other comprehensive income	1	6	6	6
Inv. and Dev. Fund	924	929	929	929
Total equity	**47,605**	**59,062**	**77,372**	**92,308**
Minority Interest	**183**	**158**	**229**	**303**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	2,556	3,813	6,529	6,508
P/E (x)	8.6	6.6	7.0	7.0
BV (dong)	14,368	17,826	23,352	27,860
P/B (x)	1.4	2.3	1.9	1.6
DPS (dong/cp)	0	500	1,000	2,000
Dividend yield (%)	0.0	1.2	2.2	4.4

VALUATION MODEL	Price	Weight	Average
FCFF	58,000	40%	23,200
PE	62,100	30%	18,630
PB	44,400	30%	13,320
Target price			**55,200**

VALUATION HISTORY	Price	Recommendation	Period
16/01/2020	33,400	BUY	Intermediate
13/03/2020	27,300	BUY	Intermediate
11/27/2020	33,600	NEUTRAL	Short-term
12/27/2020	46,200	BUY	Intermediate

SMC TRADING INVESTMENT JSC (HSX: SMC)

Increasing steel price boosts the net income to a new peak in 1Q

(VND bn)	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Net revenue	4,478	4,132	8%	3,943	14%
PAT	148	98	52%	-6	N/A
EBIT	171	117	46%	14	1146%
EBIT margin	3.8%	2.8%	10bps	0.3%	35bps

Source: SMC, Rong Viet Securities

2020: Favorable HRC price and recovering demand boosted net income

- Despite COVID-19's negative impact, sale volume increased by 2.4% YoY due to the recovery in the manufacturing and construction industry in 2H.
- GPM improved from 2.9% in 2019 to 5.1% in 2020 as HRC price surged by 19% QoQ and 18% QoQ in 3Q and 4Q respectively, highest increases over the last three years.
- High profitability and sales volume in 2H supported the annual NPAT which reached VND 300 billion, up 211% YoY.

2021: Steel prices still support the performance in 1H

We think, at the price of USD 720/ton, the HRC price is unsustainable and can decrease to USD 510/ton in 4Q2021. However, SMC can still be profitable owing to its ability to manage working capital, proved in the pandemic, and a higher the manufacturing segment's portion in NPAT. We expect HRC's average price will be USD 650/ton in 2021.

We forecast that SMC's selling volume will grow by 5% YoY, reaching 1.4 million tons. In which, its steel pipe volume will increase by 16% YoY to 220.000 tons and its processed coil volume can reach 440.000 tons, up 8% YoY. Trading volume will grow by 1% YoY to 680.000 tons.

In addition, we forecast its average selling price will up by 12%, resulting in a revenue increase of 17% YoY. SMC's gross margin and NPAT are forecasted to be 4.8% and VND 340 billion (+13% YoY) respectively.

SMC's 2021 growth driver will mostly come from the steel pipe factory and the Da Nang Coil Center. It has planned to run two new processing factories by the end of this year, which will be company's growth engines in 2022 if SMC meets its target.

Valuation and recommendation

SMC's business is becoming more sustainable as its coil service and production segments are playing a more important role and its trading risk is managed better. Besides, SMC has strong competitiveness owing to its high-quality services, diversified products, and presence in key areas. In the coil processing segment, SMC's new contract of supplying coil service for Samsung shows it can meet high standards of product quality, material sources and on-time delivery. Investments in new coil processing factories will help the company to seize opportunities as FDI inflows are expected to surge, leading to stronger demand.

*Taking into account the better outlook for the steel industry, we rise up SMC's P/B to 1.0 (previously 0.6x) and P/E to 5.0 (previously 4.3x). Besides, we adjust the forecast for NPAT in 2021 from VND 176 billion to VND 340 billion due to the surging HRC price, which increased 40% over last three months. Hence, we revise up our target price to **VND 30,200 from 14.100 per share**. Together with a cash dividend in the next 12 months of VND 1,000/share, the total return is 3%, based on the closing price of VND 27,600/share as of March 31st, 2021. Hence, we recommend to **ACCUMULATE** this stock.*

ACCUMULATE 3%

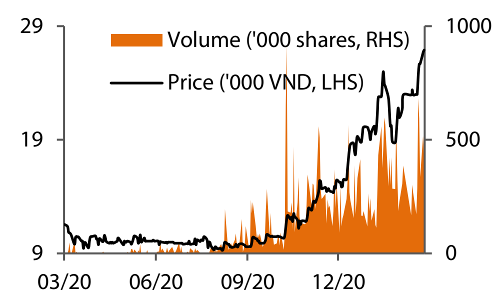
Target price (VND)	30,200
Current market price (VND)	30,200
Cash Dividend (VND)*	1,000

** Expected in the next 12 months*

Stock Info	
Sector	Basic Materials
Market Cap (VND billion)	1,584.0
Current Shares O/S	60,923,000
Avg. Daily Volume (in 20 sessions)	354,240
Free float (%)	64
52 week High	26,900
52 week Low	9,275
Beta	0.5

	FY2019	TTM
EPS	1,595	2,422
EPS Growth (%)	-48.9	51.9
Diluted EPS	1,596	2,422
P/E	6.9	6.1
P/B	0.5	0.6
EV/EBITDA	6.6	8.4
Cash dividend yield (%)	9.1	6.8
ROE (%)	7.1	8.9

Price performance



Major Shareholders (%)	
Hanwa Co Ltd	19.7
Nguyen Thi Ngoc Loan	14.4
Remaining ownership room (%)	15.5

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Exhibit 1: 4Q/2020 Results

(VND Bn)	4Q-FY20	3Q-FY20	+/- (qoq)	4Q-FY19	+/- (yoy)
Net revenue	4,478	4,132	8.4%	3,943	13.6%
Gross profit	325	218	48.7%	81	299.1%
SG&A	154	102	51.3%	68	127.4%
Operating income	171	117	46.4%	14	1146.1%
EBITDA	238	142	67.7%	36	555.4%
EBIT	171	117	46.4%	14	1146.1%
Financial expenses	7	18	-60.1%	25	-70.9%
- Interest Expenses	*35*	*26*	*35.6%*	*33*	*6.3%*
Dep. and amortization	68	26	164.7%	23	198.4%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	170	119	42.2%	4	3934.5%
PAT	148	98	51.6%	-6	-2426.2%
(*) Adjusted PAT	148	98	51.6%	-6	-2426.2%

Source: SMC, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particulars	4Q-FY20	3Q-FY20	+/- (qoq)	4Q-FY19	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	7.2%	5.3%	20bps	2.1%	52bps
EBITDA Margin	5.3%	3.4%	19bps	0.9%	44bps
EBIT Margin	3.8%	2.8%	10bps	0.3%	35bps
Net Margin	3.3%	2.4%	9bps	-0.2%	35bps
Adjusted Net Margin	3.3%	2.4%	9bps	-0.2%	35bps
Turnover *(x)					
-Inventories	10.9	12.3	-1.4	12.1	-1.1
-Receivables	10.3	9.3	1.0	10.1	0.2
-Payables	8.4	8.9	-0.6	9.7	-1.4
Leverage (%)					
Total Debt/ Equity	321.3%	281.6%	397bps	277.2%	441bps

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

Exhibit 3: 1Q/2021 Performance Forecast

Particulars (VND Bn)	1Q-FY21	+/-qoq	+/-yoy
Revenue	4,572	2%	33%
Gross profit	352	8%	107%
EBIT	270	58%	160%
NPAT	218	47%	2,034%

Source: Rong Viet Securities

- Revenue is going to increase by 33% YoY owing to an increase of roughly 27% YoY in average selling prices and an increase of 5% YoY in total selling volume.

- Gross margin is forecasted to expand from 4.9% in 1Q2020 to 7.7% in 1Q2021 because the average HRC price is expected to increase by 17% QoQ in 1Q2021, while it increased by only 7% QoQ in 1Q2020.

- Higher gross margin and stable USD/VND rate will support net income.

Update

SMC's profit increased sharply in 2020 owing to surging steel prices and recovering demand in 2H.

The company's NPAT grew by 211% YoY to VND 300 billion, of which roughly VND 254 billion came in 2H. This is because after controlling the pandemic better in 2Q, steel demand recovered rapidly and led HRC price to surge. 2H 2020 witnessed the strongest growth in the HRC price in the last three years. The average HRC price has increased by 19% QoQ in 3Q and 18% in 4Q, after hitting the bottom in 2Q. Due to the inventory of HRC bought at a low price, SMC earned a higher gross margin of 5.3% and 7.2% in 3Q and 4Q 2020, respectively. Besides, the contribution from the trading segment was larger to total net income temporarily owing to increased construction steel prices.

Sale volume increased slightly due to the higher demand for flat and construction steel in 2H 2020. Steel output reached 1.35 million tons, up 2.4% YoY, while construction steel, coated steel, and processed coil volume were stable, steel pipe production volume increased sharply by 20% YoY from 142,000 tons to about 189,000 tons. Per management, SMC's factories were all running at full capacity in 2H2020, showing large demand for the company's products. This can be explained by the recovery in manufacturing and construction activities after the pandemic's peak. According to VSA, steel pipe and construction steel consumption increased by 27% YoY and 5% YoY respectively in 2H2020. Besides, a new contract with Samsung supported SMC's coil service volume growth in 4Q. The coil service volume that is supplied to Samsung contributed to roughly 6% of its processed coil volume in 4Q2020.

We expect the company's production output to grow roughly 5% in 2021, mainly from steel pipe and processed coil.

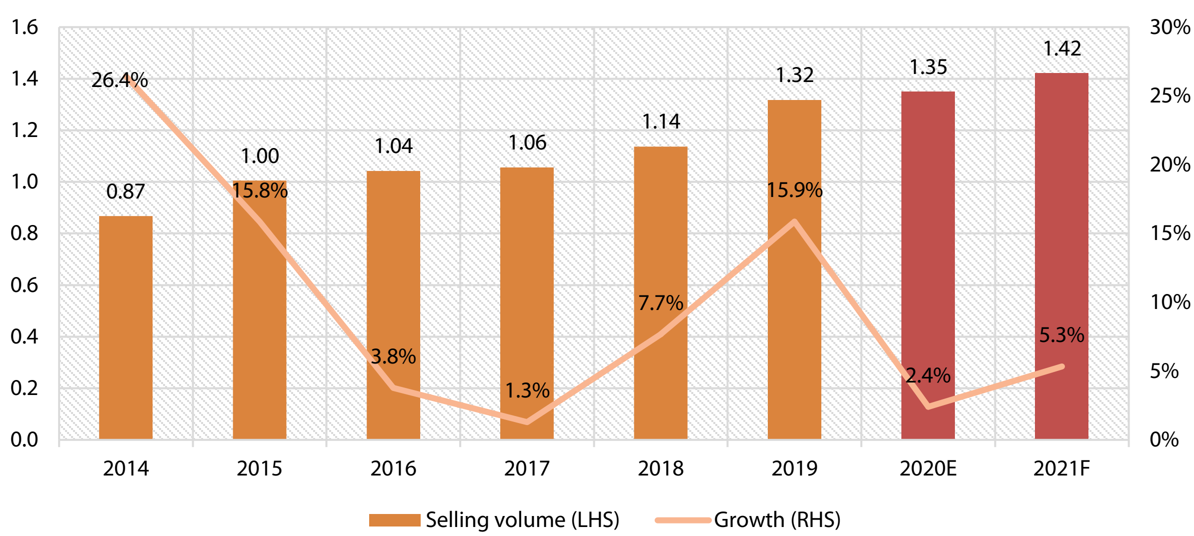
Steel pipe volume will increase by 16% to 220,000 tons and coil service volume will increase by 8% to 440,000 tons. Meanwhile, trading volume, which accounts for 55% SMC's total selling volume, will grow merely by 1% YoY.

Per management, SMC will install some more steel pipe production lines in the Sendo factory in 2021, making its capacity up by 10% to roughly 220,000 tons per year.

The Coil Center in Da Nang, which has come into operation in March 2020, reached its full-capacity status by the end of 2020, and supplied about 35,000 tons of processed steel (a utilization rate of roughly 90%). We believe that the Coil Centers will continue to run at maximum capacity in 2021 due to the great demand from downstream machinery manufacturers, which will be fueled by the expansion of many large foreign producers in Vietnam. Hence, SMC can meet its target to increase consumption volume at Coil Center Da Nang to 50,000 tons in 2021.

Because production activities slowed down in two-three months due to the pandemic in 2020, we believe that processed steel output will register a positive growth this year.

Figure 1: Selling volume (million tons) and growth rate (%)

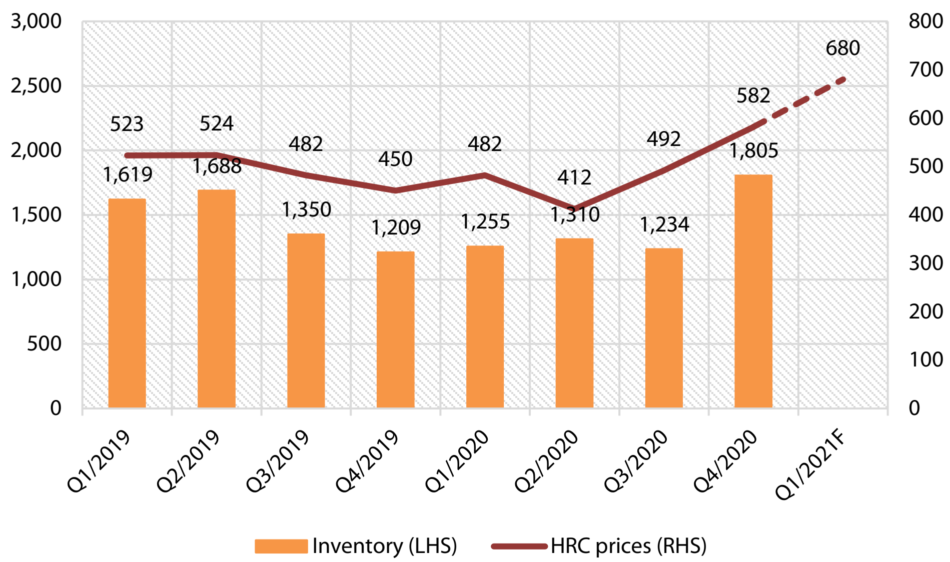


Source: SMC, RongViet Securities

The increase in the HRC price and high inventories are going to boost SMC's net income in 1Q 2021

We project SMC's profit in 1Q to reach VND 218 billion, mostly twenty-times higher than VND 14 billion in the same period last year. The company's inventories increased from VND 1,234 billion in 3Q 2020 to VND 1,805 billion in 4Q, of which 67% was raw materials and 30% was finished goods. A sharp increase of 46% QoQ in the company's inventories in Q4 showed that it has accumulated a considerable amount of steel. We estimate that SMC stored roughly 100,000 tons of flat steel and 30,000 tons of construction steel. The accumulated flat steel is enough for production and selling for roughly two months. We expect hot-rolled steel price in Q1 2021 to average roughly USD 680/ton, up 17% QoQ. An increase in the HRC price will have a positive impact on SMC's profitability. Hence, the company can earn a gross margin of 7.7% in 1Q, which is relatively high compared to the average quarterly gross margin of 4.0% in the last three years.

Figure 2: Inventory (VND billion) and HRC prices (USD/ton)



Source: SMC, RongViet Securities

We believe that SMC's NPAT can exceed its target of VND 160 billion in only one quarter and continue to grow YoY The company is likely to benefit from the high HRC price and inventory in 1Q. However, HRC price can go down in late-Q2 2021, leading SMC's gross margin to decrease in 2H. In our base case, we expect that the quarterly average HRC price will decrease from USD 700/ton in 1Q to USD 590/ton in 4Q 2021. Hence, SMC's gross margin in the second half of the year will fluctuate in the 2.7% - 3.1% range, significantly lower than the gross margin of 5.6% in the 1H. We forecast that its 2021 NPAT will be VND 340 billion, increasing by 13% YoY.

New steel processing factories will be key growth drivers in 2022 and allow the company to expand its value chain in the coil service segment.

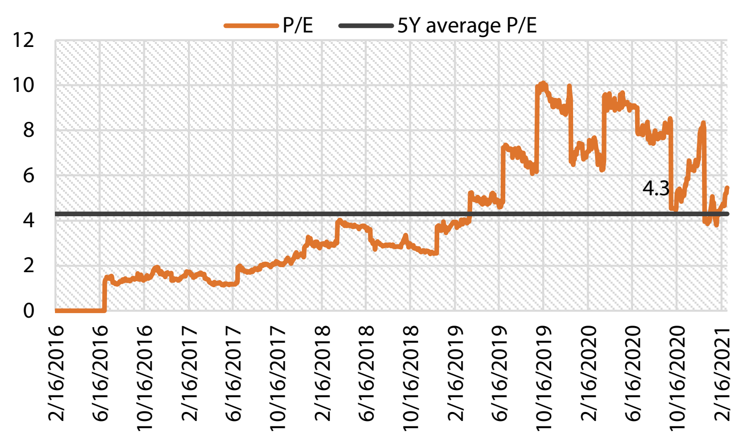
SMC plans to invest about VND 560 billion in two new factories in Ba Ria - Vung Tau province, including Phu My precision mechanical factory and Phu My steel service factory. Capital expenditure for each factory is roughly 280 billion VND, of which 60% will be financed by external sources, including borrowings, and financial leases. We think SMC will not face difficulties to finance these projects. The company has plenty of cash and it is likely to reduce inventory and receivables in late-2021. The construction of these two factories' construction is expected to start in mid-March and be completed in late-3Q 2021. Regarding their capacity, Phu My Precision Mechanical Factory can produce 50,000 tons/year and Phu My Steel Service Plant will have a capacity of 150,000 tons/year.

We believe that these new factories are the right investments to seize opportunities as demand for steel processing services is increasing owing to the shift of moving production plants to Vietnam. The partnership with Samsung will guarantee the consumption of precision mechanical factory output. Besides, due to the higher added value, the company can increase profitability and limit the impact of steel price movements on its results. We expect the precision engineering factory's gross margin to be 8.5%, higher than other SMC's processing factories' gross margin of roughly 5%. These two factories are expected to contribute NPAT of VND 100 billion in 2022, equivalent to 26% of SMC's total NPAT.

Valuation

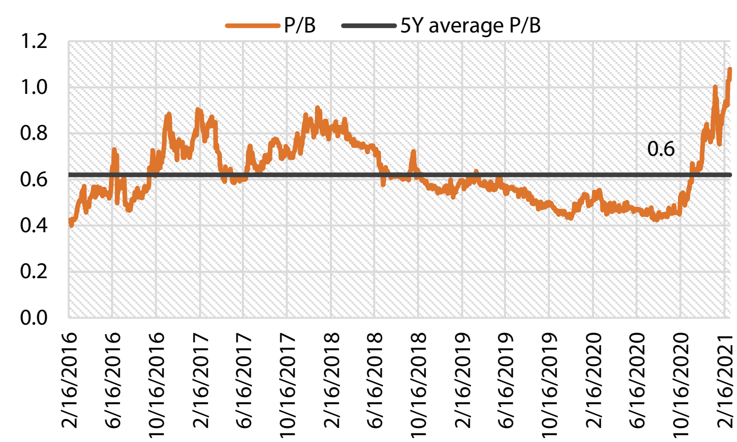
Based on DCF and sum-of-the-parts (SoTP) methods, we estimate SMC's fair value is roughly VND 30,200 per share. In the DCF method, we apply a WACC of 9.3% and exit EV/EBITDA of 6.0x. Regarding the SoTP valuation, we think SMC should be trading at a higher P/B ratios than the 5-year average P/B because the company's business is becoming more sustainable given that its net income mainly comes from steel production and coil services, accounting for roughly 85% of total net income. Hence, we use a P/B ratio of 1.0 for the manufacturing segment, which is equivalent to the industry's mean. We use a P/E ratio of 5.0 to evaluate the trading segment.

Figure 3: Historical P/E ratio



Source: SMC, RongViet Securities

Figure 4: Historical P/B ratio



Source: SMC, RongViet Securities

Table 1: Valuation (VND)

	Segment	Method	Weight	Price	Contribution
DCF	The whole company	FCFF (WACC of 9.3%, exit EV/EBITDA of 6.0x)	50%	30,288	15,144
Sum-of-the-parts	Trading	P/E (5.0x)		1,755	
	Manufacturing	P/B (1.0x)		28,436	
		Sum of the parts	50%	30,191	15,096
Target price					**30,200**
Cash dividend					**1000**
Current price					**30,200**
Upside					**3.3%**

Source: RongViet Securities

VND Billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	**16,836**	**15,736**	**18,373**	**19,609**
COGS	16,346	14,931	17,492	18,678
Gross profit	**490**	**805**	**881**	**931**
Selling expenses	160	197	205	223
G&A expenses	125	194	161	176
Financial income	103	68	65	66
Financial expenses	167	117	140	126
Other income/loss	5	-11	0	0
Gain/(loss) from JVs	0	8	5	5
PBT	**146**	**361**	**445**	**478**
Tax expense	46	51	89	73
Minority interests	8	10	16	15
PAT	**92**	**300**	**340**	**389**
EBIT	204	413	515	533

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	2.2	-6.5	16.8	6.7
Operating Income	-29.3	87.7	10.5	8.3
EBITDA	-39.1	102.5	24.7	3.5
PAT	-46.6	227.6	13.1	14.5
Total Assets	0.6	31.4	-7.3	-0.4
Equity	2.7	18.4	18.1	18.1
Profitability (%)				
Gross margin	2.9	5.1	4.8	4.8
EBITDA margin	1.8	3.5	3.3	3.4
EBIT margin	1.2	2.6	2.8	2.7
Net margin	0.5	1.9	1.8	2.0
ROA	1.8	4.5	5.5	6.3
ROE	14.5	25.3	24.0	21.6
Efficiency				(times)
Receivable Turnover	11.5	9.2	10.9	10.1
Inventory Turnover	13.5	8.3	11.5	10.5
Payable Turnover	10.1	6.0	8.2	8.2
Liquidity				(times)
Current	1.0	1.1	1.1	1.2
Quick	0.7	0.7	0.7	0.8
Finance Structure (%)				
Total Debt/Equity	167.6	174.9	124.7	82.6
Current Debt/Equity	162.1	171.7	109.0	69.3
Long-term Debt/Equity	5.5	3.2	15.7	13.3

VND Billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	596	1,183	550	360
Short-term investments	274	557	502	251
Accounts receivable	1,464	1,717	1,683	1,942
Inventories	1,209	1,805	1,527	1,776
Other current assets	318	254	267	280
Property, plant & equipment	776	665	1,161	1,053
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**	**6,227**	**6,205**
Accounts payable	1,619	2,471	2,127	2,269
Short-term borrowings	2,081	2,609	1,957	1,468
Long-term borrowings	70	49	282	282
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**	**4,369**	**4,023**
Common stock and APIC	864	863	863	863
Treasury stock (enter as -)	0	-1	-1	-1
Retained earnings	109	272	540	857
Other comprehensive income	1	1	1	1
Inv. and Dev. Fund	310	385	391	399
Total equity	**1,283**	**1,519**	**1,795**	**2,119**
Minority Interest	**53**	**63**	**63**	**63**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	1,595	4,932	5,516	6,315
P/E (x)	21.8	2.2	4.9	4.3
BV (dong)	21,026	24,907	29,423	34,739
P/B (x)	1.6	0.4	0.9	0.8
DPS (dong/cp)	1,000	1,000	1,000	1,000
Dividend yield (%)	2.9	9.3	3.7	3.7

VALUATION MODEL	Price	Weight	Average
FCFF	30,288	50%	15,144
SoTP	30,191	50%	15,096
Target price			**30,200**

VALUATION HISTORY	Price	Recommendation	Period
10/07/2020	11,100	ACCUMULATE	Intermediate

NAM KIM STEEL JSC (HSX: NKG)

Benefits from rising steel prices and high demand from overseas

(VND bn)	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Net revenue	3,418	3,376	1%	3,201	7%
PAT	154	83	86%	7	2,052%
EBIT	198	143	38%	47	323%
EBIT margin	5.8%	4.2%	154bps	1.5%	432bps

Source: NKG, Rong Viet Securities

2020: Favorable HRC prices and recovering demand from both domestic and export markets boosted net income

- 2H volume went up by 16% YoY to offset the 11% decrease in 1H volume as we believe the overall demand is recovering. 2020 whole year volume stabilized at +3.0% YoY.
- GPM improved from 2.8% in 2019 to 7.5% in 2020 as HRC prices surged by 19% QoQ and 18% QoQ in 3Q and 4Q respectively, the highest increase over the last three years.
- 2H surprises brought the bottom-line from a loss in 1H to VND 295 billion net profit for the whole year, up 524% YoY.

2021: Steel prices and strong demand from European and North American markets are going to boost net income in the short-term

We expect that NKG can produce at full capacity in 2021 and sell 800,000 tons of products, increasing by 14% YoY. Strong orders from Europe have guaranteed the consumption of NKG's production output in 1H. Due to increasing steel prices and higher profitability from developed markets, gross margin is predicted at 8.5% in 1H2021. For 2H, the company can increase its selling volume in domestic and traditional export markets to reduce the dependence on the demand from the EU. However, as we believe HRC prices cannot rally as strongly toward the end of the year, NKG's gross margin will be lowered to 4.3% in 2H.

We forecast its average selling price will be up by 30%, coupled with an increase of 14% in selling volume, resulting in a revenue increase of 48% YoY. NKG's gross margin and NPAT are forecasted to be 6.7% and VND 514 billion (+74% YoY) respectively.

Valuation and recommendation

Seizing opportunities from the European and North American markets will help NKG to improve both sales volume and gross margin in 1H2021. Afterwards, the company can reallocate its selling volume to the domestic market in 2H2021 if the demand from foreign markets becomes weaker. Overall, we think NKG can achieve substantial earnings in 2021 via both volume growth and higher HRC price.

*Using a P/B of 1.1x and P/E of 9.5x, we estimate NKG's fair value is roughly **VND 24,700** per share. Although NKG's NPAT can increase strongly in 1H, we think its results still are uncertain in 2H due to the highly volatile steel price. "Short-term" investors can consider our target price of VND 25,600 per share, which is based on the P/E method. With a cash dividend of VND 300/share over the next 12 months, the total return is **+5%,** based on the closing price on 31st March 2021. Therefore, we recommend to **ACCUMULATE** this stock.*

ACCUMULATE +5%

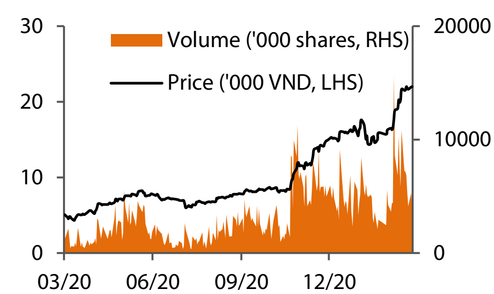
Target price (VND)	24,700
Current market price (VND)	23,900
Cash Dividend (VND)*	300

** Expected in the next 12 months*

Stock Info	
Sector	Basic Materials
Market Cap (VND billion)	3,895.8
Current Shares O/S (million)	172.0
Avg. Daily Volume (in 20 sessions)	6,628.6
Free float (%)	50
52 week High	22,650
52 week Low	4,313
Beta	1.0

	FY2019	TTM
EPS	260	1,623
EPS Growth (%)	-17.4	524.1
Diluted EPS	260	1,623
P/E	26.5	5.1
P/B	0.4	0.5
EV/EBITDA	7.1	4.4
Cash dividend yield (%)	0	4
ROE (%)	1.6	9.3

Price performance



Major Shareholders (%)	
Ho Minh Quang	13.6
Vo Hoang Vu	11.1
Remaining ownership room (%)	87.4

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Exhibit 1: 4Q/2020 Results

(VND Bn)	4Q-FY20	3Q-FY20	+/- (qoq)	4Q-FY19	+/- (yoy)
Net revenue	3,418	3,376	1.3%	3,201	6.8%
Gross profit	307	242	26.8%	130	137.3%
SG&A	110	99	10.6%	83	32.6%
Operating income	198	143	38.1%	47	322.9%
EBITDA	293	238	23.2%	159	84.0%
EBIT	198	143	38.1%	47	322.9%
Financial expenses	54	73	-25.3%	144	-62.4%
- Interest Expenses	*49*	*56*	*-12.4%*	*134*	*-63.5%*
Dep. and amortization	95	95	0.6%	112	-15.3%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	171	92	86.5%	7	2251.2%
PAT	154	83	86.4%	7	2052.0%
(*) Adjusted PAT	154	83	86.4%	7	2052.0%

Source: NKG, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particulars	4Q-FY20	3Q-FY20	+/- (qoq)	4Q-FY19	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	9.0%	7.2%	181bps	4.0%	495bps
EBITDA Margin	8.6%	7.0%	152bps	5.0%	359bps
EBIT Margin	5.8%	4.2%	154bps	1.5%	432bps
Net Margin	4.5%	2.4%	206bps	0.2%	428bps
Adjusted Net Margin	4.5%	2.4%	206bps	0.2%	428bps
Turnover *(x)					
-Inventories	5.4	4.9	0.5	5.3	0.1
-Receivables	9.4	10.6	-1.2	14.8	-5.3
-Payables	10.5	10.8	-0.3	8.4	2.1
Leverage (%)					
Total Debt/ Equity	121.9%	148.1%	-2,616bps	135.3%	-1,335bps

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

Exhibit 3: 1Q/2021 Performance Forecast

(VND Bn)	1Q-FY21	+/-qoq	+/-yoy
Revenue	4,360	27.6%	77.9%
Gross profit	429	39.5%	102.3%
EBIT	313	58.6%	139.1%
NPAT	256	66.2%	516.6%

Source: Rong Viet Securities

- Revenue is going to increase by 78% YoY because NKG's selling volume can increase by 35% supported by the strong demand from the EU and North America. Besides, we expect the quarterly average HRC price will increase by 45% YoY.

- Gross margin is forecasted to expand from 8.6% in 1Q2020 to 9.8% in 1Q2021 because the average HRC price is expected to increase by 20% QoQ, while it increased by only 7% QoQ in 1Q2020.

Update

NKG's profit increased strongly in 2020 owing to the sharp increase in HRC price and high sales volume, mainly export volume.

Due to the favorable HRC price movement, the gross profit margin in 2H2020 increased strongly compared to 1H2020. HRC price has increased by 19% QoQ in 3Q and 18% during 4Q, after hitting the bottom in 2Q. The increase in HRC price improved NKG's gross margin from 4.6% in 2Q to 7.2% in 3Q and 9.0% in 4Q.

Sales volume improved rapidly due to the recovery of export orders and domestic steel pipe demand. The total consumption volume of NKG in 2H reached 404,000 tons, up 16% YoY, and export volume increased strongly by 18% YoY. The main reason is that construction activities are back to normal after the pandemic and export orders to European markets increased. Therefore, NKG's profit grew from VND 47 billion in 2019 to VND 295 billion in 2020.

Strong demand from Europe and North American will continue to boost NKG's selling volume and profitability in 1H2021.

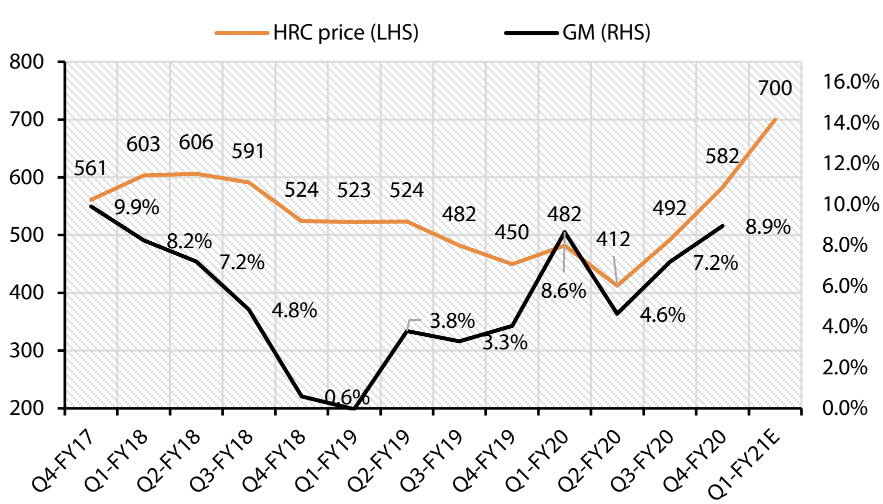
Export volume to Europe and North America has been increasing strongly as NKG has received enough orders for production until June 2021. This shows the demand from these markets is strong as NKG only receives orders one to two months in advance under normal market conditions. The coated steel consumption in these markets has been stronger in 1Q2021 due to the expectation that economies will recover due to available COVID-19 vaccines. The European and North American markets require high-quality standards, hence, limiting the supply and bringing a higher gross margin. Besides, flat steel prices are highly different between Vietnam and these markets, leading to higher profitability for exporters. The European and North American markets' share currently accounts for roughly 80% - 90% of the company's total export volume.

Besides, NKG's profitability will be improved compared to 2H 2020 as exporting to these markets brings more attractive gross margin compared to the traditional markets and export volume accounts for a higher portion in NKG's sales. We expect that NKG's gross margin in current export markets will range from 9% to 12%. In the short term, the company will prioritize export orders and only maintain the domestic sales portion at 30%-40%, lower compared to 58% in 2020.

NKG can maintain high earnings growth in 2021

NKG's NPAT in 1Q can still grow by 66% QoQ owing to the favorable HRC price and higher selling volume. We expect that the quarterly HRC average price will increase by roughly 20% QoQ in 1Q, which will support NKG's gross margin at roughly 9.8% this quarter, higher than that of 9.0% in 4Q2020. Exporting to developed markets, such as Europe and North America, also brings higher gross margin due to the tight supply in these markets. In addition, because factories will run at full capacity until June, NKG's selling volume can reach 400,000 tons in 1H, growing by 35% YoY.

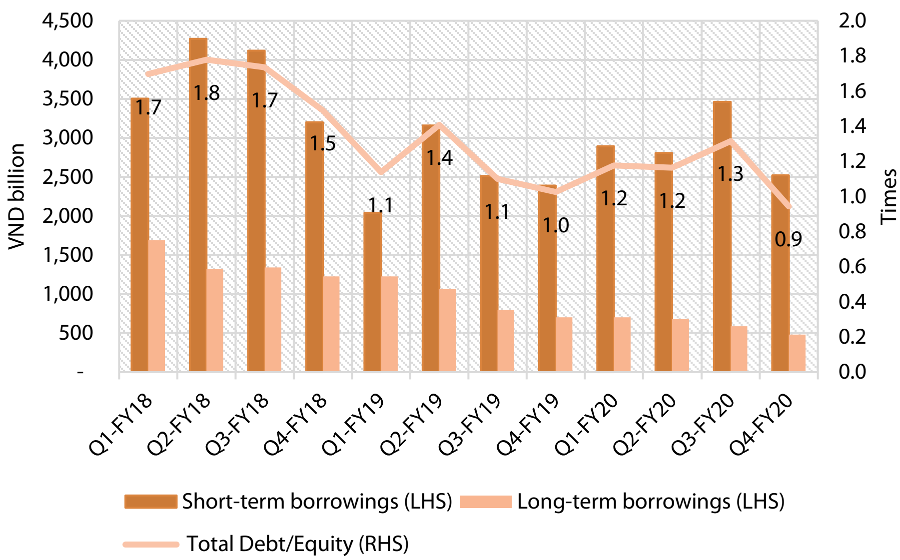
Figure 1: Quarterly HRC average price and NKG's gross margin



Source: Bloomberg, NKG

Despite a certain level of dependence on HRC's price fluctuation, we think that in case of a decrease in steel prices in 2021, NKG's gross margin will not be hit as strongly as it was in the 2018-2019 period. During late-2018 and early-2019, large inventories accumulated at a high price caused gross margin to hit the bottom of roughly 0% in the 4Q2018 - 1Q2019 period, alongside with an interest expense burden deteriorating NKG's bottom line. However, NKG now maintains inventories ay of only two months, lower compared to that of roughly three months in the 2018-2019 period. The majority of which already secured a buyer, as mentioned above. The current debt-to-equity ratio is only 0.9 times, significantly lower than that of 1.8 in 2018. Interest expenses also decreased to VND 222 billion in 2020 and is expected to fall by 7% YoY to VND 207 billion in 2021. In short, we believe that the company has taken precautious measure to reduce the risks associated with commodity prices.

Figure 2: Borrowings and debt-to-equity ratio



Source: NKG, Rong Viet Securities

We expect NKG's net income to reach VND 514 billion in 2021, increasing by 74% YoY, mainly coming in 1H2021. Our forecast is based on the assumption that the average HRC price in 2021 is USD 650/ton. NKG's net income target is VND 600 billion, increasing by 103% compared to the 2020 result. The plans were set based on the HRC price assumption of USD 700/ton in 2021, which we think is high. Besides, the company expects export activities to contribute roughly 70% of total net income.

NKG does not have plan to sell its 32-ha land in My Xuan B industrial park in Ba Ria – Vung Tau province in 2021. However, we estimate that the company can earn a large profit by selling its land as the average market price for industrial land in Ba Ria – Vung Tau province is roughly 100 USD/m2, while the company's purchasing cost for this land was roughly USD 45/m2. The unrealized PAT from this land can be approximately VND 330 billion.

The new warehouse can bring some growth potential in NKG's coated steel production volume in late-2021.

NKG plans to invest VND 250 billion in building a new warehouse in Binh Duong, which will be completed in mid-3Q 2021. The new warehouse will create more production space for the factory in Binh Duong, , hence, the company can boost coated steel volume to roughly one million tons/year. Currently, the company does not have a plan to expand its cold-rolling capacity, hence, it has to buy CRC to reach that coated steel production volume.

We think the company will not face difficulties to finance this project. Owing to the larger portion of export volume, cash flow from operating is expected to improve. In export deals, the company just takes two-three weeks to receive the payment, while its days sales outstanding in the domestic market is 30-35 days. In 2021, NKG is forecasted to depreciate roughly VND 390 billion and earn VND 500 billion NPAT, meanwhile, investment in working capital and capital expenditure are only roughly VND 650 billion and VND 250 billion.

Valuation

To value NKG, we use the PE and PB methods with a weighting of 70% and 30%, respectively. In 2021, we use a target P/E of 9.5x and an estimated EPS this year of roughly VND 2,681. The target P/B for NKG is 1.1x because the company is using its assets effectively and the market price of several assets is higher than book value, such as land use rights. We arrive at target price per share of **VND 24,700**. Therefore, we recommend to **Accumulate** this stock.

VND Billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	12,177	11,560	17,112	15,825
COGS	11,835	10,690	15,970	15,003
Gross profit	**342**	**869**	**1,143**	**822**
Selling expenses	210	268	350	315
G&A expenses	69	92	104	96
Financial income	107	89	116	120
Financial expenses	275	281	234	259
Other income/loss	195	4	0	0
Gain/(loss) from JVs	0	0	0	0
PBT	**90**	**321**	**571**	**272**
Tax expense	43	25	57	33
Minority interests	0	0	0	0
PAT	**47**	**295**	**514**	**238**
EBIT	63	509	689	411

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	-17.8	-5.1	48.0	-7.5
Operating Income	-37.8	75.5	22.1	-25.7
EBITDA	-83.9	710.8	35.3	-40.4
PAT	-17.4	524.1	73.8	-53.6
Total Assets	-0.7	-6.5	18.8	-7.2
Equity	1.5	5.4	13.6	3.7
Profitability (%)				
Gross margin	2.8	7.5	6.7	5.2
EBITDA margin	4.1	7.7	6.3	5.1
EBIT margin	0.5	4.4	4.0	2.6
Net margin	0.4	2.6	3.0	1.5
ROA	0.6	3.9	5.7	2.9
ROE	1.6	9.3	14.2	6.4
Efficiency				(times)
Receivable Turnover	13.9	8.0	14.3	13.8
Inventory Turnover	4.6	5.0	4.4	4.3
Payable Turnover	6.2	8.1	8.4	9.7
Liquidity				(times)
Current	1.0	1.1	1.2	1.4
Quick	0.4	0.6	0.5	0.5
Finance Structure (%)				
Total Debt/Equity	102.5	94.4	93.4	78.5
Current Debt/Equity	79.2	79.2	79.4	67.7
Long-term Debt/Equity	23.3	15.2	14.0	10.8

VND Billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	76	219	591	395
Short-term investments	702	370	333	432
Accounts receivable	877	1,439	1,199	1,148
Inventories	2,589	2,150	3,626	3,495
Other current assets	191	95	76	84
Property, plant & equipment	3,260	2,936	2,806	2,435
Acquired intangible assets	247	249	242	236
Long-term investments	48	23	23	23
Other non-current assets	74	63	66	69
Total assets	**8,064**	**7,544**	**8,961**	**8,317**
Accounts payable	1,904	1,317	1,903	1,542
Short-term borrowings	2,389	2,520	2,869	2,540
Long-term borrowings	703	482	507	405
Other non-current liabilities	2	2	2	2
Bonus and Welfare fund	49	41	67	79
Technology-science, dev. fund	0	0	0	0
Total liabilities	**5,048**	**4,362**	**5,346**	**4,567**
Common stock and APIC	2,586	2,586	2,586	2,586
Treasury stock (enter as -)	0	-78	-78	-78
Retained earnings	356	576	984	1,108
Other comprehensive income	36	37	37	37
Inv. and Dev. Fund	39	60	85	97
Total equity	**3,017**	**3,181**	**3,614**	**3,750**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (VND)	118	1,101	2,681	1,244
P/E (x)	26.5	5.1	8.1	17.5
BV (VND)	16,576	17,479	19,859	20,603
P/B (x)	0.4	0.5	1.1	1.1
DPS (VND/cp)	0	300	300	500
Dividend yield (%)	0.0	2.0	1.4	2.3

VALUATION MODEL	Price	Weight	Average
PE	25,598	70%	17,919
PB	22,719	30%	6,816
Target price			**24,700**

VALUATION HISTORY	Price	Recommendation	Period
06/11/2015	8,947	Neutral	Intermediate
01/11/2016	30,466	Buy	Intermediate
19/07/2017	39,800	Buy	Intermediate
31/08/2018	18,000	Buy	Intermediate

March, 2021

HOA SEN GROUP (HSX: HSG)

Export activities and steel prices will boost NPAT

(VND bn)	1Q/FY20-21	4Q/FY19-20	+/- qoq	1Q/FY19-20	+/- yoy
Net revenue	9,100	8,345	9%	6,585	38%
PAT	572	450	27%	181	216%
EBIT	798	649	23%	381	110%
EBIT margin	8.8%	7.8%	100bps	5.8%	299bps

Source: HSG, Rong Viet Securities

1Q/FY2020-2021: NPAT surged due to high demand and increasing steel prices

- Steel pipe and coated steel volumes increased by 61% YoY and 32% YoY respectively due to the soaring steel price and high demand from overseas. Coated steel export volume grew by 61% YoY to roughly 242,000 tons.
- GPM improved from 14.5% in 1Q/FY2019-2020 to 16.5% in 1Q/FY2020-2021 as HRC price increased by 18% QoQ (-6.6% QoQ in 1Q/FY2019-2020).
- Owing to higher selling volume and GPM, revenue and NPAT grew by 38% YoY and 216% YoY respectively.

FY2020-2021: HSG's performance will remain strong until 3Q

We expect coated and steel pipe volumes will increase by 35% YoY and 12% YoY, reaching 1.6 million and 420,000 tons respectively. Due to low utilization last year, the company has room to seize opportunities from the high demand in European and North American markets. Due to increasing steel prices, HSG can enjoy a gross margin of 16.6% in 1H/FY2020-2021 running its rolling factories at full capacity to meet orders until June. Its profitability can decrease in 2H as the support from HRC price will be weaker. We assume that the average HRC price will be USD 655 per ton in FY2020-2021.

We forecast that its average selling price will be up by 23% YoY, leading the revenue to increase by 56% YoY. HSG's gross margin and NPAT are forecasted to be 14.5% and VND 1,543 billion (+34% YoY) respectively.

Valuation and recommendation

The current global market situation has favored Vietnamese coated steel exporters in terms of both volume and price. Among them, HSG has a high production capacity room to seize opportunities from European and North American markets. In the domestic market, we believe HSG has advantages over other domestic manufacturers owing to its retail system.

Although HSG's NPAT can increase strongly this FY, we think results are supported by many short-term external factors, including surging HRC price and shortages in Europe and North America. Given that NPAT still grows in 2Q, we think investors can consider a short-term opportunity with the stock. Per our estimation, HSG's TTM EPS at the end of 3Q will be VND 4,300 (+148%). Assuming a 7.7x PER (20% discounted from HPG's PER), the share price can go up to VND 33,000.

However, in long-term, NPAT can revert to the normal level. At the current market price, the FY2020-2021 forward PER is 8.7x, which we think is already fair considering next year's NPAT growth. Therefore, we recommend to MONITOR the stock to see if there is an investment opportunity for the long term.

MONITOR

Target price (VND)	N/A
Current market price (VND)	28,400
Cash Dividend (VND)*	0

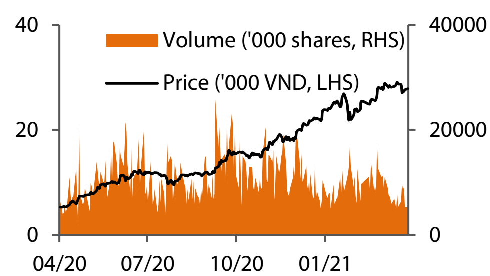
** Expected in the next 12 months*

Stock Info

Sector	Basic Materials
Market Cap (VND billion)	12,618.1
Current Shares O/S (million)	444.3
Avg. Daily Volume (in 20 sessions)	7,530,315.0
Free float (%)	43
52 week High	29,100
52 week Low	5,295
Beta	1.3

	FY2019	TTM
EPS	2,588	3,174
EPS Growth (%)	203	200
Diluted EPS	2,562	3,174
P/E	6.0	8.5
P/B	1.1	1.7
EV/EBITDA	6.3	5.5
Cash dividend yield (%)	0	0
ROE (%)	17.4	21.8

Price performance



Major Shareholders (%)

Le Phuoc Vu	16.7
Hoa Sen Investment Corporation	9.7
Remaining ownership room (%)	41.7

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Exhibit 1: 1Q/FY2020-2021 Results

(VND Bn)	1Q/FY20-21	4Q/FY19-20	+/-(qoq)	1Q/FY19-20	+/-(yoy)
Net revenue	9,100	8,345	9.0%	6,585	38.2%
Gross profit	1,499	1,528	-1.9%	953	57.3%
SG&A	700	879	-20.3%	572	22.4%
Operating income	798	649	23.1%	381	109.6%
EBITDA	1,102	955	15.5%	691	59.5%
EBIT	798	649	23.1%	381	109.6%
Financial expenses	123	126	-2.3%	174	-29.5%
- Interest Expenses	*92*	*114*	*-19.4%*	*158*	*-41.9%*
Dep. and amortization	304	306	-0.6%	310	-2.1%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	692	551	25.7%	220	214.7%
PAT	572	450	27.1%	181	215.9%
(*) Adjusted PAT	572	450	27.1%	181	215.9%

Source: HSG, Rong Viet Securities

Exhibit 2: 1Q/FY2020-2021 Performance Analysis

Particulars	1Q/FY20-21	4Q/FY19-20	+/-(qoq)	1Q/FY19-20	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	16.5%	18.3%	-183bps	14.5%	200bps
EBITDA Margin	12.1%	11.4%	68bps	10.5%	162bps
EBIT Margin	8.8%	7.8%	100bps	5.8%	299bps
Net Margin	6.3%	5.4%	89bps	2.8%	354bps
Adjusted Net Margin	6.3%	5.4%	89bps	2.8%	354bps
Turnover *(x)					
-Inventories	5.9	5.4	0.5	5.2	0.7
-Receivables	15.1	19.0	-3.9	19.9	-4.8
-Payables	10.7	11.6	-0.9	12.7	-2.0
Leverage (%)					
Total Debt/ Equity	116.8%	136.6%	-1,979bps	147.5%	-3,075bps

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

Exhibit 3: 2Q/FY2020-2021 Performance Forecast

(VND Bn)	2Q/FY20-21	+/-qoq	+/-yoy
Revenue	11,006	21%	90%
Gross profit	1,847	23%	72%
EBIT	865	8%	101%
NPAT	590	3%	193%

Source: Rong Viet Securities

- We believe the steel market will remain favorable, average selling prices and total selling volume are expected to increase by 35% YoY and 40% YoY respectively.

- Gross margin is forecasted to decrease to 16.8% in 2Q/FY2020-2021. This is because export selling volume will account for 73% of coated sales, increasing by 20 percentage points YoY.

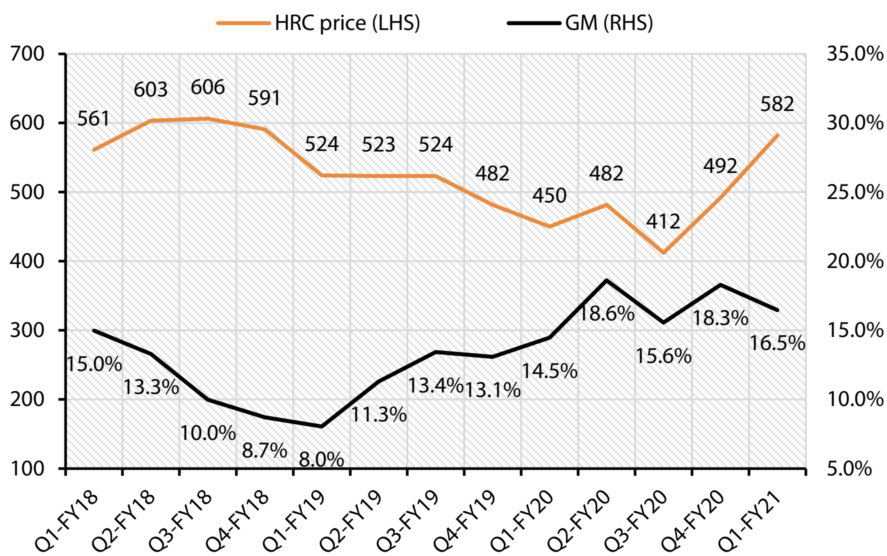
- We forecast that interest expenses will increase slightly QoQ from VND 123 billion in 1Q to VND 143 billion in 2Q due to higher inventory.

Update

Steel price and high demand boosted net income in 1Q/FY2020-2021.

HSG's selling volume grew by roughly 38% YoY in 1Q/FY2020-2021, of which steel pipe volume increased by 61% YoY and coated steel rose by 32% YoY. According to the Vietnam Steel Association, steel pipe consumption increased by 30% YoY from 590,000 tons to roughly 766,000 tons. Beside recovering construction activities, we think surging steel prices also forced retailers to store more products. Regarding coated steel consumption, high demand from Europe and North America boosted HSG's export volume by 61% YoY, higher compared to the industry's growth rate of 21% YoY. Because HSG has more excess capacity being the largest producer, the company can seize opportunities better than many coated steel manufacturers. Besides, HRC price increased by 18.3%, keeping HSG's gross margin stable at 16.5%. As a result, HSG's bottom-line recovered remarkably compared to the same time last year.

Figure 1: HRC price (USD/ton) and HSG's gross margin

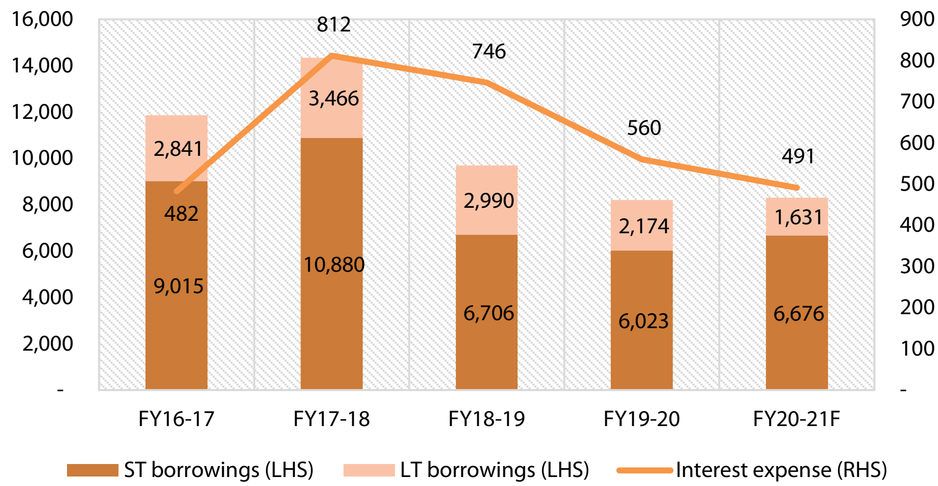


Source: HSG, Rong Viet Securities

Financial expenses will increase in the short-term because of higher HRC prices.

We expect that HSG will reduce long-term debt by 25% to 1,631 in FY2020-2021. Meanwhile, its short-term debt can increase by 11% YoY from VND 6,000 billion in FY2019-2020 to roughly VND 6,700 billion in FY2020-2021 to finance working capital. The annual average HRC price is forecasted to increase by 40%, hence, the company will spend roughly VND 1,810 billion on inventories this FY. Because of lower interest rates and long-term debts, HSG's interest expenses can decrease slightly by 12%, from VND 560 billion to roughly VND 490 billion. For 2Q/FY2020-2021, the company's interest expenses are likely to increase by about 30% QoQ because its short-term borrowings can increase sharply to finance inventory as HRC price surged.

Figure 2: HSG's borrowings and interest expenses forecast (VND billion)



Source: HSG, Rong Viet Securities

Factories are running at full capacity for orders from Europe and North America.

We expect HSG's cold rolling production lines to run at full capacity in FY2020-2021, equivalent to roughly two million tons. Currently, the company has received sufficient coated steel orders from overseas until June 2021. For the whole year, we expect HSG's coated steel and steel pipe volumes to reach 1.6 million (+35% YoY) and 420,000 tons (+11.5% YoY) respectively. Exports can account for 66% of HSG's coated steel output in FY2020-2021 (56% last year). Due to the shortage of HRC in Europe, the company can enjoy a higher gross margin of roughly 13.5% in this market, increasing by roughly 1.5 percentage points compared to 4Q/FY2019-2020. However, HSG's gross margin in the domestic market is still significantly higher, reaching 20%-21%.

We expect that HSG's net income can reach VND 1,543 billion in 2021, increasing by 34% YoY, mainly coming in the first nine months. Our forecast assumes a HRC price of USD 655/ton on average. We forecast that the gross margin will stay high at 16.6% in 1H, and will decrease to 12.7% in 2H. Selling expenses are expected to increase by 41% YoY as the company's sales commission is paid based on selling volume, which is forecasted to grow by 35% YoY.

Strategy focuses on retail rather than production.

HSG plans to open roughly 1,200 Hoa Sen Home stores in the 2021-2026 period, of which 536 stores will be upgraded from current ones. The cost to upgrade current stores is not large as HSG invests roughly VND 300-500 million per store, including the cost for restructuring and decorating. New products are expected to contribute 42% and 33% to HSG's total revenue and net income respectively in 2026. These Hoa Sen Home stores will sell not only coated steel, steel pipes, and plastic pipes, but also construction steel, ceramic tiles, and interior-exterior paint.

We think this is a suitable orientation for the company to create some growth momentum in the next years. Taking into account fierce competition upstream, focusing on its own established advantage, retail, is more feasible. According to HSG's plans, net margin can reach 3% as the retail system operates stably in FY2025-2026. Besides, construction material retail markets are fragmented and it could be rewarding to enter this segment. However, the company needs time to test and develop the right model for sustainable growth. Hence, we recommend monitoring this stock.

As mentioned above, favorable market conditions will be supportive factors for HSG's 2Q and 3Q bottom line. Therefore, we think investors can consider a short-term trading opportunity. Per our estimation, HSG's TTM EPS at the end of 3Q will be VND 4,300. Assuming a 7.7x PE (20% discounted from HPG's PER), share price can go up to VND 33,000. However, in the longer term, NPAT can revert to the normal level. At the current market price, the FY2020-2021 forward PE is 8.7x, which we think is already fair, somewhat overpriced considering that next year NPAT growth will be -39%. Therefore, we recommend to MONITOR the stock to see if there is an investment opportunity for the long term.

VND Billion

INCOME STATEMENT	FY17-18	FY18-19	FY19-20	FY20-21E
Revenue	34,441	28,035	27,543	42,911
COGS	30,486	24,845	22,923	36,679
Gross profit	**3,955**	**3,189**	**4,619**	**6,231**
Selling expenses	1,804	1,749	2,221	3,133
G&A expenses	881	471	448	697
Financial income	179	64	86	99
Financial expenses	971	803	668	571
Other income/loss	54	230	0	0
Gain/(loss) from JVs	0	0	0	0
PBT	**533**	**460**	**1,369**	**1,929**
Tax expense	123	99	218	386
Minority interests	0	0	0	0
PAT	**410**	**361**	**1,151**	**1,543**
EBIT	1,270	970	1,951	2,401

%

FINANCIAL RATIO	FY17-18	FY18-19	FY19-20	FY20-21E
Growth (%)				
Revenue	31.7	-18.6	-1.8	55.8
Operating Income	-18.4	0.0	0.0	58.7
EBITDA	-39.7	-23.6	101.2	23.1
PAT	-69.2	-11.9	218.4	34.1
Total Assets	-1.3	-19.5	3.8	14.8
Equity	0.4	6.8	19.8	22.8
Profitability (%)				
Gross margin	11.5	11.4	16.8	14.5
EBITDA margin	6.7	8.2	8.3	8.5
EBIT margin	3.7	3.5	7.1	5.6
Net margin	1.2	1.3	4.2	3.6
ROA	1.9	2.1	6.5	7.6
ROE	14.7	11.6	22.1	24.6
Efficiency				(times)
Receivable Turnover	16.3	21.1	13.6	14.8
Inventory Turnover	4.6	5.6	4.1	5.0
Payable Turnover	17.8	12.3	7.8	9.3
Liquidity				(times)
Current	0.9	0.8	1.0	1.2
Quick	0.3	0.3	0.4	0.5
Finance Structure (%)				
Total Debt/Equity	280.3	177.3	125.0	103.1
Current Debt/Equity	212.7	122.7	92.0	83.0
Long-term Debt/Equity	67.7	54.6	33.0	20.1

VND Billion

BALANCE SHEET	FY17-18	FY18-19	FY19-20	FY20-21E
Cash and cash equivalents	492	289	575	517
Short-term investments	0	76	1	0
Accounts receivable	2,119	1,328	2,024	2,905
Inventories	6,607	4,414	5,526	7,336
Other current assets	1,582	1,104	899	1,799
Property, plant & equipment	9,325	8,984	7,951	6,999
Acquired intangible assets	313	241	220	209
Long-term investments	99	17	26	26
Other non-current assets	719	652	540	594
Total assets	**21,255**	**17,105**	**17,762**	**20,385**
Accounts payable	1,716	2,016	2,932	3,944
Short-term borrowings	10,880	6,706	6,023	6,676
Long-term borrowings	3,462	2,986	2,163	1,619
Other non-current liabilities	4	4	11	12
Bonus and Welfare fund	41	41	0	56
Technology-science, dev. fund	0	0	0	0
Total liabilities	**16,103**	**11,753**	**11,130**	**12,307**
Common stock and APIC	4,001	4,386	4,598	4,598
Treasury stock (enter as -)	-1	-2	-3	-3
Retained earnings	1,055	1,021	1,952	3,387
Other comprehensive income	61	61	0	61
Inv. and Dev. Fund	0	0	0	0
Total equity	**5,116**	**5,466**	**6,547**	**8,042**
Minority Interest	**36**	**36**	**36**	**36**

VALUATION RATIO	FY17-18	FY18-19	FY19-20	FY20-21E
EPS (VND)	923	813	2,562	3,227
P/E (x)	13.7	9.6	6.0	8.4
BV (VND)	13,288	12,907	14,860	18,088
P/B (x)	0.9	0.6	1.1	1.5
DPS (VND/cp)	500	0	0	0
Dividend yield (%)	4.0	0.0	0.0	0.0

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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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