

Vietnam

July 28, 2020 - 6:00 PM

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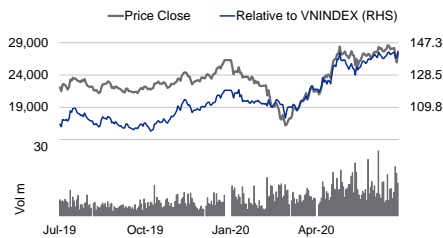
Consensus ratings*: Buy 7 Hold 3 Sell 0

Current price:	VND27,350
Target price:	VND32,800
Previous target:	VND32,800
Up/downside:	19.9%
CGS-CIMB / Consensus:	14.2%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$3,257m
	VND75,515,376m
Average daily turnover:	US\$13.35m
	VND311,394m
Current shares o/s	2,761m
Free float:	59.7%

*Source: Bloomberg

Key financial forecasts

	Dec-20F	Dec-21F	Dec-22F
Net Profit (VNDb)	9,545	10,531	11,638
Core EPS (VND)	3,457	3,814	4,215
Core EPS Growth	30.4%	10.3%	10.5%
FD Core P/E (x)	7.91	7.17	6.49
Recurring ROE	18.2%	16.9%	16.1%
P/BV (x)	1.32	1.12	0.98
DPS (VND)	500.0	500.0	1,000.0
Dividend Yield	1.83%	1.83%	3.66%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.6	27.8	21.3
Relative (%)	5.1	21.8	39.4

Major shareholders	% held
Tran Dinh Long	25.4
Dragon Capital	7.7
Vu Thi Hien	7.3

Analyst(s)

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Hoa Phat Group

Stellar performance in 2Q20

- HPG's net profit (NP) climbed 34.8% yoy in 2Q20 on the back of +20.4% yoy growth in steel NP and a 22-fold yoy rise in agricultural NP.
- 1H20 revenue is in line at 46.0% of our FY20F. 1H20 NP is in line at 51.4% of our full-year forecast.
- We reiterate our Add call with a TP of VND32,800.

2Q20 NP growth rate at a two-year high

- Hoa Phat Group (HPG) posted strong 2Q20 results, with revenue rising 35.3% yoy to VND20,422bn and net profit jumping 34.8% yoy to VND2,743bn.
- Steel revenue jumped 49.1% yoy in 2Q20 as sales volume surged 74.2% yoy. Sales volume included 480,263 tonnes of steel billets versus minimal volume seen in 2Q19. We estimate average selling prices slumped about 13.5% yoy in 2Q20 as the company attempted to gain more market share.
- The agriculture business recorded NP of VND360bn, up 22-fold from VND17bn in 2Q19 as pork prices soared 151% yoy in 2Q20. Pork prices jumped due to African swine flu.
- 1H20 revenue rose 31.9% yoy to VND39,655bn. 1H20 net profit increased 31.1% yoy to VND5,028bn, fulfilling 51.4% of our FY20F forecast.

Steel sales volume outperformed the domestic steel industry

- HPG's 1H20 construction steel sales volume was 1.5m tonnes (+12.4% yoy), outperforming the industry's 4.9m tonnes (-8.7% yoy). Thus, HPG's market share widened to 30.9% at end-2Q20 from 26.1% at end-FY19.
- HPG's 1H20 steel pipe sales volume dipped 4.4% yoy to 347,100 tonnes, which was still higher than the 6.9% yoy decline in the domestic steel industry. HPG accounted for about 31.1% of the steel pipe market at end-2Q20.
- In 1H20, HPG's sales volume was driven by 1) the southern market which rose 94% yoy to 357,182 tonnes, and 2) export sales which rose 67.4% yoy to 202,880 tonnes.

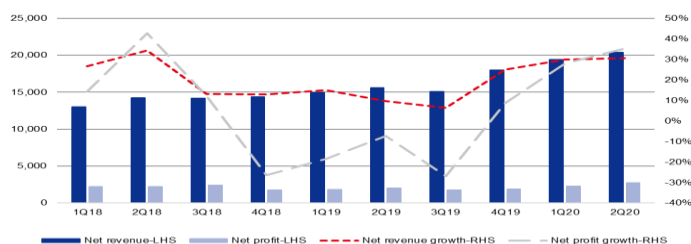
Dung Quat Steel Complex (DQSC) Phase 1 at full capacity

- Based on the HPG's reported steel billet output of 2.6m tonnes in 1H20, we estimate the blended utilisation rate of all existing steel facilities (including Hai Duong, Hung Yen and DQSC Phase 1) was about 98% in 2Q20.
- We note that HPG has just launched its second blast furnace and commenced production of DQSC Phase 1 in late Nov 2019. In our view, it is relatively positive that the plant is running at nearly full capacity just after seven months of operations.
- HPG's management expects to start hot-rolled coil (HRC) commercial production in Sep 20.

Reiterate Add with a TP of VND32,800

- Our TP is based on an equal weighting of 1) 12M forward P/E of 8.0x on FY20F EPS; and 2) a DCF valuation over a 10-year projection period.
- Downside risks: 1) prolonged social distancing affecting steel demand, and 2) slower-than-expected operation of HRC plant. Re-rating catalyst: lower-than-expected iron ore price.

Figure 1: HPG's business results



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 2: Results comparison

	2Q20	2Q19	% yoy	1H20	1H19	vs full year		Comment
						yoy	forecast	
Total revenue	20,422	15,097	35.3%	39,655	30,061	31.9%	46.0%	
Steel	17,353	11,636	49.1%	32,944	23,599	39.6%	46.5%	In 1H20, HPG's total sales volume jumped 57.4% yoy. A 13.5% yoy drop in the average selling price (ASP) of construction steel.
Industrial production	703	998	-29.5%	1,313	1,807	-27.3%	39.9%	
Agriculture	2,263	1,809	25.1%	5,043	3,562	41.6%	47.2%	Strong 2Q20 results of agricultural segment, driven mainly by soaring selling prices of pork since end-FY19. Live hog price in 2Q20 jumped to VND85,000-90,000/kg, from VND30,000-35,000/kg in 2Q19.
Real estates	103	656	-84.2%	356	1,093	-67.4%	26.3%	
Gross profit	3,706	3,027	22.4%	7,469	5,648	32.2%	48.3%	
Gross profit margin	18.1%	20.0%	-1.9% pts	18.8%	18.8%	0.0% pts	0.9% pts	
SG&A expense	415	375	10.5%	826	690	19.7%	40.0%	
EBITDA	4,430	3,265	35.7%	8,874	6,155	44.2%	47.0%	
Interest expense	523	215	143.0%	1,004	401	150.7%	52.6%	
Pretax profit	3,096	2,480	24.8%	5,753	4,651	23.7%	50.8%	
Net profit	2,743	2,035	34.8%	5,028	3,836	31.1%	51.4%	In line with our expectation.
Net margin	13.4%	13.5%	0.0% pts	12.7%	12.8%	-0.1% pts	1.3% pts	
EBITDA margin	21.7%	21.6%	0.1% pts	22.4%	20.5%	1.9% pts	0.5% pts	
SG&A as % of revenue	2.0%	2.5%	-0.5% pts	2.1%	2.3%	-0.2% pts	-0.3% pts	
Sale volume (tonne)	1,462,867	839,873	74.2%	2,690,200	1,708,706	57.4%	51.5%	
Construction steel (tonne)	780,404	648,773	20.3%	1,512,837	1,345,606	12.4%	42.1%	
Steel billets (tonne)	480,263	-		830,263	-		94.3%	
Steel pipe (tonne)	202,200	191,100	5.8%	347,100	363,100	-4.4%	46.1%	

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Peer comparison

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)		3-year EPS	P/BV (x)		EV/EBITDA (x)		ROE (%)		
			LC\$	LC\$	US\$ m	CY20F	CY21F	CAGR (%)	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	
Regional listed steel producers															
Sansteel Minguang Co Ltd -A	002110 CH	na	7.04	10.1	2,465	5.9	5.4	na	0.8	0.7	4.2	4.0	12.9	12.4	
Xinxing Ductile Iron Pipes-A	000778 CH	na	3.67	na	2,091	10.8	10.2	68.9	0.7	0.6	6.9	6.4	6.1	6.4	
Xinyu Iron & Steel Co Ltd-A	600782 CH	na	4.34	5.7	1,976	5.2	4.8	179.9	0.6	0.5	5.8	5.3	11.0	10.6	
Nanjing Iron & Steel Co-A	600282 CH	na	3.25	na	2,851	6.3	5.6	na	0.8	0.8	6.6	5.8	12.6	13.1	
Liuzhou Iron & Steel Co-A	601003 CH	na	4.92	na	1,801	5.6	5.4	na	na	na	7.4	(45.7)	na	na	
Hangzhou Iron & Steel Co-A	600126 CH	na	7.76	11.0	3,742	27.7	25.0	na	na	na	8.0	(45.0)	na	na	
SGIS Songshan Co Ltd-A	000717 CH	na	4.43	na	1,531	6.3	5.9	na	1.2	1.0	4.4	3.8	17.4	15.9	
Average					2,302	9.7	9.2		0.7	0.7	6.8	(7.3)	9.4	10.3	
Median					2,034	6.3	5.8		0.7	0.7	6.7	4.7	11.8	11.5	
Hoa Phat Group	HPG VN	Add	27,350	32,800	3,258	9.5	8.6	4.5	1.6	1.3	1.7	1.6	17.2	16.0	

SOURCES: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 28 Jul 2020

BY THE NUMBERS

Profit & Loss

(VNDb)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues	63,658	86,215	100,221	109,132
Gross Profit	11,185	15,474	16,754	17,756
Operating EBITDA	11,914	18,890	20,820	21,590
Depreciation And Amortisation	(2,417)	(5,757)	(6,840)	(6,840)
Operating EBIT	9,498	13,133	13,979	14,750
Financial Income/(Expense)	(465)	(1,779)	(1,580)	(1,051)
Pretax Income/(Loss) from Assoc.	(1)	(1)	(1)	(1)
Non-Operating Income/(Expense)	66	(27)	(12)	(52)
Profit Before Tax (pre-EI)	9,097	11,325	12,387	13,646
Exceptional Items				
Pre-tax Profit	9,097	11,325	12,387	13,646
Taxation	(1,518)	(1,463)	(1,513)	(1,637)
Exceptional Income - post-tax				
Profit After Tax	7,578	9,862	10,873	12,009
Minority Interests	(71)	(71)	(71)	(71)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	(189)	(247)	(272)	(300)
Net Profit	7,318	9,545	10,531	11,638
Recurring Net Profit	7,318	9,545	10,531	11,638
Fully Diluted Recurring Net Profit	7,318	9,545	10,531	11,638

Balance Sheet

(VNDb)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	5,939	7,385	8,461	9,037
Total Debtors	3,575	7,347	9,610	8,631
Inventories	19,412	27,133	29,856	33,846
Total Other Current Assets	1,546	2,093	2,433	2,650
Total Current Assets	30,472	43,959	50,361	54,164
Fixed Assets	68,992	73,235	69,394	67,553
Total Investments	26	26	26	26
Intangible Assets	269	250	231	212
Total Other Non-Current Assets	2,032	4,311	5,011	5,457
Total Non-current Assets	71,319	77,821	74,662	73,248
Short-term Debt	16,838	20,964	14,980	8,408
Current Portion of Long-Term Debt				
Total Creditors	6,178	8,721	10,290	12,826
Other Current Liabilities	3,982	5,173	5,772	6,105
Total Current Liabilities	26,998	34,859	31,043	27,339
Total Long-term Debt	19,842	22,287	17,822	13,374
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	7,163	7,328	8,519	9,276
Total Non-current Liabilities	27,005	29,615	26,341	22,650
Total Provisions	0	0	0	0
Total Liabilities	54,003	64,474	57,383	49,989
Shareholders' Equity	47,605	57,053	67,316	77,028
Minority Interests	183	253	324	394
Total Equity	47,788	57,306	67,640	77,422

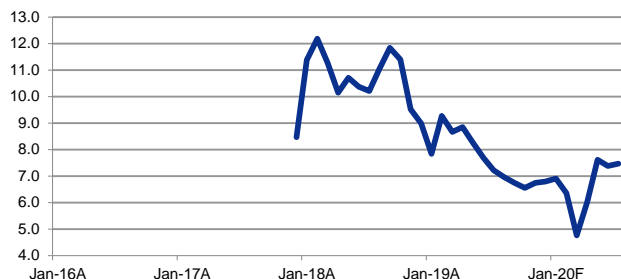
Cash Flow

(VNDb)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	11,914	18,890	20,820	21,590
Cash Flow from Invnt. & Assoc.	(1)	(1)	(1)	(1)
Change In Working Capital	(8,494)	(9,753)	(4,234)	(935)
(Incr)/Decr in Total Provisions	(6)	0	0	0
Other Non-Cash (Income)/Expense	0	0	0	0
Other Operating Cashflow	(8)	(134)	(128)	(383)
Net Interest (Paid)/Received	(937)	(1,911)	(1,711)	(1,182)
Tax Paid	(1,518)	(1,463)	(1,513)	(1,637)
Cashflow From Operations	949	5,627	13,232	17,451
Capex	(21,622)	(10,000)	(3,000)	(5,000)
Disposals Of FAs/subsidiaries	22	0	0	0
Acq. Of Subsidiaries/Investments	2,350	0	0	0
Other Investing Cashflow	41	0	0	0
Cash Flow From Investing	(19,209)	(10,000)	(3,000)	(5,000)
Debt Raised/(repaid)	20,082	7,291	(7,675)	(9,212)
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(13)	(1,381)	(1,381)	(2,761)
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	20,069	5,911	(9,055)	(11,973)
Total Cash Generated	1,810	1,538	1,177	479
Free Cashflow To Equity	1,822	2,918	2,558	3,240
Free Cashflow To Firm	(17,323)	(2,462)	11,943	13,634

Key Ratios

	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	14.0%	35.4%	16.2%	8.9%
Operating EBITDA Growth	(4.9%)	58.5%	10.2%	3.7%
Operating EBITDA Margin	18.7%	21.9%	20.8%	19.8%
Net Cash Per Share (VND)	(11,134)	(12,990)	(8,815)	(4,616)
BVPS (VND)	17,241	20,663	24,380	27,898
Gross Interest Cover	10.14	6.87	8.17	12.48
Effective Tax Rate	16.7%	12.9%	12.2%	12.0%
Net Dividend Payout Ratio	NA	12.5%	11.5%	20.8%
Accounts Receivables Days	19.45	23.18	30.88	30.50
Inventory Days	116.6	120.4	124.6	127.2
Accounts Payables Days	51.77	38.54	41.57	46.17
ROIC (%)	13.0%	13.3%	12.2%	12.9%
ROCE (%)	13.3%	14.3%	14.0%	14.9%
Return On Average Assets	10.3%	11.3%	10.9%	11.3%

12-mth Fwd FD P/E (x) - Hoa Phat Group



Key Drivers

	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP (% Change)	-8.8%	-4.0%	1.0%	-1.0%
Unit Sales Growth (%)	17.6%	56.8%	15.0%	7.9%
Utilisation Rate (%)	68.8%	94.9%	94.8%	94.8%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

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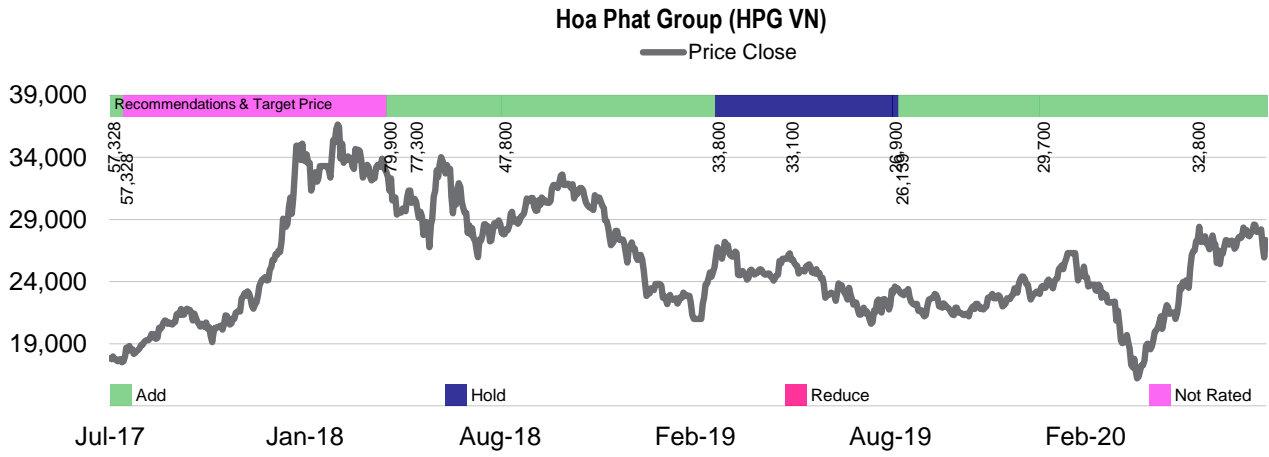
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Add	60.1%	0.4%
Hold	25.9%	0.1%
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Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

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4 The Stock Exchange of Thailand: the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI) .

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Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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