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June 26, 2020 - 10:05 AM

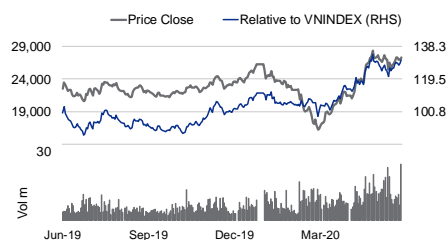
Consensus ratings\*: Buy 8 Hold 1 Sell 1

Current price:	VND27,300
Target price:	VND32,800
Previous target:	VND32,800
Up/downside:	20.1%
CGS-CIMB / Consensus:	7.3%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$3,249m
	VND75,377,320m
Average daily turnover:	US\$10.50m
	VND244,980m
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)	7.90	7.16	6.48
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	53.4	18.2
Relative (%)	0.5	29.6	29.2

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

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# Hoa Phat Group

## 2020 AGM: key takeaways

- According to Hoa Phat Group's (HPG) management, 2Q20 preliminary net profit reached VND2,700bn (+31.7% yoy).
- HPG's 2020 AGM approved its FY19 cash dividend of VND500/share and the FY19 stock dividend of 20%.
- Reiterate Add with unchanged TP of VND32,800.

### Preliminary 1H20 net profit in line with our forecast

- The company announced its preliminary 2Q20 net profit (NP) of c.VND2,700bn, up 31.7% yoy. As such, 1H20 accumulated net profit would have reached c.VND5,000bn, making up 50.7% of our FY20F net profit forecast.
- The agriculture segment extended its stellar performance, recording a 2Q20 NP of c.VND480bn (up 29-fold compared to 2Q19), per HPG's estimate.

### HPG's steel sales volume to grow 30% in 2020F

- According to HPG, it might not be able to meet its FY20F target for construction steel sales volume of 3.6m tonnes due to the Covid-19 outbreak. However, management said it is confident of at least 10% yoy growth. To offset the lower construction steel volume, HPG said it plans to boost steel billets to keep the furnaces of Dung Quat Steel Complex (DQSC) running at full capacity.
- Management also said it is maintaining its steel pipe sales volume growth target of 12-18% yoy in FY20F. This year, the company plans to invest in a new steel pipe factory in Long An province.
- Galvanised steel sales volume is targeted to grow by 20% yoy, with the company having already met 80% of its target in 1H20, according to HPG. We estimate FY20F galvanised steel sales volume to increase by 23.7% yoy.
- Management is confident of completing HRC plant's test run in Aug 2020 before starting commercial operations a month later.
- In total, HPG expects its FY20F total steel sale volume to reach 4.99m tonnes (+30% yoy), 5.6% lower than our forecast.

### Total investment for the DQSC increased by 15% vs. initial plan

- HPG's shareholders have approved the amended plan to increase the total investment for the Dung Quat Steel Complex (DQSC) to VND60,000bn from the initial plan of VND52,000bn.
- Per management, the additional capex for DQSC is mostly funding for higher-quality machinery than previous plans.

### Dividend plans for FY19 and FY20

- The 2020 AGM approved the FY19 cash dividend of VND500/share and stock dividend of 20%. The payment will be executed in 3Q20F.
- The FY20 dividend is expected to be 30% on par value, either in cash or shares.
- From 2020F onwards, management said it would target to pay cash dividends of VND1,000-1,500/share, after three years of dividend suspension due to the need to fund DQSC.

### Reiterate Add with unchanged TP of VND32,800

- We reiterate our Add call and TP of VND32,800 based on an equal weighting of: (1) a forward P/E of 8.0x on FY20F EPS; and (2) a DCF valuation over a 10-year projection period. Risks to our Add call include: (1) slower-than-expected steel demand growth; and (2) lower-than-expected HRC plant utilisation. A potential re-rating catalyst is lower-than-expected iron ore price.

**Figure 1: 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	CY20F	CY21F
<b>Regional listed steel producers</b>																
Sansteel Minguang Co Ltd -A	002110 CH	na	6.81	9.4	2,359	5.7	5.4	na	0.8	0.7	4.3	4.1	13.2	12.9		
Xinxing Ductile Iron Pipes-A	000778 CH	na	3.42	na	1,928	9.0	8.7	68.9	0.6	0.6	6.2	5.9	6.1	6.4		
Xinyu Iron & Steel Co Ltd-A	600782 CH	na	4.15	5.7	1,870	4.6	4.8	179.9	0.5	0.5	5.6	5.2	10.1	10.0		
Nanjing Iron & Steel Co-A	600282 CH	na	3.38	na	2,118	5.9	5.4	na	0.8	0.7	5.4	4.8	13.1	13.1		
Liuzhou Iron & Steel Co-A	601003 CH	na	4.46	5.6	1,615	5.6	6.8	na	0.9	0.9	7.4	(45.7)	12.6	11.8		
Hangzhou Iron & Steel Co-A	600126 CH	na	10.48	11.0	5,000	na	na	na	na	na	8.0	(45.0)	na	na		
SGIS Songshan Co Ltd-A	000717 CH	na	3.84	na	1,313	5.5	5.5	na	1.0	0.9	4.0	3.7	17.6	16.1		
<i>Average</i>					2,236	6.1	6.3		0.7	0.7	6.8	(7.2)	10.0	10.5		
<i>Median</i>					1,899	5.7	5.5		0.8	0.7	5.9	4.4	12.6	11.8		
<b>Hoa Phat Group</b>	<b>HPG VN</b>	<b>Add</b>	<b>27,300</b>	<b>32,800</b>	<b>3,248</b>	<b>9.5</b>	<b>8.6</b>	<b>7.7</b>	<b>1.6</b>	<b>1.3</b>	<b>1.7</b>	<b>1.6</b>	<b>17.2</b>	<b>16.0</b>		

SOURCES: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 25 Jun 2020

## BY THE NUMBERS

### Profit & Loss

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

### 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
<b>Total Current Assets</b>	<b>30,472</b>	<b>43,959</b>	<b>50,361</b>	<b>54,164</b>
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
<b>Total Non-current Assets</b>	<b>71,319</b>	<b>77,821</b>	<b>74,662</b>	<b>73,248</b>
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
<b>Total Current Liabilities</b>	<b>26,998</b>	<b>34,859</b>	<b>31,043</b>	<b>27,339</b>
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
<b>Total Non-current Liabilities</b>	<b>27,005</b>	<b>29,615</b>	<b>26,341</b>	<b>22,650</b>
Total Provisions	0	0	0	0
<b>Total Liabilities</b>	<b>54,003</b>	<b>64,474</b>	<b>57,383</b>	<b>49,989</b>
Shareholders' Equity	47,605	57,053	67,316	77,028
Minority Interests	183	253	324	394
<b>Total Equity</b>	<b>47,788</b>	<b>57,306</b>	<b>67,640</b>	<b>77,422</b>

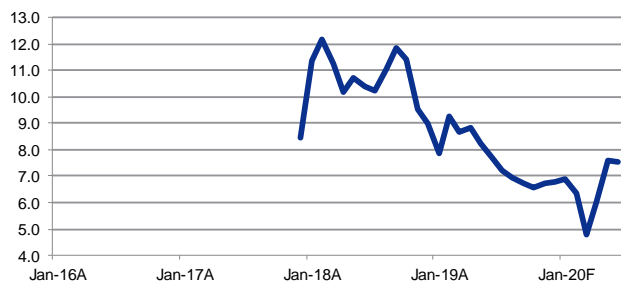
### Cash Flow

(VNDb)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	11,914	18,890	20,820	21,590
Cash Flow from Inv. & 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
<b>Cashflow From Operations</b>	<b>949</b>	<b>5,627</b>	<b>13,232</b>	<b>17,451</b>
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
<b>Cash Flow From Investing</b>	<b>-19,209</b>	<b>-10,000</b>	<b>-3,000</b>	<b>-5,000</b>
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				
<b>Cash Flow From Financing</b>	<b>20,069</b>	<b>5,911</b>	<b>-9,055</b>	<b>-11,973</b>
Total Cash Generated	1,810	1,538	1,177	479
<b>Free Cashflow To Equity</b>	<b>1,822</b>	<b>2,918</b>	<b>2,558</b>	<b>3,240</b>
<b>Free Cashflow To Firm</b>	<b>-17,323</b>	<b>-2,462</b>	<b>11,943</b>	<b>13,634</b>

### 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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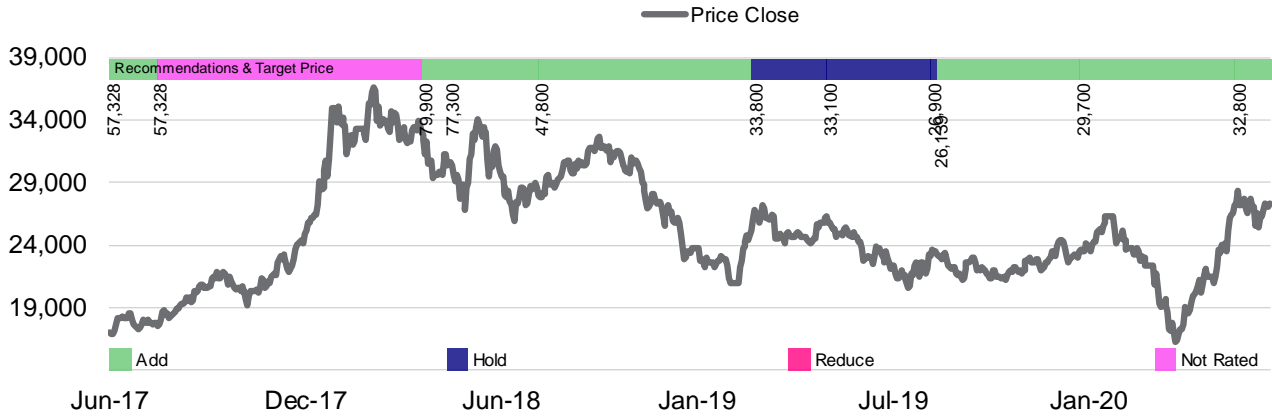
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2020		
811 companies under coverage for quarter ended on 31 March 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.8%	0.1%
Hold	27.6%	0.0%
Reduce	11.6%	0.0%

Spitzer Chart for stock being researched ( 2 year data )

Hoa Phat Group (HPG VN)



## 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, **TIPIP** – 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:

companies that have declared their intention to join CAC, and companies certified by CAC.

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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#### Stock Ratings

##### Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

##### 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.

#### Country Ratings

##### Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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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