

Vietnam

ADD (no change)

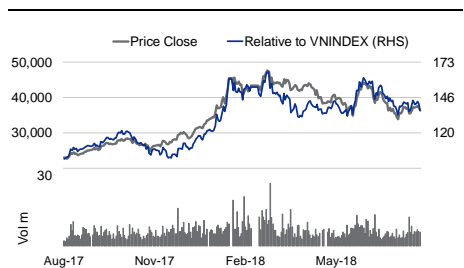
Consensus ratings*: Buy 9 Hold 1 Sell 0

Current price:	VND36,300
Target price:	VND47,800
Previous target:	VND47,800
Up/downside:	31.7%
CGS-CIMB / Consensus:	-6.5%

Reuters:	HPG.HM
Bloomberg:	HPG.VN
Market cap:	US\$3,308m
	VND77,097,832m
Average daily turnover:	US\$10.05m
	VND230,310m
Current shares o/s:	2,124m
Free float:	67.6%
*Source: Bloomberg	

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-6.4	57.3
Relative (%)	-5.9	0.1	35.6

Major shareholders

	% held
Tran Dinh Long	25.2
Vu Thi Hien	7.3
VOF Investment Limited	4.7

Hoa Phat Group

1H18 earnings in line with expectations

- HPG's 2Q18 net profit rose 42.8% yoy to VND2,195.6bn, driven by higher sales volume and increasing steel prices.
- Cumulative 1H18 net profit increased 26.9% yoy to VND4,406.8bn.
- 1H18 gross margin was 21.4%, in line with our full-year estimate of 21.8%.
- The first production line of the Dung Quat Steel Complex project is expected to come onstream in Aug 2018 with a capacity of 600,000 tonnes per year (tpy).
- HPG's strong earnings growth in 1H18 reaffirms our Add rating.

2Q18 growth driven by growth in both volume and steel prices

HPG's construction steel volume grew 8.2% yoy to 1.1m tonnes, while its steel pipe volume rose 14.9% yoy to 314,200 tonnes. Its revenue reached VND14,260.9bn (up 34.3% yoy and in line with our expectations) and 2Q18 net profit rose 42.8% yoy, driven by higher sales volume and continued rise in construction steel prices (+24.9% yoy). 1H18 earnings reached 47.1% of our FY18F (1H17's earnings formed 43.4% of FY17 net profit). A fall in selling expenses helped earnings outpace sales.

Gross profit margin still in line with our full-year forecast

In 2Q18, steel prices touched VND13.5m per tonne (+1.6% qoq); meanwhile, iron ore and coking coal prices declined by 13.2% qoq and 2.7% qoq, respectively. However, the company's gross profit margin (GPM) fell to 20.2% in 2Q18, down 2.6% pts qoq and 0.4% pts yoy, due to: 1) plant maintenance and BOF (Blast Oxygen Furnace) mill upgrades during Apr-May 2018; and 2) a higher contribution from the less profitable animal feed segment in revenue in 1H18 (from 4.8% to 8.4% of total revenue), dragging down overall gross margin. Nonetheless, the company's GPM was 21.4% in 1H18 and is still in line with our full-year estimate of 21.8% for FY18F.

Improving working capital efficiency to boost operating cash flow

As at end-Jun 2018, account receivables and account payables remained at the same level as in the same period last year. Meanwhile, inventory rose by only 9.7% yoy, in line with 9.6% sales volume growth. The company's net D/E ratio increased from 26.9% at end-2017 to 30.5% as of 30 Jun 2018 as its long-term borrowings rose to finance construction of the Dung Quat plant. However, this is still a healthy level of leverage, in our view. In 1H18, HPG generated very strong cash flow from operations (VND4,212bn, +63% yoy). This led to an increase in cash and cash equivalents of nearly 25% yoy. HPG could use some of this cash for forthcoming disbursements in constructing the Dung Quat plant. We expect two phases of the Dung Quat plant will come on stream as planned.

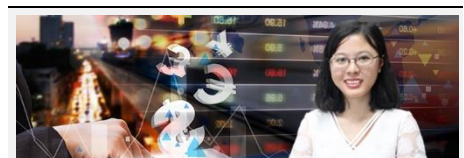
We expect stronger volume growth in 2H18F

In 1H18, domestic long steel demand growth was strong, as expected (+16.3% yoy). However, due to HPG's capacity constraints and the mills' maintenance in 2Q18, the company's market share in the construction steel segment dropped to 22.2% from 23.8% in 2017. We believe this drop is temporary and the company will regain lost market share in 2H18F thanks to the completion of the first production line of the Dung Quat Steel complex project with a capacity of 600,000 tpy of construction steel in Aug 2018. HPG expects its 400,000 tpy galvanised steel plant, in operation since Apr 2018, to run at 50% capacity due to tough competition in the flat steel market. Nonetheless, the company could use its galvanised steel products internally for building the Dung Quat plant.

Maintain Add with TP of VND47,800

The company's performance in 1H18 is in line with our expectations. Therefore, we make no changes to our FY18-19F forecasts. We adjusted our target price in our latest report ([Only minor headwinds from US-China trade war](#)). Potential de-rating catalysts include 1) sharp fall in steel prices, 2) rising raw material prices and 3) stricter environmental controls.

Analyst(s)



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Financial Summary

	Dec-15A	Dec-16A	Dec-17A	Dec-18F	Dec-19F
Revenue (VNDb)	27,453	33,283	46,162	60,111	78,587
Operating EBITDA (VNDb)	5,982	9,530	11,626	15,362	24,220
Net Profit (VNDb)	3,325	6,036	7,826	8,891	13,428
Core EPS (VND)	1,359	2,451	3,411	3,977	6,006
Core EPS Growth		80.3%	39.2%	16.6%	51.0%
FD Core P/E (x)		14.81	10.64	9.13	6.04
DPS (VND)	254.6	519.1	1.8	0.0	1,000.0
Dividend Yield	0.70%	1.43%	0.00%	0.00%	2.75%
EV/EBITDA (x)	13.62	8.29	7.39	5.87	3.78
P/FCFE (x)		39.3	NA	244.6	11.2
Net Gearing	31.0%	9.6%	26.9%	31.3%	27.2%
P/BV (x)	5.34	3.90	2.39	1.87	1.47
ROE		30.4%	27.8%	23.0%	27.2%
% Change In Core EPS Estimates				0%	0%
CIMB/consensus EPS (x)				0.97	1.12

SOURCES: VND, COMPANY REPORTS
NOTE: net profit after bonus and welfare payment

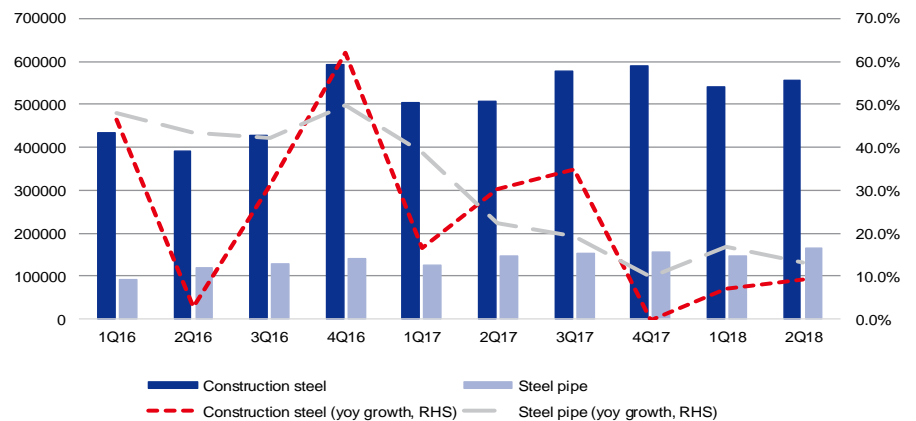
1H18 earnings in line with expectations

Figure 1: Results comparison

FYE (VND bn)	2Q18	2Q17	yoy %	qoq %	1H18	1H17	yoy %	Prev. FY18F	Current FY18F	Comments
			chg	chg			chg			
Revenues	14,261	10,612	34.4%	9.7%	27,262	20,877	30.6%	60,111	60,111	Higher due to higher sales volume and steel prices
COGS	11,380	8,423	35.1%	13.4%	21,415	16,224	32.0%	46,989	46,989	
Gross profit	2,881	2,189	31.6%	-2.8%	5,847	4,653	25.7%	13,121	13,121	Lower due to plant maintenance in 2Q18
Gross profit margin (%)	20.2%	20.6%	-2.0%	-11.4%	21.4%	22.3%	-3.8%	21.8%	21.8%	
SG&A	221	277	-20.3%	-14.5%	479	463	3.5%	1,623	1,623	Lower due to reduced promotion and transportation costs
EBIT	2,661	1,912	39.2%	-1.7%	5,368	4,189	28.1%	11,498	11,498	
EBIT margin (%)	18.7%	18.0%	3.6%	-10.4%	19.7%	20.1%	-1.9%	19.1%	19.1%	
Interest expenses	135	130	4.0%	14.6%	253	214	18.5%	744	744	Slightly higher due to higher debt
EBT	2,577	1,808	42.6%	-1.2%	5,186	4,051	28.0%	10,931	10,931	
EBT margin (%)	18.1%	17.0%	6.1%	-9.9%	19.0%	19.4%	-2.0%	18.2%	18.2%	
Tax rate (%)	14.5%	14.9%	-2.4%	-2.9%	14.7%	14.2%	3.0%	14.2%	14.2%	
Net profit	2,196	1,538	42.8%	-0.9%	4,407	3,472	26.9%	9,360	9,360	In line with our forecast
Net profit margin (%)	15.4%	14.5%	6.5%	-9.7%	16.2%	16.6%	-2.5%	15.6%	15.6%	
EPS (VND)	1,037	724	43.1%	-0.9%	2,083	1,636	27.4%	4,186	4,186	In line with our forecast

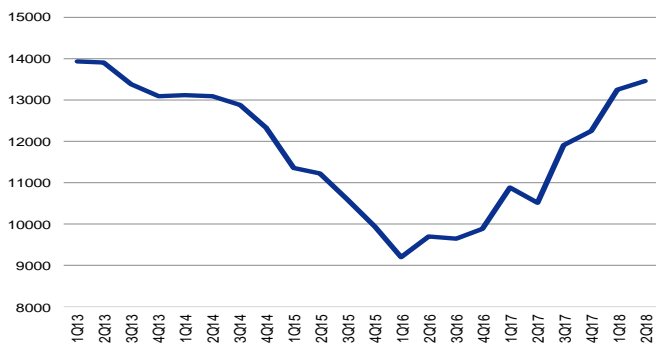
SOURCES: VND RESEARCH, HPG
NOTE: net profit before bonus and welfare payment

Figure 2: HPG's sales volume (tonnes) grew 9.6% yoy in 1H18, but we expect stronger growth in 2H18F



SOURCES: VND RESEARCH, VSA

Figure 3: Domestic steel prices inched higher in 2Q18 (rebar, VND per kg, 1Q13-2Q18)



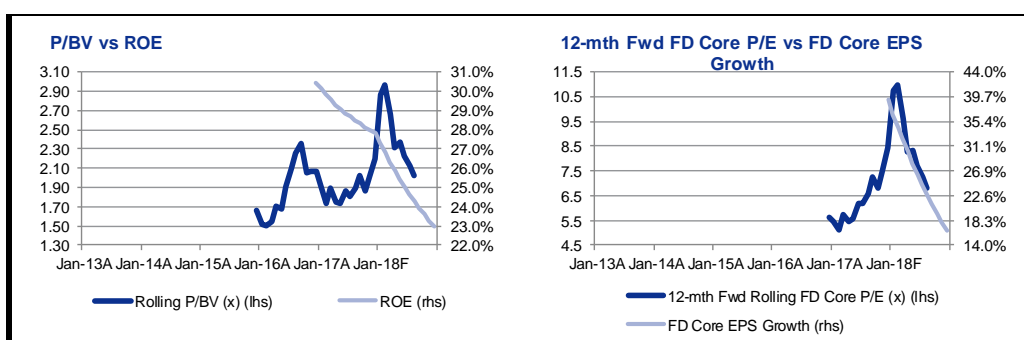
SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 4: Weak raw material prices in 2Q18 (US\$/tonne, Jan 2018 to Jul 2018)



SOURCES: VND RESEARCH, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-15A	Dec-16A	Dec-17A	Dec-18F	Dec-19F
Total Net Revenues	27,453	33,283	46,162	60,111	78,587
Gross Profit	5,594	8,751	10,674	13,121	19,360
Operating EBITDA	5,982	9,530	11,626	15,362	24,220
Depreciation And Amortisation	(1,573)	(1,674)	(2,005)	(3,863)	(6,958)
Operating EBIT	4,409	7,856	9,622	11,498	17,262
Financial Income/(Expense)	(318)	(171)	(370)	(603)	(808)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	(102)	17	36	36	36
Profit Before Tax (pre-EI)	3,990	7,702	9,288	10,931	16,490
Exceptional Items					
Pre-tax Profit	3,990	7,702	9,288	10,931	16,490
Taxation	(485)	(1,096)	(1,274)	(1,551)	(2,339)
Exceptional Income - post-tax					
Profit After Tax	3,504	6,606	8,015	9,380	14,151
Minority Interests	(19)	(4)	(8)	(21)	(16)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(160)	(566)	(181)	(468)	(707)
Net Profit	3,325	6,036	7,826	8,891	13,428
Recurring Net Profit	2,886	5,205	7,245	8,447	12,756
Fully Diluted Recurring Net Profit	2,886	5,205	7,245	8,447	12,756

Cash Flow

(VNDb)	Dec-15A	Dec-16A	Dec-17A	Dec-18F	Dec-19F
EBITDA	5,982	9,530	11,626	15,362	24,220
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(410)	(1,405)	(3,149)	1,072	(6,026)
(Incr)/Decr in Total Provisions	0	0	0	0	0
Other Non-Cash (Income)/Expense	13	22	(5)	0	0
Other Operating Cashflow	(141)	(421)	(361)	(288)	(315)
Net Interest (Paid)/Received	(419)	(154)	(333)	(567)	(772)
Tax Paid	(448)	(753)	(1,724)	(1,551)	(2,339)
Cashflow From Operations	4,576	6,819	6,055	14,028	14,768
Capex	(3,387)	(3,417)	(8,875)	(20,871)	(21,058)
Disposals Of FAs/subsidiaries	32	28	7	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(410)	261	(9,058)	2,000	7,000
Cash Flow From Investing	(3,764)	(3,128)	(17,926)	(18,870)	(14,057)
Debt Raised/(repaid)	108	(1,731)	5,837	5,158	6,184
Proceeds From Issue Of Shares	0	0	5,057	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(541)	(1,102)	(4)	0	(2,124)
Preferred Dividends					
Other Financing Cashflow	(0)	(7)	1	(164)	(470)
Cash Flow From Financing	(433)	(2,840)	10,891	4,993	3,589
Total Cash Generated	379	851	(980)	151	4,300
Free Cashflow To Equity	920	1,960	(6,034)	315	6,894
Free Cashflow To Firm	1,231	3,845	(11,537)	(4,275)	1,482

SOURCES: VND, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-15A	Dec-16A	Dec-17A	Dec-18F	Dec-19F
Total Cash And Equivalents	2,373	4,559	4,265	5,105	6,801
Total Debtors	1,608	2,395	6,555	3,607	7,466
Inventories	6,937	10,247	11,769	15,506	19,545
Total Other Current Assets	997	982	10,489	8,599	1,931
Total Current Assets	11,915	18,183	33,077	32,817	35,742
Fixed Assets	12,582	13,846	18,652	34,942	49,047
Total Investments	103	79	17	17	17
Intangible Assets	255	257	240	234	229
Total Other Non-Current Assets	652	862	1,035	1,087	1,141
Total Non-current Assets	13,592	15,044	19,945	36,280	50,434
Short-term Debt	6,117	5,488	11,329	11,421	14,146
Current Portion of Long-Term Debt					
Total Creditors	3,527	6,097	6,487	8,458	10,661
Other Current Liabilities					
Total Current Liabilities	9,643	11,585	17,815	19,879	24,807
Total Long-term Debt	739	972	1,651	6,605	6,982
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	658	819	1,158	1,322	1,793
Total Non-current Liabilities	1,397	1,791	2,809	7,928	8,775
Total Provisions	0	0	0	0	0
Total Liabilities	11,040	13,376	20,624	27,807	33,582
Shareholders' Equity	14,444	19,745	32,287	41,180	52,484
Minority Interests	23	106	111	111	111
Total Equity	14,467	19,850	32,398	41,291	52,594

Key Ratios

	Dec-15A	Dec-16A	Dec-17A	Dec-18F	Dec-19F
Revenue Growth	N/A	21.2%	38.7%	30.2%	30.7%
Operating EBITDA Growth	N/A	59.3%	22.0%	32.1%	57.7%
Operating EBITDA Margin	21.8%	28.6%	25.2%	25.6%	30.8%
Net Cash Per Share (VND)	(2,111)	(895)	(4,104)	(6,084)	(6,746)
BVPS (VND)	6,801	9,297	15,202	19,389	24,712
Gross Interest Cover	17.54	28.06	20.06	15.46	17.49
Effective Tax Rate	12.2%	14.2%	13.7%	14.2%	14.2%
Net Dividend Payout Ratio	16.3%	18.3%	0.0%	NA	15.8%
Accounts Receivables Days	N/A	22.01	35.38	30.85	25.71
Inventory Days	N/A	128.2	113.2	105.9	108.0
Accounts Payables Days	N/A	71.79	64.71	58.04	58.91
ROIC (%)	N/A	40.3%	42.8%	27.2%	31.1%
ROCE (%)	N/A	33.6%	27.1%	22.2%	26.2%
Return On Average Assets	N/A	21.1%	19.0%	15.6%	18.4%

Key Drivers

	Dec-15A	Dec-16A	Dec-17A	Dec-18F	Dec-19F
ASP (% Change)	-16.2%	-10.9%	9.7%	7.0%	5.0%
Unit Sales Growth (%)	25.4%	51.1%	21.1%	22.8%	31.6%
Utilisation Rate (%)	100.2%	91.0%	106.4%	95.9%	60.9%

SOURCES: VND, COMPANY REPORTS

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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.

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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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