

Vietnam

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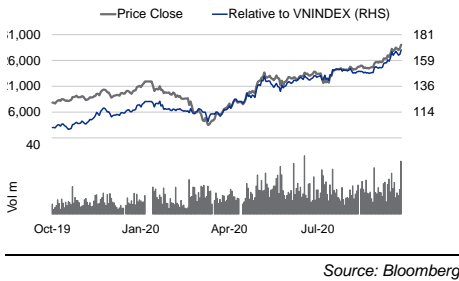
ADD (no change)

Consensus ratings*: Buy 10 Hold 2 Sell 0

Current price:	VND29,050
Target price:	VND27,300
Previous target:	VND27,300
Up/downside:	-6.0%
CGS-CIMB / Consensus:	-12.4%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$4,154m
	VND96,250,864m
Average daily turnover:	US\$14.76m
	VND341,974m
Current shares o/s	2,761m
Free float:	59.7%
<small>*Source: Bloomberg</small>	

Key financial forecasts

	12/20F	12/21F	12/22F
Net profit (VNDb)	9,545	10,531	11,638
Core EPS (VND)	2,881	3,178	3,513
Core EPS Growth	8.7%	10.3%	10.5%
FD Core P/E (x)	9.34	8.46	7.66
Recurring ROE	18.2%	16.9%	16.1%
P/B (x)	1.36	1.56	1.32
DPS (VND)	500	500	1,000
Dividend Yield	1.83%	1.83%	3.66%



Price performance	1M	3M	12M
Absolute (%)	17.6	24.3	63.3
Relative (%)	12.4	15.9	68.4

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

Analyst(s)

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Hoa Phat Group

Prelim 3Q20 results: positive surprises

- 3Q20 preliminary after-tax profit surged 110.9% yoy to VND3,785bn.
- This was driven by 138.6% yoy growth in construction steel and billet sales volume and a 7-fold yoy rise in the after-tax profit of the agriculture business.
- 9M20 preliminary after-tax profit came in at 90.3%/92.5% of our/consensus full-year forecasts.

What surprised us

Hoa Phat Group (HPG) released its 3Q20 preliminary earnings yesterday:

- 3Q20 revenue and after-tax profit grew 62.7% yoy to VND24,900bn and 110.9% yoy to VND3,785bn, respectively.
- Its 3Q20 construction steel and billet combined sales volume grew by 138.6% yoy. Construction steel sales volume was 974,080 tonnes (+56.7% yoy), outperforming the industry's 2.74m tonnes (+8.8% yoy) and increasing its market share to 35.6% (vs. 30.1% in 2Q20 and 26.2% in 2019). HPG also recorded 509,000 tonnes of billet sales volume (vs. minimal volume in 3Q19).
- Its agriculture business recorded VND485bn after-tax profit in 3Q20 (+480% yoy), driven by a 90% yoy surge in swine prices. Swine prices have accelerated since 4Q19 due to the African Swine Fever outbreak in Vietnam and the region.
- For 9M20, HPG recorded sales volume of 2.49m tonnes of construction steel (+82.5% yoy) and 1.34m tonnes of billet (vs. minimal volume in 9M19).
- 9M20 preliminary revenue grew by a robust 40% yoy to VND65,000bn, while after-tax profit soared 56% yoy to VND8,845bn, fulfilling 90.3% of our full-year forecast.
- We will review our forecasts and target price when the company discloses detailed information.

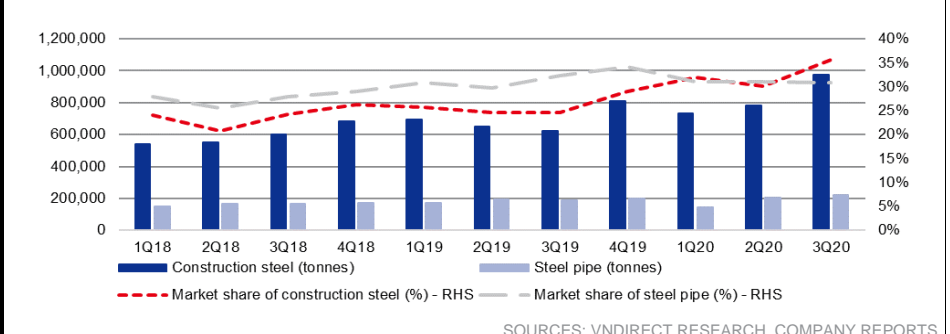
Dung Quat Steel Complex (DQSC) running at full capacity

- Based on HPG's reported crude billet output of about 4.03m tonnes in 9M20, we estimate the blended utilisation rate of all existing steel facilities (including Hai Duong, Hung Yen and DQSC Phase 1) was at about 98.6% in 9M20.
- In Sep 2020, HPG emerged as the biggest crude steel producer in Vietnam with 575,000 tonnes in monthly output, higher than the 504,000 tonnes of its competitor Formosa Ha Tinh (FHS, Not rated).

Hot Rolled Coil (HRC) plant reported to be operating smoothly

- Despite starting operations on 24 Aug, Blast furnace 3 of DQSC Phase 2 is running at an 88% utilisation rate, based on our estimates, to deliver 230,000 tonnes of HRC till end-Sep 2020. We note that the production of HRC is more complicated than that of HPG's other steel products (i.e. construction steel, steel pipe). Thus, the high utilisation rate of the HRC plant is above our expectations.
- Reiterate Add with an unchanged TP, 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 risk: slower-than-expected steel demand growth. Re-rating catalyst: lower-than-expected iron ore price.

Figure 1: HPG's quarterly steel sales volume



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

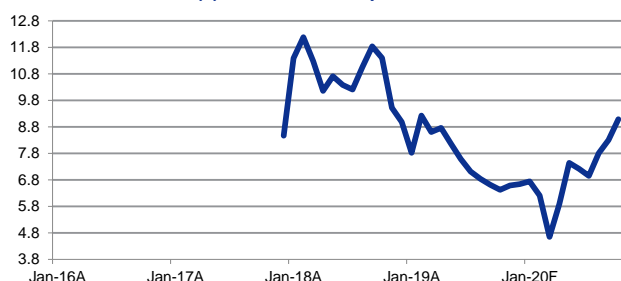
Cash Flow

(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%

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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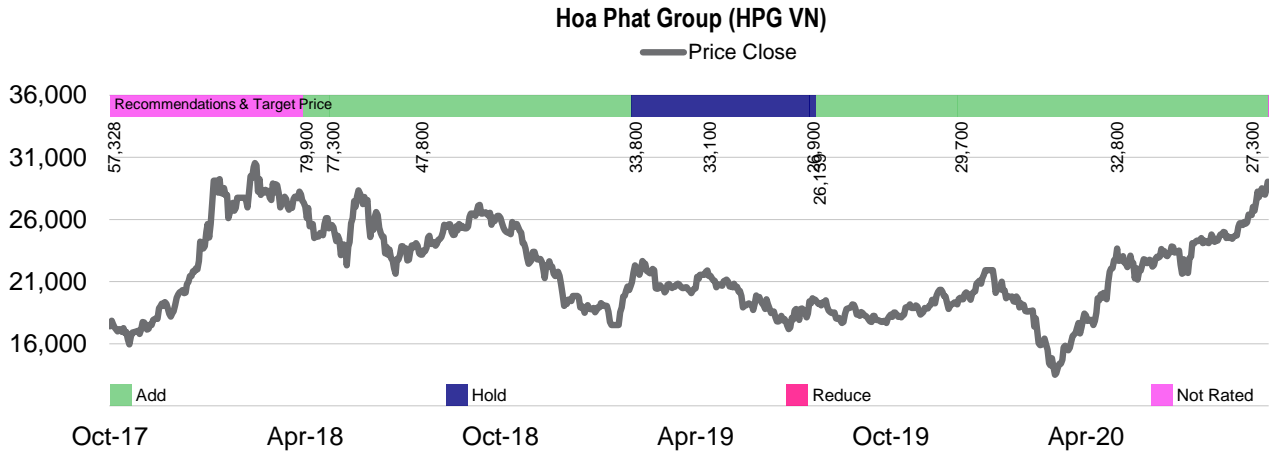
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2020		
795 companies under coverage for quarter ended on 30 September 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

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:

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) .

RECOMMENDATION FRAMEWORK

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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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