

Vietnam

October 31, 2018 - 4:58 PM

ADD (no change)

Consensus ratings*: Buy 9 Hold 1 Sell 0

Current price:	VND38,700
Target price:	VND47,800
Previous target:	VND47,800
Up/downside:	23.5%
CGS-CIMB / Consensus:	-2.6%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$3,522m
	VND82,195,208m
Average daily turnover:	US\$9.88m
	VND230,103m
Current shares o/s	2,124m
Free float:	67.6%

*Source: Bloomberg

Key financial forecasts

	Dec-18F	Dec-19F	Dec-20F
Net Profit (VNDb)	8,891	13,428	15,047
Core EPS (VND)	3,977	6,006	6,731
Core EPS Growth	16.6%	51.0%	12.1%
FD Core P/E (x)	9.73	6.44	5.75
Recurring ROE	23.0%	27.2%	24.7%
P/BV (x)	2.00	1.57	1.30
DPS (VND)	0	1,000	2,000
Dividend Yield	0.00%	2.58%	5.17%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-8.5	4.5	47.2
Relative (%)	4.1	10.9	42.1

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

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Hoa Phat Group

9M18 profit in line with expectations

- HPG's 3Q18 net profit rose 12.5% yoy to VND2,408bn, driven by higher sales volume and surging steel prices.
- In 9M18, cumulative net profit increased 21.7% yoy to VND6,833bn and gross profit margin was 22%, in line with our full-year estimate of 21.8%.
- HPG's strong profit growth in 9M18 reaffirms our Add rating.

3Q18 growth driven by bigger volume and higher steel prices

- Net revenue and net profit in 3Q18 reached VND14,188bn (+13.1% yoy) and VND2,408bn (+12.5% yoy) respectively, driven by slightly higher sales volume and a continued surge in construction steel prices in the North of Vietnam – the main target market (+18.6% yoy). Also, in 3Q18, HPG's construction steel volume grew 4% yoy to around 600,000 tonnes, while its steel pipe volume rose 9% yoy to 166,100 tonnes.
- However, while construction steel prices in the North surged, construction steel prices in the Central and South regions decreased slightly. We think that there was a small decrease in prices of HPG's construction steel in the Central and South of Vietnam due to increasing competition with Formosa. Normally, HPG's prices of construction steel in the South are higher than in the North (due to transportation costs), but we observed that in Sep 2018 HPG's construction steel prices in the South were lower than in the North. Even though the Central and South markets only accounted for around 20% of HPG's steel sales volume, we believe lower construction steel prices in the South dented HPG's revenue growth in this quarter.
- 9M18 profits reached 85% of HPG's FY18 financial guidance and 77% of our FY18F forecast (9M17 profits contributed 70% to FY17 net profit). These results are in line with our FY18F estimations for revenue and net profit, which are VND60,111bn and VND8,891bn respectively.

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

- In 3Q18, average steel prices were VND13.3m per tonne (-2% qoq); meanwhile, iron ore and coking coal prices changed by +1.7% qoq and -2.4% qoq, respectively. We think those changes in input and output prices offset each other. The company's gross profit margin increased to 23% in 3Q18, +2.8% pts qoq and +0.4% pt yoy, due to completion of plant maintenance and BOF (Blast Oxygen Furnace) mill upgrades during Apr-May 2018, in our view.
- The company's gross profit margin was 22% in 9H18 and is still in line with our full-year estimate of 21.8% for FY18F.

Healthy operating cash flow and large cash position

- In 9M18, HPG continuously generated strong cash flow from operations (VND5,872bn, +22.5% yoy). This led to a very large amount of cash & cash equivalents and short-term financial investments (all are bank deposits) on HPG's balance sheet, making up around VND10,000bn (14% of total assets). HPG could use some of this cash, together with bank loans, for forthcoming disbursements to construct the Dung Quat plant. We expect two phases of the Dung Quat plant to come on stream as planned in 2019.

Add call maintained with unchanged TP of VND47,800

- The company's performance in 9M18 is in line with our expectations. Therefore, we make no changes to our FY18-20F forecasts. Our VND47,800 TP is based on an equal weighting of: 1) 8.7x forward P/E on the average EPS over CY18-19F, and 2) DCF valuation over 5-year period.
- Re-rating catalysts are sharp rise in steel prices and decrease in raw material prices. Potential downside risks include 1) sharp fall in steel prices, 2) rising raw material prices, and 3) stricter environmental controls.

Figure 1: Results comparison

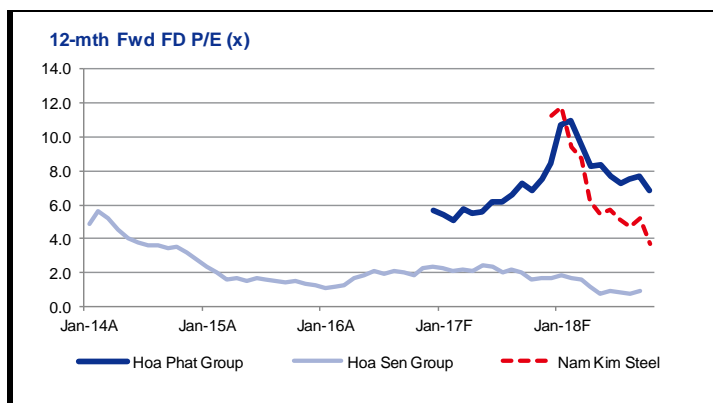
FYE (VND bn)	3Q18	3Q17	yoy % chg	qoq % chg	9M18	9M17	yoy % chg	9M18 as % of FY18G	9M18 as % of FY18F
Revenues	14,188	12,540	13.1%	-0.5%	41,450	33,417	24.0%	75%	69%
COGS	10,925	9,709	12.5%	-4.0%	32,340	25,933	24.7%		
Gross profit	3,263	2,831	15.3%	13.3%	9,110	7,484	21.7%		
<i>Gross profit margin (%)</i>	23.0%	22.6%	+0.4% pts	+2.8% pts	22.0%	22.4%	-0.4% pts		
SG&A	240	237	1.3%	8.8%	719	700	2.7%		
EBIT	3,023	2,594	16.5%	13.6%	8,391	6,783	23.7%		
<i>EBIT margin (%)</i>	21.3%	20.7%	+0.6% pts	+2.7% pts	20.2%	20.3%	-0.1% pts		
Interest expenses	142	131	8.2%	4.8%	395	345	14.6%		
EBT	2,848	2,488	14.5%	10.5%	8,034	6,539	22.9%		
<i>EBT margin (%)</i>	20.1%	19.8%	+0.2% pts	+2.0% pts	19.4%	19.6%	-0.2% pts		
<i>Tax rate (%)</i>	15.4%	14.0%	+1.5% pts	+0.9% pts	14.9%	14.1%	+0.8% pts		
Net profit	2,408	2,140	12.5%	9.4%	6,834	5,614	21.7%	85%	77%
<i>Net profit margin (%)</i>	17.0%	17.1%	-0.1% pts	+1.5% pts	16.5%	16.8%	-0.3% pts		
EPS (VND)	1,134	1,008	12.5%	9.4%	3,217	2,643	21.7%		

SOURCES: VND RESEARCH, HPG

BY THE NUMBERS

Profit & Loss				
(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	46,162	60,111	78,587	86,223
Gross Profit	10,674	13,121	19,360	21,503
Operating EBITDA	11,626	15,362	24,220	26,492
Depreciation And Amortisation	(2,005)	(3,863)	(6,958)	(7,297)
Operating EBIT	9,622	11,498	17,262	19,195
Financial Income/(Expense)	(370)	(603)	(808)	(753)
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	36	36	36	36
Profit Before Tax (pre-EI)	9,288	10,931	16,490	18,479
Exceptional Items				
Pre-tax Profit	9,288	10,931	16,490	18,479
Taxation	(1,274)	(1,551)	(2,339)	(2,621)
Exceptional Income - post-tax				
Profit After Tax	8,015	9,380	14,151	15,857
Minority Interests	(8)	(21)	(16)	(18)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	(181)	(468)	(707)	(792)
Net Profit	7,826	8,891	13,428	15,047
Recurring Net Profit	7,245	8,447	12,756	14,295
Fully Diluted Recurring Net Profit	7,245	8,447	12,756	14,295

Cash Flow				
(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	11,626	15,362	24,220	26,492
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(3,149)	1,072	(6,026)	(2,179)
(Incr)/Decr in Total Provisions	0	0	0	0
Other Non-Cash (Income)/Expense	(5)	0	0	0
Other Operating Cashflow	(361)	(288)	(315)	(318)
Net Interest (Paid)/Received	(333)	(567)	(772)	(717)
Tax Paid	(1,724)	(1,551)	(2,339)	(2,621)
Cashflow From Operations	6,055	14,028	14,768	20,658
Capex	(8,875)	(20,871)	(21,058)	(6,158)
Disposals Of FAs/subsidiaries	7	0	0	0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(9,058)	2,000	7,000	0
Cash Flow From Investing	(17,926)	(18,870)	(14,057)	(6,157)
Debt Raised/(repaid)	5,837	5,158	6,184	(3,110)
Proceeds From Issue Of Shares	5,057	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(4)	0	(2,124)	(4,248)
Preferred Dividends				
Other Financing Cashflow	1	(164)	(470)	(205)
Cash Flow From Financing	10,891	4,993	3,589	(7,563)
Total Cash Generated	(980)	151	4,300	6,937
Free Cashflow To Equity	(6,034)	315	6,894	11,390
Free Cashflow To Firm	(11,537)	(4,275)	1,482	15,217



Balance Sheet				
(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	4,265	5,105	6,801	9,432
Total Debtors	6,555	3,607	7,466	8,622
Inventories	11,769	15,506	19,545	21,358
Total Other Current Assets	10,489	8,599	1,931	2,130
Total Current Assets	33,077	32,817	35,742	41,542
Fixed Assets	18,652	34,942	49,047	47,913
Total Investments	17	17	17	16
Intangible Assets	240	234	229	224
Total Other Non-Current Assets	1,035	1,087	1,141	1,198
Total Non-current Assets	19,945	36,280	50,434	49,352
Short-term Debt	11,329	11,421	14,146	8,622
Current Portion of Long-Term Debt	6,487	8,458	10,661	11,650
Other Current Liabilities	17,815	19,879	24,807	20,272
Total Current Liabilities	1,651	6,605	6,982	5,230
Hybrid Debt - Debt Component	1,158	1,322	1,793	1,998
Total Other Non-Current Liabilities	2,809	7,928	8,775	7,228
Total Non-current Liabilities	0	0	0	0
Total Liabilities	20,624	27,807	33,582	27,500
Shareholders' Equity	32,287	41,180	52,484	63,283
Minority Interests	111	111	111	111
Total Equity	32,398	41,291	52,594	63,394

Key Ratios				
	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	38.7%	30.2%	30.7%	9.7%
Operating EBITDA Growth	22.0%	32.1%	57.7%	9.4%
Operating EBITDA Margin	25.2%	25.6%	30.8%	30.7%
Net Cash Per Share (VND)	(4,104)	(6,084)	(6,746)	(2,081)
BVPS (VND)	15,202	19,389	24,712	29,797
Gross Interest Cover	20.06	15.46	17.49	19.26
Effective Tax Rate	13.7%	14.2%	14.2%	14.2%
Net Dividend Payout Ratio	0.0%	NA	15.8%	28.2%
Accounts Receivables Days	35.38	30.85	25.71	34.15
Inventory Days	113.2	105.9	108.0	115.7
Accounts Payables Days	64.71	58.04	58.91	63.08
ROIC (%)	42.8%	27.2%	31.1%	27.9%
ROCE (%)	27.1%	22.2%	26.2%	25.8%
Return On Average Assets	19.0%	15.6%	18.4%	17.9%

Key Drivers				
	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% Change)	9.7%	7.0%	5.0%	-9.0%
Unit Sales Growth (%)	21.1%	22.8%	31.6%	13.2%
Utilisation Rate (%)	106.4%	95.9%	60.9%	84.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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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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