

## Vietnam

**HOLD** (previously ADD)

Consensus ratings\*: Buy 7 Hold 1 Sell 0

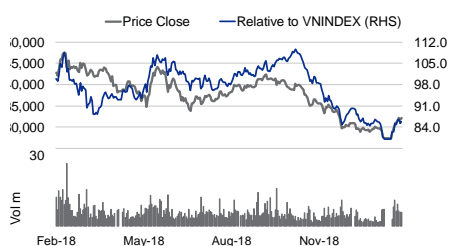
Current price:	VND32,200
Target price:	VND33,800
Previous target:	VND47,800
Up/downside:	5.0%
CGS-CIMB / Consensus:	-20.0%

Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$2,948m
	VND68,389,808m
Average daily turnover:	US\$5.58m
	VND129,640m
Current shares o/s:	2,124m
Free float:	67.6%

\*Source: Bloomberg

**Key changes in this note**

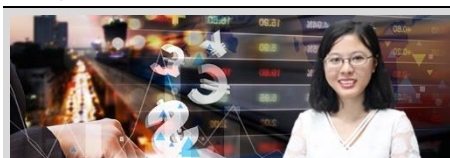
- Assume steel prices to decline and iron ore prices to increase in FY19.
- FY19/20F EPS decreased by 33-35%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.3	-11.8	-25.6
Relative (%)	2.7	-17.4	-17.2

Major shareholders	% held
Tran Dinh Long	25.2
Dragon Capital	7.7
Vu Thi Hien	7.3

**Analyst(s)**

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# Hoa Phat Group

## A challenging year ahead

- We expect long steel supply to outpace demand in 2019F.
- Falling steel prices, rising raw material prices and huge capacity additions should create some headwinds for HPG in 2019F.
- We downgrade HPG from Add to Hold and lower our TP to VND33,800.

**4Q18 results weaker than expected**

HPG reported net profit of VND1,767bn in 4Q18, a decline of 26.4% yoy due to a downtrend in steel prices and rising raw material prices. Despite this, 2018 results were still in line with our expectations with net profit of VND8,600bn (+7.3% yoy), fulfilling 96.7% of our 2018 forecast.

**Long steel supply to outpace demand in 2019F**

We expect steel demand from the property sector to remain solid in the next two years thanks to a recovery in new condo supply. Also, infrastructure investment is expected to improve this year with a cautious easing of fiscal policy. Incremental demand is estimated at c.1.0 tonnes vs. an incremental supply of 1.5m tonnes, mainly due to the ramp-up in production from the Dung Quat Phase 1 project.

**Rising iron ore prices due to Brazil supply disruption**

Following a dam disaster in Brazil, concerns about supply disruption led to a sharp rise in the price of iron ore, given the likelihood of significantly lower Brazilian supply. Prior to the accident, the outlook for iron ore was bleak with prices forecast to fall back towards US\$60/t. However, since the accident on 25 Jan 2019, iron ore prices (62% Fe fines) have climbed by 16.6% to US\$84.1/t. Therefore, we revise up our base-case assumption for iron ore prices from US\$60/t to US\$75/t in FY19.

**BOF production cost advantage still provides a moat**

Based on latest spot prices, we estimate that the unit billet production cost using basic oxygen steelmaking (BOF) is ~7.0-17.0% lower than using electric arc furnace (EAF) technology and using billet imported from China after anti-dumping duties (17.3% from Mar 2019 to Mar 2020). We think HPG still has competitive advantages vs. EAF mills and imported steel thanks to anti-dumping duties in the medium-term.

**Downgrade from Add to Hold with a lower TP of VND33,800**

We cut our FY19-20F EPS forecasts by c.33-35% to account for lower domestic steel prices and rising raw material prices. We also reduce our target multiple to 7.1x (previously 8.7x) due to recent negative sentiment regarding the global steel industry. Our VND33,800 TP is based on an equal weighting of: 1) 7.1x forward P/E on 2019F EPS, and 2) DCF valuation over a 5-year period. Re-rating catalysts are a rebound in steel prices and a drop in raw material prices. Potential downside risks include: 1) lower than expected sales volume; and 2) significant rise in input prices.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (VNDb)	46,162	55,836	69,886	79,143	87,626
Operating EBITDA (VNDb)	11,626	12,834	15,791	18,214	19,977
Net Profit (VNDb)	8,007	8,592	9,045	9,804	11,610
Core EPS (VND)	3,379	3,772	4,046	4,385	5,193
Core EPS Growth	16.4%	11.6%	7.3%	8.4%	18.4%
FD Core P/E (x)	9.53	8.54	7.96	7.34	6.20
DPS (VND)	1.77	2.79	0.00	0.00	0.00
Dividend Yield	0.005%	0.009%	0.000%	0.000%	0.000%
EV/EBITDA (x)	6.64	7.03	6.06	4.65	3.59
P/FCFE (x)	NA	NA	27.28	12.39	5.92
Net Gearing	26.9%	53.7%	54.8%	27.1%	4.4%
P/BV (x)	2.12	1.69	1.38	1.15	0.96
ROE	27.6%	22.0%	19.1%	17.1%	16.9%
% Change In Core EPS Estimates			(32.6%)	(34.8%)	
CIMB/consensus EPS (x)			0.85	0.71	0.74

SOURCES: VND RESEARCH, COMPANY REPORTS

## Headwinds ahead

### A sharp drop in 4Q18 earnings due to margin compression

#### 4Q18 results: Strong sales growth but weak earnings

Net revenue and net profit in 4Q18 reached VND14,386bn (+12.9% yoy) and VND1,767bn (-26.4% yoy), respectively. In 4Q18, HPG's construction steel sales volume grew 14.0% qoq (+15.7% yoy) to around 683,700 tonnes and its steel pipe volume rose 4.5% qoq (+12.1% yoy) to around 173,600 tonnes.

Gross margin in 4Q18 was only 17.8%, down 7.2% pts as compared to 4Q17 and down 4.9% pts as compared to 3Q18. This sharp drop in GM was due to a decline in steel selling prices and rising input prices. In 4Q18, Chinese rebar prices declined by c.8.0% qoq, which led to a decline in domestic steel prices. Vietnamese domestic steel prices corrected by c.5.0-6.0% qoq. Furthermore, an increase in input prices in the same period also hurt HPG's margins. For instance, iron ore and coking coal prices increased 12.8% qoq and 17.1% qoq, respectively, due to rising Chinese steel production. In 4Q18, China's crude steel production reached 236.3 mt, 9.4% higher than the same period in 2017 because production cuts for winter 2018 were less restrictive than in the previous year as the government sought to boost a sagging economy.

**Figure 1: 4Q18 and FY18 Results review**

FYE (VNDbn)	4Q18	yoy	FY18	yoy	vs. forecast	Comments
		chg		chg		
Net revenue	14,386.2	11.3%	55,836.5	21.0%	97.6%	Lower selling price of finished products in 4Q18
Gross profit	2,560.8	-19.7%	11,670.8	9.8%	93.7%	Lower ASP and higher raw material inputs hit gross margin in 4Q18
Gross profit margin	17.8%	-7.2% pts	20.9%	-2.1% pts	-0.8% pts	
SG&A expenses	(401.3)	14.0%	(1,120.8)	11.7%	78.3%	Tighter than expected cost management
Operating profit	2,159.5	-23.9%	10,550.0	9.6%	95.7%	
Pre-tax profit	2,037.3	-25.9%	10,071.0	8.4%	96.9%	
Net profit	1,767.0	-26.4%	8,600.5	7.3%	96.7%	
EPS (VND)	832.0	-26.4%	4,049.4	7.3%	96.7%	

SOURCES: VND RESEARCH, HPG

### FY18 review: moderate earnings growth with some market share gains

HPG's 2018 revenue reached VND56,500bn (+22.4% yoy) and net profit reached VND8,600bn (+7.4% yoy), exceeding the company's target by 6.8% but only fulfilling 96.7% of our FY18 forecast.

HPG's construction steel sales volume touched c.2.4m tonnes, translating into 9.1% growth vs. 2017. Meanwhile, steel pipe sales volume increased to 653,900 tonnes, translating into 12.6% growth vs. 2017. In 2018, the company held its market share in the construction steel segment at 23.8% and continued to gain market share in the steel pipe segment (increasing by 0.7% pt to 27.5%), according to the Vietnam Steel Association (VSA).

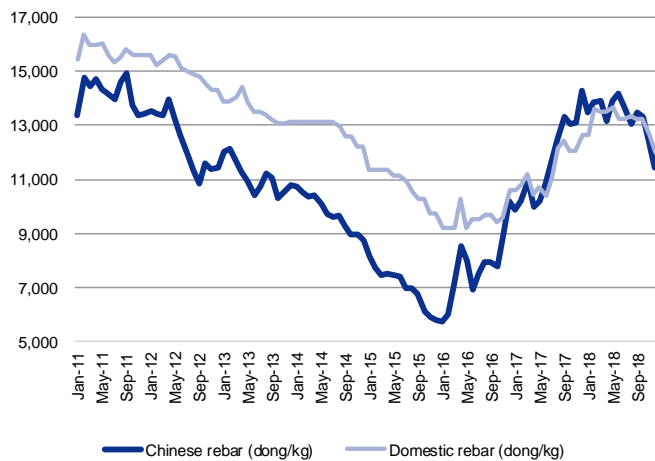
Besides solid volume growth, the stellar revenue growth was also driven by a 15.1% rise in ASP. However, gross margin fell from 23.1% in 2017 to 20.9% in FY18 as no benefit was realised from hedging iron ore volatility, like in 2017, as well as due to declining steel prices in 4Q18. The company does not intend to pay cash dividends for FY18 because of ongoing capex disbursements for the Dung Quat Steel complex project.

### Falling steel prices catalysed a sharp correction in HPG's share price

Chinese rebar prices declined by c.8.0% qoq in the last quarter of 2018, which led to a decline in domestic prices. Vietnamese domestic steel prices corrected by c.5.0-6.0% qoq in 4Q18. As a result, sentiment on steel stocks weakened

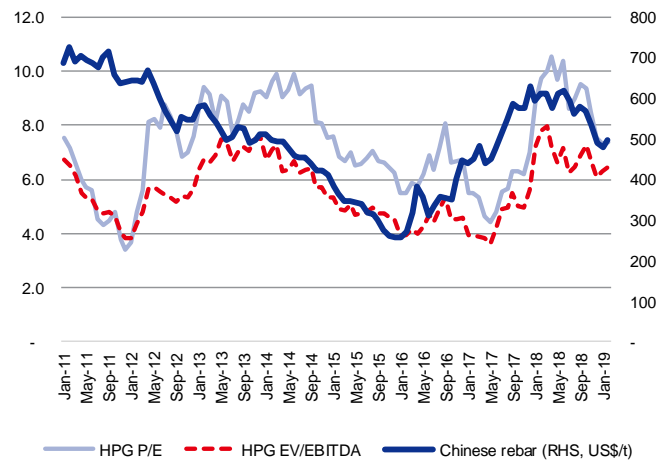
significantly, triggering a sharp correction in HPG's share price. However, market sentiment on the steel sector rebounded after the Tet holiday due to an anticipated recovery in steel prices. HPG's share price has, consequently, increased by 17.9% during Feb 2019. We consider this recovery to have been driven more by technical factors and sentiment rather than fundamental factors as steel prices remain weak (+10.5% YTD) even as iron ore prices have hit record highs since Mar 17 (+19.2% YTD). As of 20 Feb 2019, HPG's TTM P/E was 8.0x which is above its 10-year historical average of 7.7x.

**Figure 2: Chinese rebar vs. domestic rebar prices**



SOURCES: VND RESEARCH, BLOOMBERG, VSA

**Figure 3: HPG's valuation vs. China's rebar price**



SOURCES: VND RESEARCH, BLOOMBERG

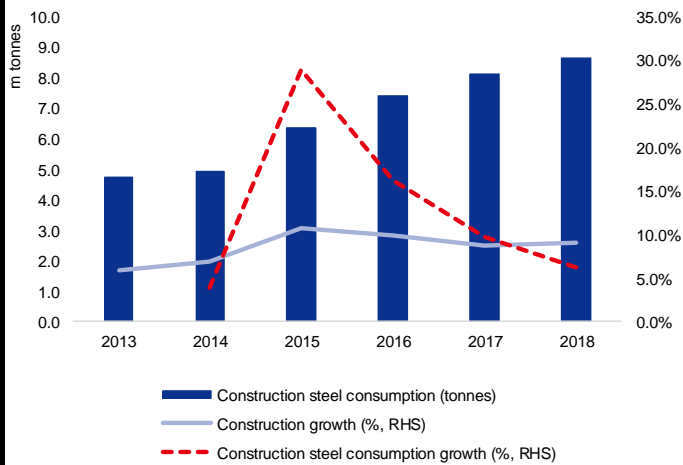
## 2019 Outlook: Pricing pressure to persist

### We expect long steel supply to outpace demand

In 2018, construction steel consumption increased by 9.5% yoy, a deceleration from the 13.9% rate seen in 2017 (according to VSA). Domestic consumption rose by only 6.3% yoy vs. the 9.7% rate seen in 2017. We do not have data on construction steel imports, but total steel import volume also declined by 9.8% yoy according to Vietnam's Customs. These data show that there was a slowdown in domestic construction steel demand in 2018 despite continued strength in the construction sector. In our view, this divergence could be explained by a slowdown in new condo supply in recent quarters due to a marked slowdown in regulatory approvals for new projects – this is likely to have a lagged impact on construction activity but might have had a more immediate impact on rebar demand as construction materials are generally ordered prior to commencement of construction activity. In 2018, new condo supply in HCMC and Hanoi continued to decline by 7.5% yoy vs. a decline of 4.5% in 2017, according to real estate consultancy CBRE.

On the other hand, construction steel export volume has increased significantly during the last three years. In 2018, export volume rose by 33.2% yoy to 1.4m tonnes (vs. a 62.4% yoy increase in the previous year).

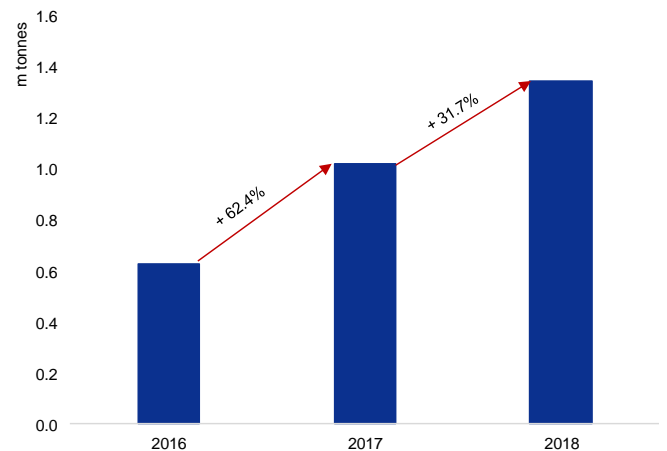
**Figure 4: Construction steel consumption and growth\* vs. construction growth**



SOURCES: VND RESEARCH, VSA

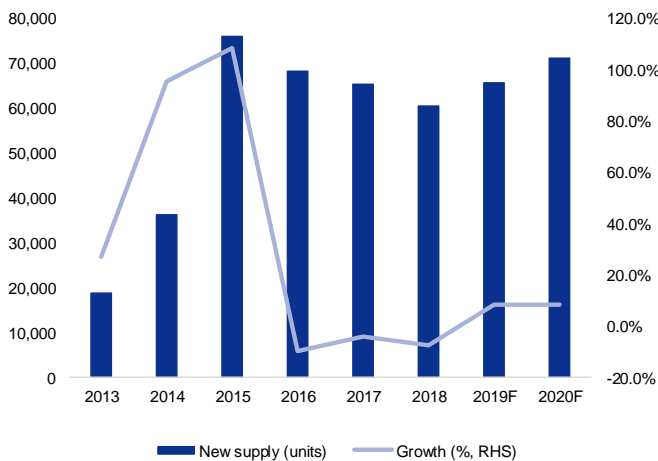
(\*) 2013-15: including export volume; 2016-18: excluding export volume

**Figure 5: Construction steel consumption and growth\* vs. construction growth**



SOURCES: VND RESEARCH, VSA

**Figure 6: New condo supply in HCMC and Hanoi (2013-2020F)**



SOURCES: VND RESEARCH, CBRE

**Figure 7: Recent and upcoming long steel capacity addition (tonnes, 2018-2022)**

Investors	Crude steel	Rebar	Wire rod	Commissioning date
Formosa	NA	600,000	600,000	May-18
Tung Ho Steel	600,000		600,000	Q32018
Hoa Phat Group	2,000,000	1,000,000	1,000,000	Q32019
Pomina Steel	800,000		500,000	End-2019
Kyoei Vietnam	700,000		500,000	NA
<b>Total</b>	<b>4,100,000</b>	<b>3,200,000</b>	<b>1,600,000</b>	

SOURCES: VND RESEARCH

On the demand side, the construction sector has been the main consumer of most steel produced in Vietnam (~95.0%, according to our estimates), of which, residential property market and public infrastructure investment are two key drivers of construction steel demand. We expect the overall Vietnam property market to continue to see supply side weakness over 2019-2020F due to unfavourable regulatory changes relating to the Land Use Right approval process and more scrutiny of zoning and legacy state land transfers. However, new condo supply growth is expected to recover in the two largest cities of Hanoi and Ho Chi Minh City (+8.4% per annum in 2019-20, according to CBRE's data), which will be mainly driven by abundant supply from VinHomes (VHM VN, Non-rated). We expect steel demand from the property sector to remain solid in the next two years. In addition, we expect infrastructure investment growth to pick up in 2019 (+10.0% yoy) as the narrowing budget deficit in the last two years could create room for cautious fiscal easing despite ongoing fiscal consolidation efforts. Combining demand from the property and infrastructure sectors, we expect demand for long steel in the construction sector to reach 11.3m tonnes in 2019, up 10.0% yoy and equivalent to incremental demand of around 1.0m tonnes.

On the supply side, we forecast an incremental supply of 1.5m tonnes of construction steel coming onstream, mainly due to the ramp-up in production

from the first phase of the Hoa Phat - Dung Quat Steel Complex project. As a result, supply could outpace demand and weigh on selling prices in 2019, in our view.

### Raw material prices a concern for BOF mills

Following a dam disaster in Brazil, concerns about supply disruption led to a sharp rise in the price of iron ore, given the likelihood of significantly lower Brazilian supply. Prior to the accident, the outlook for iron ore was bleak with prices forecast to fall towards US\$60/t, but since the accident on 25 Jan 2019, iron ore prices (62% Fe fines) have climbed by 16.6% to US\$84.1/t. Therefore, we revised up our base-case assumption on iron ore prices from US\$60/t to US\$75/t in FY19.

Regarding metallurgical coal, although coal throughput at the major Queensland ports have normalised to some extent after the major disruptions in 2017, uncertainty remains because of unplanned rail maintenance. Metallurgical coal prices over the last six months have ranged from a low of US\$176/t (Aug 2018) to a high of US\$226.50/t (Dec 2018). While coking coal prices will be volatile within this year due to cyclical and idiosyncratic factors, we expect coking coal prices to be sustained above the long run marginal cost of coking coal production on average at US\$190-200/t in the medium-term.

On the other hand, prices of scrap steel – the main feedstock for EAF mills – have dropped sharply during 4Q18 because economic concerns weighed on steel prices. However, scrap prices (Taiwan HMS ½ 80:20) have recovered in recent months to US\$302.5/t as EAF mills’ scrap stocks have reached critical levels, according to Kallanish Commodities. Based on latest spot prices, we estimate that the unit billet production cost using BOF technology is ~7.0-17.0% lower than using EAF technology and using billet imported from China after anti-dumping duties (17.3% from Mar 2019 to Mar 2020). We think HPG still has competitive advantages vs. EAF mills and imported steel thanks to anti-dumping duties in the medium-term. Despite the fact that anti-dumping tariffs on Chinese imported steel are scheduled to end in Mar 2020, we believe the government will probably implement further regulations to protect the local steel industry.

**Figure 8: Iron ore price (Jan 2018-Feb 2019, US\$/t)**



SOURCES: VND RESEARCH, BLOOMBERG

**Figure 9: Coking coal price (Jan 2018-Feb 2019, US\$/t)**



SOURCES: VND RESEARCH, BLOOMBERG

**Figure 10: Scrap price (Jan 2018-Feb 2019, US\$/t)**



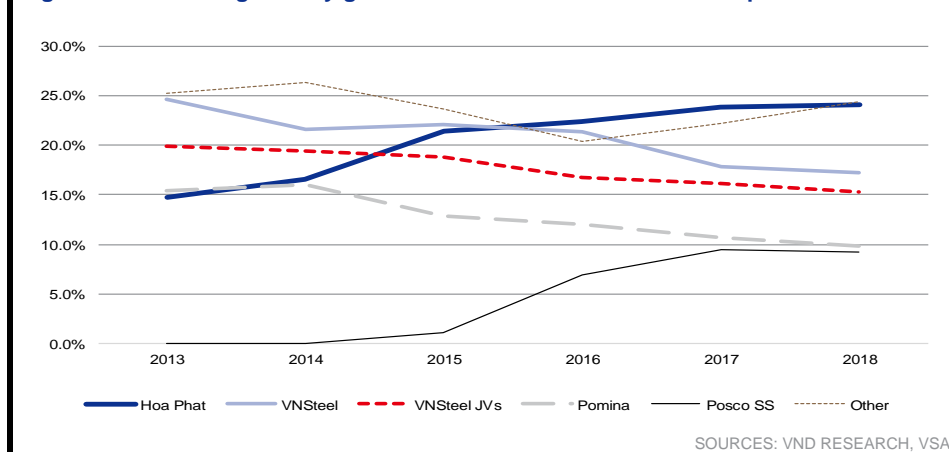
SOURCES: VND RESEARCH, BLOOMBERG

### 2019 outlook: HPG to consolidate its market leading position; we expect a marginal increase in earnings

We see some headwinds in 2019F for HPG due to a marginal deterioration in the supply/demand balance in the Vietnamese steel industry, which could trigger steel price weakness. Huge capacity addition could also pose a challenge for HPG as it needs to push volumes aggressively against a backdrop of moderate demand growth. However, we believe HPG has the ability to grab market share from less-competitive domestic steel producers and imported Chinese steel

suppliers. Currently, HPG leads the construction steel market in North Vietnam with market share of 69.0% (2018). However, HPG only has c.9-10% market share in the southern region and this region accounts for c.30% of total nationwide construction steel consumption (2018), according to VSA. With the completion of the Dung Quat Phase 1 project, we expect the company to raise its market share in the south to 15-20% in the coming years. In 2019, the company also targets to push export volume to 400,000 tonnes (+66.6% yoy).

**Figure 11: HPG has gradually grabbed market share from local competitors**



We project a 38.6% increase in sales volume in 2019, equivalent to 4.4mt of finished products, including 3.5mt of construction steel products and 879,400mt of flat steel products (steel pipes and galvanised steel). Our base case assumes a 7-10% decline in steel prices, therefore, FY19 revenue is projected at VND69,900bn (+25.2% yoy).

Given the unfavourable outlook for BOF steel mill input material prices and an expected decline in average steel selling prices, we expect HPG's gross margin to narrow from 20.9% in 2018 to 19.3% in 2019. We also expect interest expense to double in 2019 due to the commissioning of the Dung Quat Phase 1 project. As a result, FY19 NPAT-MI is projected at VND9,045bn (+5.3% yoy), equivalent to an EPS of VND4,046.

## Valuation

Due to an anticipated decrease in steel prices and rising input prices, we revise down our earnings forecasts for FY19-20F by 32.6% and 34.8% respectively. We also adjust down our target price from VND47,800 to VND33,800 due to lower earnings projections and a significant contraction in peer valuation multiples. Our VND33,800 TP is based on an equal weighting of: 1) 7.1x forward target P/E on 2019F EPS, and 2) a DCF valuation over a 5-year period. While we do believe that stimulus measures in China and a possible trade deal are likely to improve investor sentiment on the steel sector while also supporting regional steel prices, we believe that the structural slowdown in China is expected to prevail over the medium term.

**Figure 12: Changes in our forecast (VND bn unless otherwise noted)**

	Old forecasts		New forecasts		The difference between new and old forecasts		Comments
	FY19F	FY20F	FY19F	FY20F	FY19F	FY20F	
Revenue	78,587	86,223	69,886	79,143	-11.1%	-8.2%	Driven by lower selling price of finished products (we assume a 7% decrease in steel price instead of 5% increase in FY19F)
Gross profit	19,360	21,503	13,373	14,314	-30.9%	-33.4%	Driven by higher iron ore prices (we assume a 9% increase in iron ore prices instead of a 12% decrease in FY19F)
EBIT	17,262	19,195	11,975	12,731	-30.6%	-33.7%	
EBT	16,490	18,479	10,528	11,279	-36.2%	-39.0%	Mainly driven by lower margins
Net profit	13,428	15,047	9,045	9,804	-32.6%	-34.8%	
EPS (VND)	6,007	6,723	4,046	4,385	-32.6%	-34.8%	

SOURCES: VND RESEARCH

**Figure 13: DCF model - key assumptions & input, based on our estimates**

General assumptions	2017A	2018A	2019F	2020F	2021F	2022F	2023F	Terminal
Risk free rate (10-year VGB yield)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium (%)	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta (source: BB)	1.18	1.18	1.18	1.18	1.18	1.18	1.18	1.18
Cost of equity (%)	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Long-term growth rate (%)								2.1%
ROE (%)								14.4%
(in VND bn, otherwise noted)								
PV of DCF (5 years)			33,053					
PV of Terminal value			76,753					
Enterprise value			109,806					
Less: Total Debt			31,655					
Plus: Cash and Cash equiv.			4,428					
Implied EV			82,579					
No. of o/s shares (mn shares)			2,124					
Implied value per share (VND)			38,900					

SOURCES: VND RESEARCH

**Figure 14: HPG' valuation based on 1-year forward P/E**

Valuation	VND	
FY19F Core EPS		4,046
1-year forward P/E multiple x		7.1
Target price		28,700

SOURCES: VND RESEARCH

**Figure 15: Blended target price, based on our estimates**

Method	Implied value per share (VND)	Weight (%)	Weighted price (VND)
DCF	38,900	50%	19,450
P/E	28,700	50%	14,350
Target price (VND)			33,800

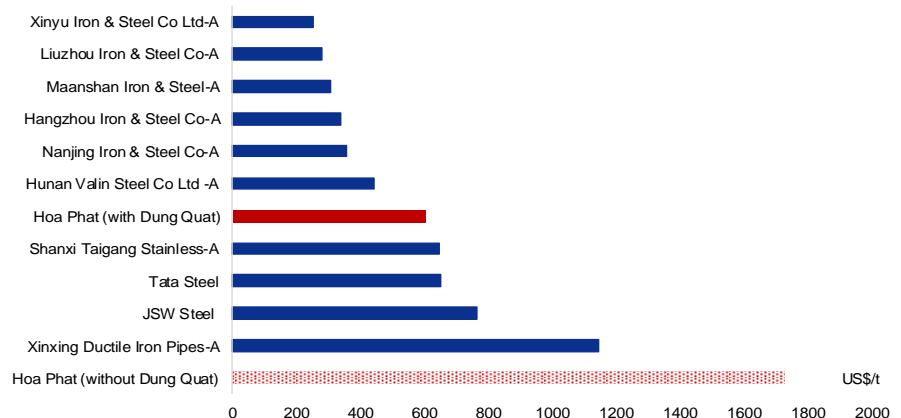
SOURCES: VND RESEARCH

**Figure 16: Regional sector comparison**

Company	Bloomberg Ticker	Recom.	Closing price		Market cap (US\$ m)	ROE (%)		P/BV (x)		P/E (x)	
			(local curr.)	(local curr.)		CY19F	CY20F	CY19F	CY20F	CY19F	CY20F
JSW Steel	JSTL IN	Reduce	272.6	195.0	9,256	24.4	17.5	1.9	1.6	8.6	10.0
Tata Steel	TATA IN	Reduce	487.3	360.0	7,755	14.6	11.7	0.8	0.7	6.0	6.7
NMDC	NMDC IN	Add	94.2	161.0	4,185	15.8	16.0	1.1	1.0	8.5	8.1
Shanxi Taigang Stainless-A	000825 CH	Not rated	4.8	na	4,024	17.1	16.5	0.8	0.7	4.7	4.3
Sansteel Minguang Co Ltd -A	002110 CH	Not rated	14.9	na	3,629	38.2	31.4	1.4	1.1	3.5	3.2
Steel Authority of India	SAIL IN	Add	47.7	56.6	2,768	7.5	7.9	0.5	0.5	6.5	5.6
Maanshan Iron & Steel-A	600808 CH	Add	3.7	4.1	4,140	23.9	18.1	1.0	0.9	4.3	5.3
Hunan Valin Steel Co Ltd -A	000932 CH	Not rated	7.2	na	3,220	39.2	26.9	1.3	0.9	3.2	3.3
Liuzhou Iron & Steel Co-A	601003 CH	Not rated	7.3	na	2,774	43.4	27.7	1.8	1.5	4.2	4.8
Xinyu Iron & Steel Co Ltd-A	600782 CH	Not rated	5.6	na	2,674	30.8	20.0	1.0	0.9	3.6	4.1
Nanjing Iron & Steel Co-A	600282 CH	Not rated	3.8	na	2,519	28.7	21.5	1.1	0.8	4.0	4.0
Jindal Steel & Power Ltd	JSP IN	Reduce	149.7	123.0	2,036	1.6	3.4	0.5	0.5	32.1	16.5
Xinxing Ductile Iron Pipes-A	000778 CH	Not rated	4.6	na	2,718	10.7	10.7	0.9	0.8	7.3	6.9
<i>Average regional peers</i>						22.6	17.5	1.1	0.9	7.4	6.4
<i>Median regional peers</i>						23.9	17.5	1.0	0.9	4.7	5.3
<b>Hoa Phat Group JSC</b>	<b>HPG VN</b>	<b>Add</b>	<b>32,200</b>	<b>33,800</b>	<b>2,948</b>	<b>19.1</b>	<b>17.1</b>	<b>1.4</b>	<b>1.2</b>	<b>8.0</b>	<b>7.3</b>

SOURCES: VND RESEARCH, BLOOMBERG  
NOTE: AS OF 20 FEB 2019

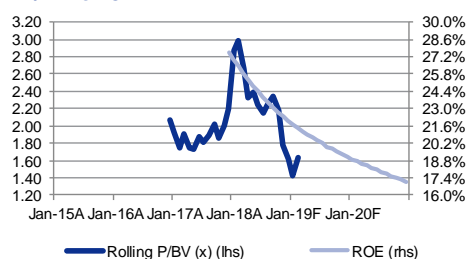
**Figure 17: Current EV/Capacity of HPG vs. peers**



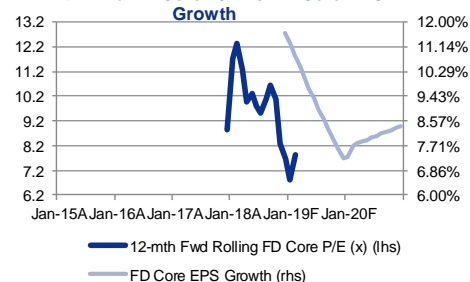
SOURCES: VND RESEARCH, BLOOMBERG

## BY THE NUMBERS

**P/BV vs ROE**



**12-mth Fwd FD Core P/E vs FD Core EPS Growth**



### Profit & Loss

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>Total Net Revenues</b>	<b>46,162</b>	<b>55,836</b>	<b>69,886</b>	<b>79,143</b>	<b>87,626</b>
<b>Gross Profit</b>	<b>10,674</b>	<b>11,671</b>	<b>13,373</b>	<b>14,314</b>	<b>16,335</b>
<b>Operating EBITDA</b>	<b>11,626</b>	<b>12,834</b>	<b>15,791</b>	<b>18,214</b>	<b>19,977</b>
Depreciation And Amortisation	(2,005)	(2,284)	(3,816)	(5,483)	(5,483)
<b>Operating EBIT</b>	<b>9,622</b>	<b>10,550</b>	<b>11,975</b>	<b>12,731</b>	<b>14,495</b>
Financial Income/(Expense)	(370)	(478)	(1,446)	(1,451)	(1,138)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	36	(1)	(1)	(1)	(1)
<b>Profit Before Tax (pre-EI)</b>	<b>9,288</b>	<b>10,071</b>	<b>10,528</b>	<b>11,279</b>	<b>13,356</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>9,288</b>	<b>10,071</b>	<b>10,528</b>	<b>11,279</b>	<b>13,356</b>
Taxation	(1,274)	(1,471)	(1,474)	(1,466)	(1,736)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>8,015</b>	<b>8,601</b>	<b>9,054</b>	<b>9,813</b>	<b>11,619</b>
Minority Interests	(8)	(9)	(9)	(9)	(9)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	0	0	0	0	0
<b>Net Profit</b>	<b>8,007</b>	<b>8,592</b>	<b>9,045</b>	<b>9,804</b>	<b>11,610</b>
Recurring Net Profit	7,176	8,011	8,592	9,314	11,030
<b>Fully Diluted Recurring Net Profit</b>	<b>7,176</b>	<b>8,011</b>	<b>8,592</b>	<b>9,314</b>	<b>11,030</b>

### Cash Flow

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>EBITDA</b>	<b>11,626</b>	<b>12,834</b>	<b>15,791</b>	<b>18,214</b>	<b>19,977</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(3,149)	(2,767)	(12,341)	(2,943)	(2,619)
(Incr)/Decr in Total Provisions	0	0	0	0	0
Other Non-Cash (Income)/Expense	(5)	31	0	0	0
Other Operating Cashflow	(361)	(530)	(371)	(393)	(407)
Net Interest (Paid)/Received	(334)	(476)	(1,447)	(1,452)	(1,139)
Tax Paid	(1,724)	(1,416)	(1,474)	(1,466)	(1,736)
<b>Cashflow From Operations</b>	<b>6,054</b>	<b>7,676</b>	<b>157</b>	<b>11,960</b>	<b>14,076</b>
Capex	(8,875)	(27,594)	(6,245)	(1,358)	(1,700)
Disposals Of FAs/subsidiaries	7	108	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(9,058)	6,995	0	0	0
<b>Cash Flow From Investing</b>	<b>(17,926)</b>	<b>(20,491)</b>	<b>(6,245)</b>	<b>(1,358)</b>	<b>(1,700)</b>
Debt Raised/(repaid)	6,520	11,326	8,595	(5,082)	(818)
Proceeds From Issue Of Shares	5,057	11	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(4)	(6)	0	0	0
Preferred Dividends					
Other Financing Cashflow	1	(189)	(594)	(680)	(889)
<b>Cash Flow From Financing</b>	<b>11,574</b>	<b>11,143</b>	<b>8,000</b>	<b>(5,762)</b>	<b>(1,708)</b>
Total Cash Generated	(298)	(1,673)	1,913	4,840	10,669
<b>Free Cashflow To Equity</b>	<b>(5,352)</b>	<b>(1,490)</b>	<b>2,507</b>	<b>5,521</b>	<b>11,558</b>
<b>Free Cashflow To Firm</b>	<b>(11,537)</b>	<b>(12,340)</b>	<b>(4,641)</b>	<b>12,054</b>	<b>13,515</b>

SOURCES: VND RESEARCH, COMPANY REPORTS



## BY THE NUMBERS... cont'd

### Balance Sheet

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	4,265	2,516	4,428	9,269	19,937
Total Debtors	6,555	3,915	8,386	9,497	10,515
Inventories	11,769	14,115	19,780	22,690	24,952
Total Other Current Assets	10,489	5,468	5,816	6,235	6,737
<b>Total Current Assets</b>	<b>33,077</b>	<b>26,014</b>	<b>38,411</b>	<b>47,691</b>	<b>62,141</b>
Fixed Assets	18,652	50,149	52,382	48,267	44,493
Total Investments	17	67	67	67	67
Intangible Assets	240	305	296	286	277
Total Other Non-Current Assets	1,035	1,690	1,774	1,863	1,956
<b>Total Non-current Assets</b>	<b>19,945</b>	<b>52,211</b>	<b>54,519</b>	<b>50,483</b>	<b>46,793</b>
Short-term Debt	11,329	11,495	10,483	6,331	7,010
Current Portion of Long-Term Debt					
Total Creditors	6,487	12,029	10,172	11,669	12,832
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>17,815</b>	<b>23,524</b>	<b>20,655</b>	<b>18,001</b>	<b>19,843</b>
Total Long-term Debt	1,651	12,811	21,172	19,076	16,076
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,158	1,281	1,423	1,613	1,922
<b>Total Non-current Liabilities</b>	<b>2,809</b>	<b>14,092</b>	<b>22,595</b>	<b>20,689</b>	<b>17,998</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>20,624</b>	<b>37,616</b>	<b>43,251</b>	<b>38,690</b>	<b>37,841</b>
Shareholders' Equity	32,287	40,481	49,525	59,329	70,940
Minority Interests	111	128	154	154	154
<b>Total Equity</b>	<b>32,398</b>	<b>40,609</b>	<b>49,679</b>	<b>59,483</b>	<b>71,094</b>

### Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	38.7%	21.0%	25.2%	13.2%	10.7%
Operating EBITDA Growth	22.0%	10.4%	23.0%	15.3%	9.7%
Operating EBITDA Margin	25.2%	23.0%	22.6%	23.0%	22.8%
Net Cash Per Share (VND)	(4,103)	(10,259)	(12,819)	(7,599)	(1,483)
BVPS (VND)	15,202	19,060	23,318	27,934	33,401
Gross Interest Cover	34.37	21.99	7.63	7.82	10.44
Effective Tax Rate	13.7%	14.6%	14.0%	13.0%	13.0%
Net Dividend Payout Ratio	0.047%	0.069%	NA	NA	NA
Accounts Receivables Days	35.38	34.22	32.12	41.35	41.68
Inventory Days	113.2	107.0	109.5	119.9	122.0
Accounts Payables Days	64.71	76.51	71.70	61.65	62.72
ROIC (%)	42.8%	25.0%	18.8%	16.3%	18.8%
ROCE (%)	27.2%	19.3%	16.5%	15.4%	16.4%
Return On Average Assets	19.4%	13.8%	12.3%	11.8%	12.3%

### Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% Change)	18.6%	15.6%	-7.0%	-5.0%	0.0%
Unit Sales Growth (%)	17.8%	14.6%	38.6%	14.0%	5.9%
Utilisation Rate (%)	101.0%	85.9%	84.3%	81.8%	86.7%

SOURCES: VND RESEARCH, COMPANY REPORTS

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#### Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

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

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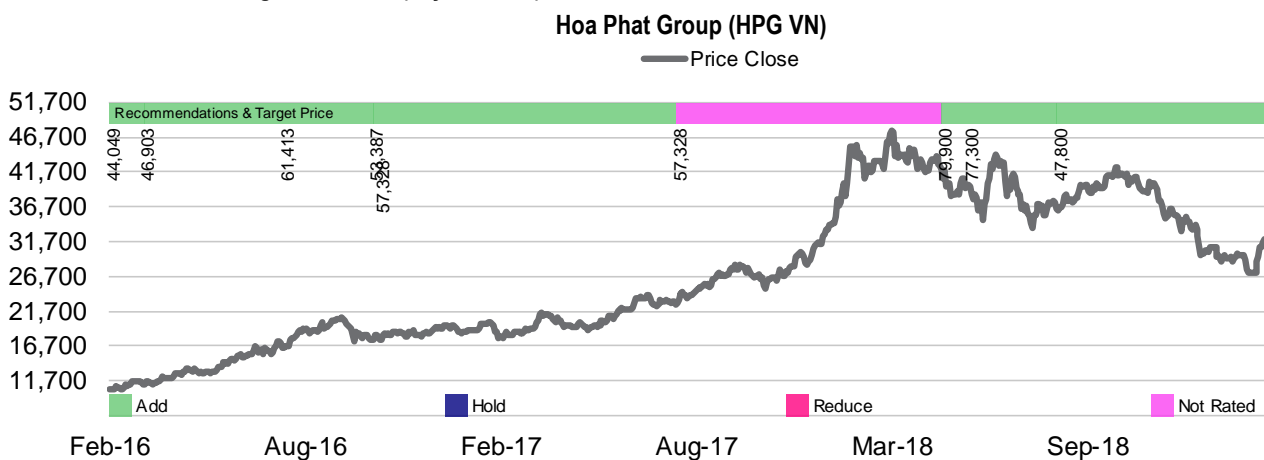
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2018		
758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

**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 2018, Anti-Corruption 2018

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **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, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – 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, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD\*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, 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** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 31, 2018) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

\* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

### RECOMMENDATION FRAMEWORK

#### 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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