

Company Note

I Vietnam

ADD (no change)

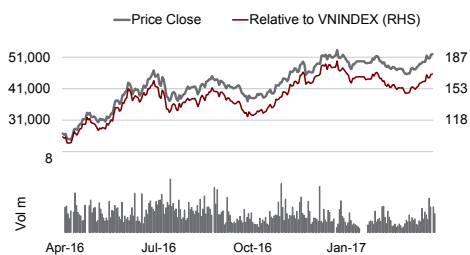
Consensus ratings*: Buy 4 Hold 3 Sell 0

Current price:	VND52,000
Target price:	VND76,288
Previous target:	VND70,217
Up/downside:	46.7%
CIMB / Consensus:	25.8%
Reuters:	HSG.HM
Bloomberg:	HSG.VN
Market cap:	US\$451.1m
	VND10,220,071m
Average daily turnover:	US\$2.68m
	VND60,807m
Current shares o/s:	196.5m
Free float:	50.8%

*Source: Bloomberg

Key changes in this note

- FY17F EPS increased by 8.6%.
- FY18F EPS increased by 4.7%.
- FY19F EPS increased by 5.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.1	2	97
Relative (%)	7.6	-5.2	69.5

Major shareholders	% held
Chairman & related	45.0
Dragon Capital	2.9

Analyst(s)



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Hoa Sen Group

We expect stellar results in 2H17

- Vietnam has imposed anti-dumping tax on galvanised flat steel. A similar tax on pre-painted galvanised flat steel may also be introduced soon.
- 1Q17's results were supported by the rally in hot roll coil (HRC) prices.
- We expect HSG's 3Q17's and 4Q17's earnings to be stellar, helped by the new tariffs on imports.
- We raise our FY17-19F EPS by 5-9% for the positive impact of the tariffs and increase our TP. We maintain our Add recommendation.

Vietnam imposes anti-dumping tax on galvanised flat steel

Vietnam has officially imposed anti-dumping tax for galvanised flat steel from China and Korea. The tariff, which will be in effect from 14 Apr 2017 and valid for the next five years, will range from 3.1% to 38.3% depending on company. According to HSG, the tariff rate will be based on the export volume of each company, with the highest tariffs imposed on companies with the highest export volumes. In 2016, Vietnam imported 1.8m tonnes of flat steel or about 50% of the sales volume of domestic companies.

A similar tax on pre-painted galvanised flat steel likely

HSG believes a similar tax on pre-painted galvanised steel sheets will be announced in late-Apr 2017. We believe this will be positive for HSG as pre-painted galvanised steel sheets are the company's most profitable products. They made up about 26% of its FY16 revenue. Sales of galvanised flat steel and pre-painted galvanised flat steel made up 70% of the company's revenue.

1Q17 results supported by input price hike

HSG reported a 1Q17 net profit of VND440bn (+135% yoy), while its gross margin increased 1.6% pts yoy, thanks to a rally in hot roll coil (HRC) prices which increased 37% in the three-month period. HSG has been able to pass on the rise in input cost to customers, thanks to its distribution network and brand-name. The company also benefitted from having a low cost of inventory.

2H17 results should be stellar

We believe the impact of the tariffs would be reflected positively in HSG's 3Q17's and 4Q17's results as we expect the selling prices of local companies to trend higher in the coming months. In addition, as 3Q17 and 4Q17 are the high seasons for HSG, we expect the company to deliver stellar sets of results for both quarters.

Market has not yet priced in impact of the tariffs

When Vietnam imposed tariffs on imported (mostly Chinese) construction steel in 2016, local construction steel firms posted stellar FY16 results, with HPG's net profit up 89%, POM's up 995%, and both VIS and TLH swinging from loss to profit. Steel stocks rallied last year as a result. We believe the impact of the tariffs on flat steel will be even greater on local flat steel makers due to the higher import proportion. As HSG's share price is up by only 5% YTD, we think the market has not yet priced in the impact of the tariffs.

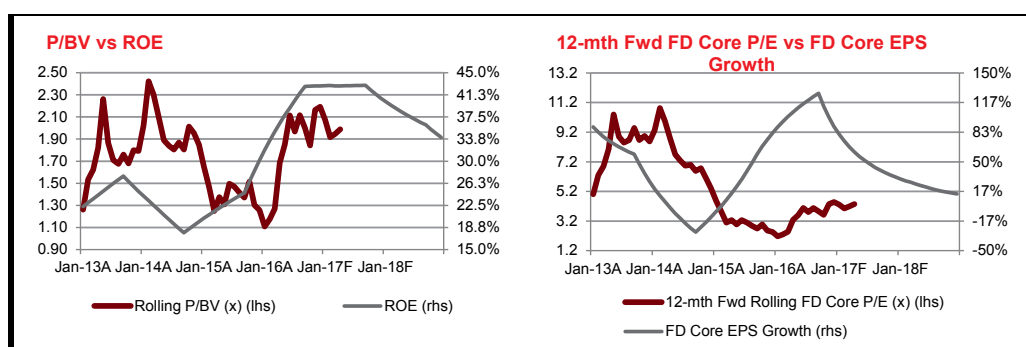
Maintain Add

We raise our FY17-19F EPS forecasts by 5-9% as a result of the new tariffs. We lift our target price (based on 7x P/E on FY17F EPS) accordingly to VND76,288 and maintain our Add call. Re-rating catalysts include stronger-than-expected 3Q17 results. Downside risk to our call is a plunge in HRC prices.

Financial Summary	Sep-15A	Sep-16A	Sep-17F	Sep-18F	Sep-19F
Revenue (VNDb)	17,447	17,893	20,353	25,221	26,501
Operating EBITDA (VNDb)	1,653	2,709	3,507	4,065	4,380
Net Profit (VNDb)	651	1,501	2,142	2,504	2,669
Core EPS (VND)	3,416	7,638	10,898	12,738	13,580
Core EPS Growth	59%	124%	43%	17%	7%
FD Core P/E (x)	15.22	6.71	4.77	4.08	3.83
DPS (VND)	756	1,664	2,000	2,000	2,000
Dividend Yield	1.45%	3.20%	3.85%	3.85%	3.85%
EV/EBITDA (x)	9.15	5.69	4.23	3.49	2.80
P/FCFE (x)	47.14	16.05	9.59	10.67	8.52
Net Gearing	179%	126%	79%	50%	20%
P/BV (x)	3.41	2.48	1.74	1.28	1.00
ROE	24.6%	42.7%	42.9%	36.1%	29.3%
% Change In Core EPS Estimates			8.65%	4.76%	5.23%
CIMB/consensus EPS (x)			1.25	1.26	

SOURCE: COMPANY DATA, CIMB FORECASTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Sep-15A	Sep-16A	Sep-17F	Sep-18F	Sep-19F
Total Net Revenues	17,447	17,893	20,353	25,221	26,501
Gross Profit	3,028	4,729	5,805	6,913	7,373
Operating EBITDA	1,653	2,709	3,507	4,065	4,380
Depreciation And Amortisation	(482)	(550)	(615)	(733)	(880)
Operating EBIT	1,171	2,159	2,892	3,331	3,500
Financial Income/(Expense)	(197)	(206)	(215)	(203)	(165)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	(147)	(41)	1	1	1
Profit Before Tax (pre-EI)	827	1,912	2,677	3,129	3,336
Exceptional Items					
Pre-tax Profit	827	1,912	2,677	3,129	3,336
Taxation	(176)	(410)	(535)	(626)	(667)
Exceptional Income - post-tax					
Profit After Tax	651	1,501	2,142	2,504	2,669
Minority Interests		(0)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	651	1,501	2,142	2,504	2,669
Recurring Net Profit	651	1,501	2,142	2,504	2,669
Fully Diluted Recurring Net Profit	651	1,501	2,142	2,504	2,669

Cash Flow

(VNDb)	Sep-15A	Sep-16A	Sep-17F	Sep-18F	Sep-19F
EBITDA	1,653	2,709	3,507	4,065	4,380
Cash Flow from Inv. & Assoc.					
Change In Working Capital	236	(215)	(410)	(1,179)	(249)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(217)	(256)	1	1	1
Net Interest (Paid)/Received	(193)	(201)	(215)	(203)	(165)
Tax Paid	(197)	(378)	(535)	(626)	(667)
Cashflow From Operations	1,282	1,658	2,347	2,058	3,300
Capex	(735)	(1,337)	(1,381)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	28	5			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3)	3			
Cash Flow From Investing	(711)	(1,328)	(1,381)	(1,000)	(1,000)
Debt Raised/(repaid)	(361)	298	100	(100)	(1,100)
Proceeds From Issue Of Shares	65				
Shares Repurchased					
Dividends Paid	(144)	(327)	(393)	(393)	(393)
Preferred Dividends					
Other Financing Cashflow	(0)				
Cash Flow From Financing	(440)	(29)	(293)	(493)	(1,493)
Total Cash Generated	131	300	673	565	807
Free Cashflow To Equity	210	627	1,066	958	1,200
Free Cashflow To Firm	768	539	1,199	1,291	2,509

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Sep-15A	Sep-16A	Sep-17F	Sep-18F	Sep-19F
Total Cash And Equivalents	277	577	1,249	1,814	2,621
Total Debtors	538	911	1,037	1,285	1,350
Inventories	3,528	4,730	5,227	6,579	6,873
Total Other Current Assets	742	747	849	1,052	1,106
Total Current Assets	5,085	6,965	8,363	10,730	11,949
Fixed Assets	4,034	4,900	5,666	5,933	6,053
Total Investments	11	8	8	8	8
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	204	334	334	334	334
Total Non-current Assets	4,250	5,242	6,008	6,275	6,395
Short-term Debt	4,502	4,366	4,566	4,766	4,266
Current Portion of Long-Term Debt					
Total Creditors	616	1,516	1,725	2,137	2,246
Other Current Liabilities	310	775	881	1,092	1,147
Total Current Liabilities	5,428	6,657	7,172	7,996	7,659
Total Long-term Debt	992	1,419	1,319	1,019	419
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5	4	4	4	4
Total Non-current Liabilities	997	1,423	1,323	1,023	423
Total Provisions	0	0	0	0	0
Total Liabilities	6,425	8,080	8,495	9,018	8,082
Shareholders' Equity	2,909	4,124	5,872	7,983	10,259
Minority Interests		3	3	3	3
Total Equity	2,909	4,127	5,876	7,986	10,262

Key Ratios

	Sep-15A	Sep-16A	Sep-17F	Sep-18F	Sep-19F
Revenue Growth	16.4%	2.6%	13.8%	23.9%	5.1%
Operating EBITDA Growth	60.0%	63.9%	29.5%	15.9%	7.8%
Operating EBITDA Margin	9.5%	15.1%	17.2%	16.1%	16.5%
Net Cash Per Share (VND)	(27,366)	(26,499)	(23,585)	(20,203)	(10,502)
BVPS (VND)	15,259	20,981	29,879	40,617	52,197
Gross Interest Cover	5.90	10.33	12.39	14.27	16.72
Effective Tax Rate	21.3%	21.5%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	22.1%	21.8%	18.4%	15.7%	14.7%
Accounts Receivables Days	10.56	8.78	9.36	9.01	9.73
Inventory Days	104.6	114.8	124.9	117.7	128.3
Accounts Payables Days	31.67	29.65	40.66	38.50	41.82
ROIC (%)	14.9%	26.6%	31.0%	31.7%	29.3%
ROCE (%)	14.2%	23.6%	26.9%	26.3%	24.7%
Return On Average Assets	8.7%	15.9%	17.7%	17.3%	16.0%

Key Drivers

	Sep-15A	Sep-16A	Sep-17F	Sep-18F	Sep-19F
ASP (% Change)	-10.0%	-5.0%	0.0%	0.0%	0.0%
Unit Sales Growth (%)	28.0%	25.0%	12.2%	26.6%	0.0%
Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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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. CIMBS does not confirm nor certify the accuracy of such survey result.

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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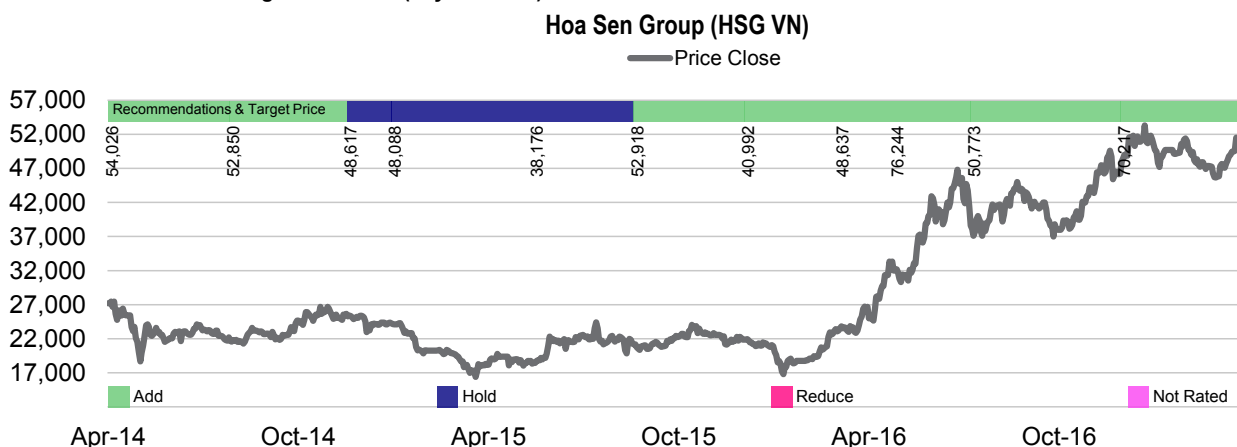
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	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 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared,

HANA - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

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

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more 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.