

Vietnam

December 5, 2018 - 6:22 PM

ADD (no change)

Consensus ratings*: Buy 10 Hold 0 Sell 0

Current price:	VND34,600
Target price:	VND47,800
Previous target:	VND47,800
Up/downside:	38.2%
CGS-CIMB / Consensus:	-5.8%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$3,155m
	VND73,487,184m
Average daily turnover:	US\$8.78m
	VND204,709m
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)	8.70	5.76	5.14
Recurring ROE	23.0%	27.2%	24.7%
P/BV (x)	1.78	1.40	1.16
DPS (VND)	0	1,000	2,000
Dividend Yield	0.00%	2.89%	5.78%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-13.5	-11.3	15.3
Relative (%)	-17.2	-9.5	16.5

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

Analyst(s)

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Hoa Phat Group

Management downplays concerns

- We recently attended HPG's analyst meeting. Management said the company has already met its full-year guidance in 11MFY18.
- Management guided for higher sales volume of 3.5m-4m tons of long steel in 2019 as compared to 2.3m tons in 2018. Maintain Add.

In the analyst meeting with HPG's Chairman Tran Dinh Long on 5 Dec 2018, Mr. Long directly fielded most of the questions from investors and analysts. Here are the highlights:

Foreign investors have been selling down their positions

- PENM Partners confirmed they sold part of the HPG shares held by their PENM3 fund because the fund will mature in Sep 2021. The fund's representative reaffirmed a long-term commitment to HPG, which stretches back to 2007, through new potential investments for their upcoming fund - PENM5.

11M2018 performance roughly tracking our forecast

- Management estimated 11M18 net profit reached VND8,100bn, making up 91% of our full-year forecast and fulfilling HPG's full-year guidance.
- 2018 dividend: 30% stock dividend (to be paid in 2019), instead of a cash dividend, in order to conserve cash for the Dung Quat Steel Complex investment.

2019 guidance is aggressive with a strong export focus

- Management said long steel sales volume in 2019F is expected to touch 3.5m-4m tons (estimated volume for 2018 is 2.3m tons).
- HPG said it will maintain flexibility in its pricing policy for steel in 2019 to stay competitive when the new capacity from the Dung Quat Complex starts coming onstream. (The first Blast Oxygen Furnace [BOF] is targeted to be completed in the first half of 2019).
- HPG is planning to further expand its presence in export markets with a target of 10-12% contribution to total revenues. Southeast Asia is the main target export market with Cambodia comprising the largest proportion. Mr. Long disclosed that HPG is still exporting steel to North America despite the 25% US tariff on Vietnamese steel.
- "Market share first with profits to follow," was how Mr. Long summarised HPG's current strategy. HPG has not yet finalised its revenue and profit guidance for 2019 due to the significant fluctuations in steel prices recently.

Slight capex overruns on Dung Quat Steel Complex project

- Mr. Long said this project may come onstream later than initially projected (probably 1Q20) with slight capex overruns versus the initial plan. Some reasons for these overruns include: 1) HPG choosing to buy EU instead of Asian machinery (in order to comply with Vietnam's environmental policies on steel production), and 2) the captive port in Dung Quat, currently under construction, will now be expanded to service ships of up to 200,000 tons, while the initial plan was only to develop a port to accommodate ships up to 100,000 tons.

Threat from Chinese steel limited, as per management

- Mr. Long estimates that the amount of Chinese steel exports to Vietnam is relatively small because the main type of construction steel imported from China is mostly wire rod and these products have only been used in specific Chinese Overseas Development Assistance-funded projects. China's construction steel demand has been robust in 2018 and, therefore, most of such steel has been used domestically in China.
- However, the recent significant steel price weakness in China and relaxation of environmental norms for Chinese steel producers are concerns and possible downside risks, in our view.
- We maintain our Add call and VND47,800 target price. Our 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 include a sharp rise in steel prices and decrease in raw material prices.

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

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				
Total Creditors	6,487	8,458	10,661	11,650
Other Current Liabilities				
Total Current Liabilities	17,815	19,879	24,807	20,272
Total Long-term Debt	1,651	6,605	6,982	5,230
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	1,158	1,322	1,793	1,998
Total Non-current Liabilities	2,809	7,928	8,775	7,228
Total Provisions	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

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

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%

12-mth Fwd FD P/E (x) - Hoa Phat Group



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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Corporate Governance Report:

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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. CGS-CIMB Thailand 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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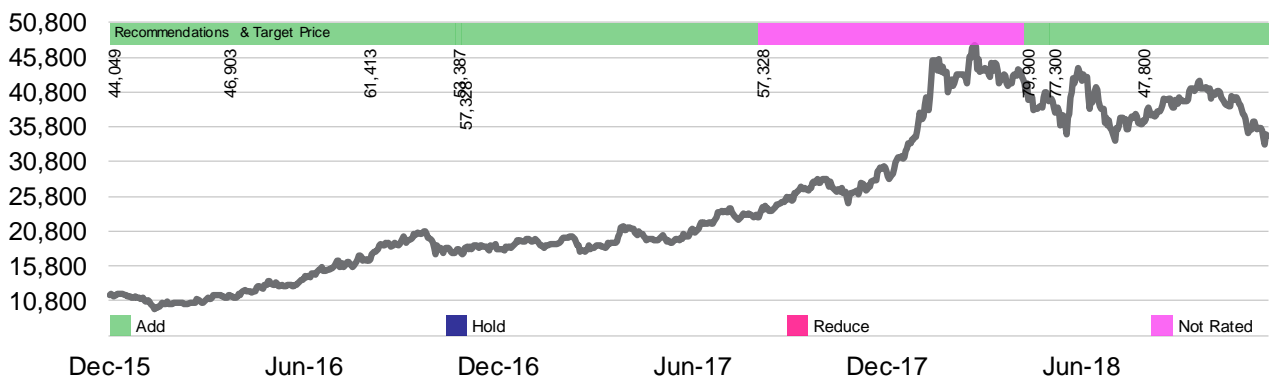
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2018		
759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)

Hoa Phat Group (HPG VN)
 — Price Close



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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