



# HPG Update – OUTPERFORM

April 3, 2024

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## Update Report

Recommendation

**OUTPERFORM**

**HSX: HPG**

**Construction material**

Target price (VND) **35,600**

Market price (VND) **30,100**

Expected share price return 18.4%

Expected dividend yield 1.4%

Expected total return **19.8%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	7.2	-2.4	7.7	44.7
Relative	-6.1	-4.3	-5.9	22.4

Source: Bloomberg



## Ownership

Tran Dinh Long	25.8%
Dragon Capital	7.7%
Vu Thi Hien	6.9%

## Stock Statistics 01-Apr-24

Bloomberg code **HPG VN**

52-week range (VND) 20,350 - 31,400

Shares O/S (m) 5,815

Mkt cap (VND bn) 174,153

Mkt cap (USD m) 7,019

Est. Foreign room left (%) 24.1

Est. free float (%) 55.9

3m avg daily vol (shrs) 26,093,840

VND/USD 24,810

Index: VNIndex / HNX 1277.0/242.3

## HOA PHAT GROUP JSC (HPG VN)

Our update report has resulted in 56% PBT growth this year and a new target price of VND35,600/share. Therefore, we updated our recommendation to **OUTPERFORM** with a total upside of 19.8%.

Domestic steel consumption strongly increased in Q4/2023; however, there are still significant challenges ahead in 2024.

HPG's strategy in 2023 is clearing inventories amid the weak demand market. In total, Hoa Phat produced 6.7 million tons of crude steel (-10% YoY), while total steel sales reached 6.7 million tons (-7% YoY) in 2023.

**Q4's profit hiked thanks to the sale improvement, larger margin and lower interest expenses.**

In Q4/2023, HPG reported a top line of VND 34,383 bn (+33% YoY) and a NPAT of VND 2,969 bn from a net loss of VND1,998bn in Q4 2022.

On an aggregate basis, for 2023, the company reported a top line of VND118,953 bn (-16% YoY) and a NPAT of VND6,800 bn (-20% YoY), achieving 78% and 85% of its target respectively.

**Profit is expected to continue to rebound in 2024 from the low base in 2023.**

For 2024, we expect HPG's top line and NPAT to reach VND147,379bn (+24% YoY) and VND10,585bn (+56% YoY), respectively. Key factors that shall affect HPG's performances include (i) a recovery of Chinese real estate sector, which help foster a recovery in the global steel industry, and (ii) a recovery of the domestic real estate sector which will largely affect the demand for construction steel.

Using a combination of DCF and P/E methods, our target price for HPG is VND35,600/share. With current market price at VND30,100, our expected return (including dividend yield) is 19.8%, rating **OUTPERFORM**.

	2021	2022	2023	2024F	2025F
Net Sales (VNDbn)	149,680	141,409	118,953	147,379	192,442
Growth	66%	-6%	-16%	24%	31%
EBITDA (VNDbn)	43,741	19,850	16,443	20,801	31,625
Growth	100%	-55%	-17%	27%	52%
NPAT (VNDbn)	34,521	8,444	6,800	10,585	20,244
Growth	156%	-76%	-19%	56%	91%
EPS (bonus-adjusted, VND)	7,166	1,452	1,175	1,811	3,464
Growth	163%	-80%	-19%	54%	91%
ROE	25%	21%	16%	23%	38%
ROIC	18%	13%	9%	12%	23%
Net debt/EBITDA (times)	(0.1)	1.4	2.5	1.5	0.4
EV/EBITDA (times)	4	10	12	9	6
PER (times)	4	21	26	17	9
PBR (times)	1	2	2	2	1
DPS (VND)	500	500	500	500	500
Dividend yield	2%	2%	2%	2%	2%

## Global steel output remained stagnant as China has yet to recover

According to the World Steel Association, global steel production in 2023 slightly decreased by 0.1% YoY to 1,850 mn tons. In China, the world's largest steel producer and consumer, produced 1,019 mn tons of steel in 2023, almost the same to 2022 as a boost in automobile manufacturing and export industries was balanced out by the deficit in the real estate industry. India recorded an impressive growth rate of 11.8% thanks to a recovery of the domestic real estate industry and an increase in public spending. Overall, the steel supply chain recovered from disruption in the 2021-2022 period which led to a more stable but lower selling prices and input prices compared to 2021.

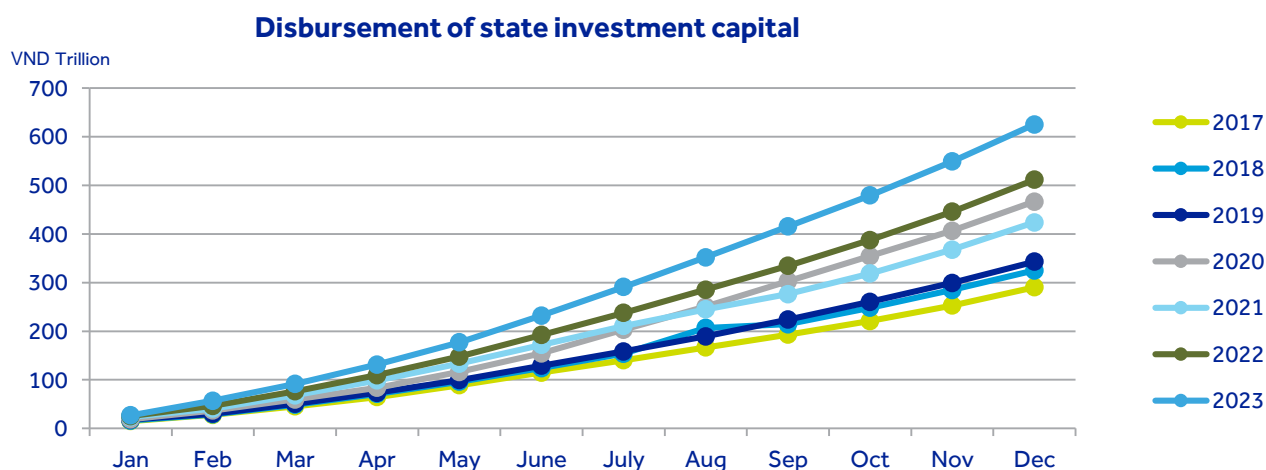
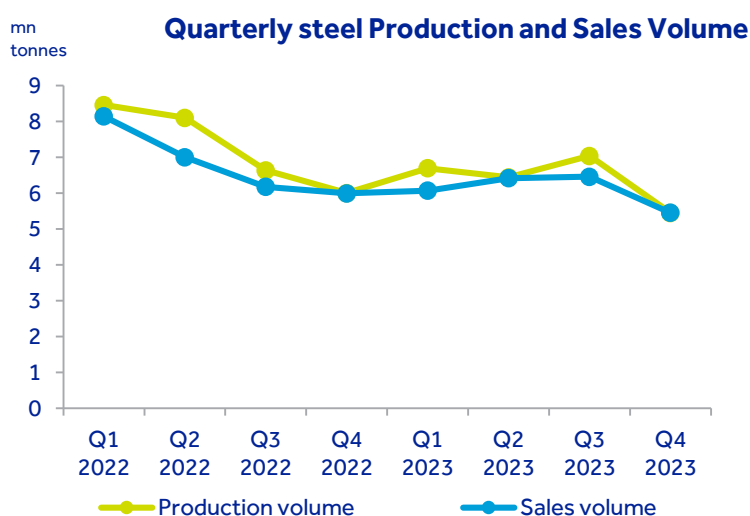
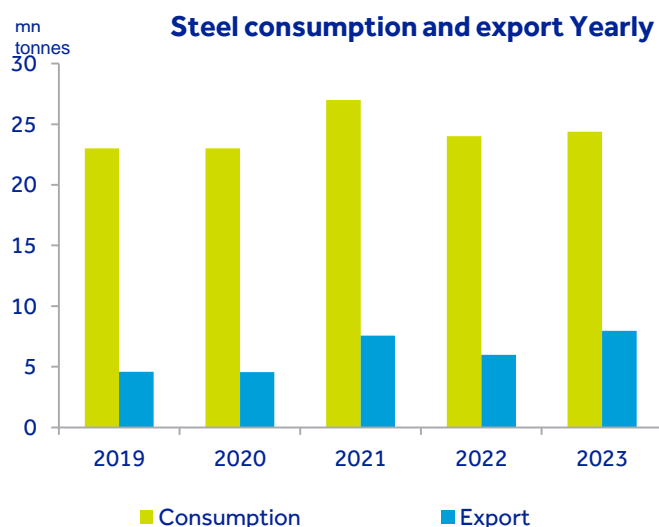
Top 10 biggest steel producing countries (mn tons)	2023	% YoY
China	1,019	0%
India	140.2	11.8%
Japan	87	-2.5%
US	80.7	0.2%
Russia	75.8	5.6%
Korea	66.7	1.3%
German	35.4	-3.9%
Turk	33.7	-4%
Brazil	31.9	-6.5%
Iran	31.1	+1.8%
Vietnam (top 13 in 2022)	25.6	-12%

Source: WSA

## Vietnam – Domestic steel market was supported by strong public spending while HPG gained market share as others struggled.

In 2023, domestic steel output reached 25.6 mn tonnes (-12% YoY) while consumption reached 24.4 mn tonnes (+2% YoY). Strong public spending in the last quarter - with total disbursement reaching VND625 trillion (+22% YoY) - and construction season at year-end have significantly boosted steel consumption. In addition, steel exports increased by 33% YoY in 2023, reaching 7.96 mn tonnes. These favourable conditions helped mitigate the negative effect from the depressed real estate sector.

With that said, without support from the real estate sector, demand for steel was still weak. This, along with the falling global input prices, has led to a reduction in domestic steel prices. On average, steel price fell by 9.5% YoY in 2023.



Source: ACBS Summarised

### HPG's 2023 earnings results were gradually improved since 2H2023

Total steel sales reached 2.1 million tons in Q4/2023, increasing by 20% YoY and 20% QoQ. Construction steel sales reached 1.2 million tons, increasing by 58% YoY as Q4 2022 was a low base when the market was negatively affected by macro conditions.

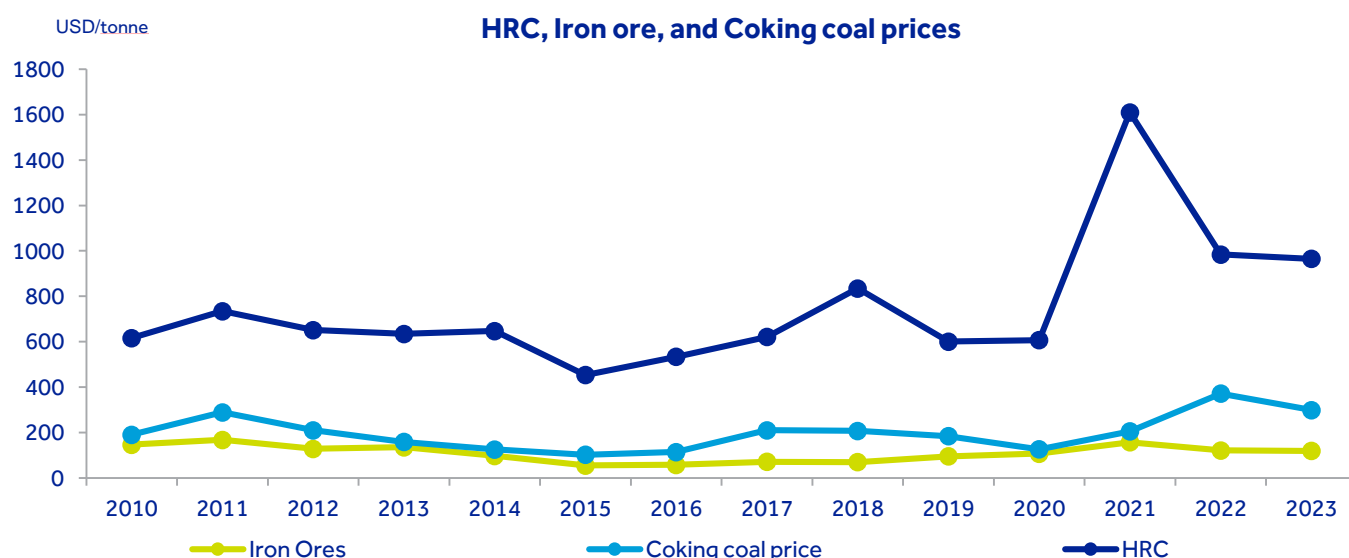
**Construction steel was still the main product of the company in 2023**, contributing 3.78 million tons to the total sale volume (-11% YoY), in which 631,000 tons of construction steel sales came from exports (+100% YoY). Sales volumes of HRC steel reached 2.8 million tons (+6% YoY).

Hoa Phat production (mil. tons)	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022	Q1/2023	Q2/2023	Q3/2023	Q4/2023	2023	%YoY
Total crude steel	2.00	2.33	1.74	1.29	7.37	1.2	1.20	1.66	1.94	6.70	-10%
Total sale volume	2.48	1.49	1.71	1.51	7.19	1.37	1.37	1.53	1.71	6.72	-7%
Construction steel sale volume	1.34	0.95	1.14	0.76	4.19	0.87	0.87	0.73	0.97	3.78	-11%
HRC steel sale volume	0.70	1.06	0.30	0.57	2.63	0.48	0.48	0.72	0.80	2.80	6%

Source: HPG; ACBS summarised

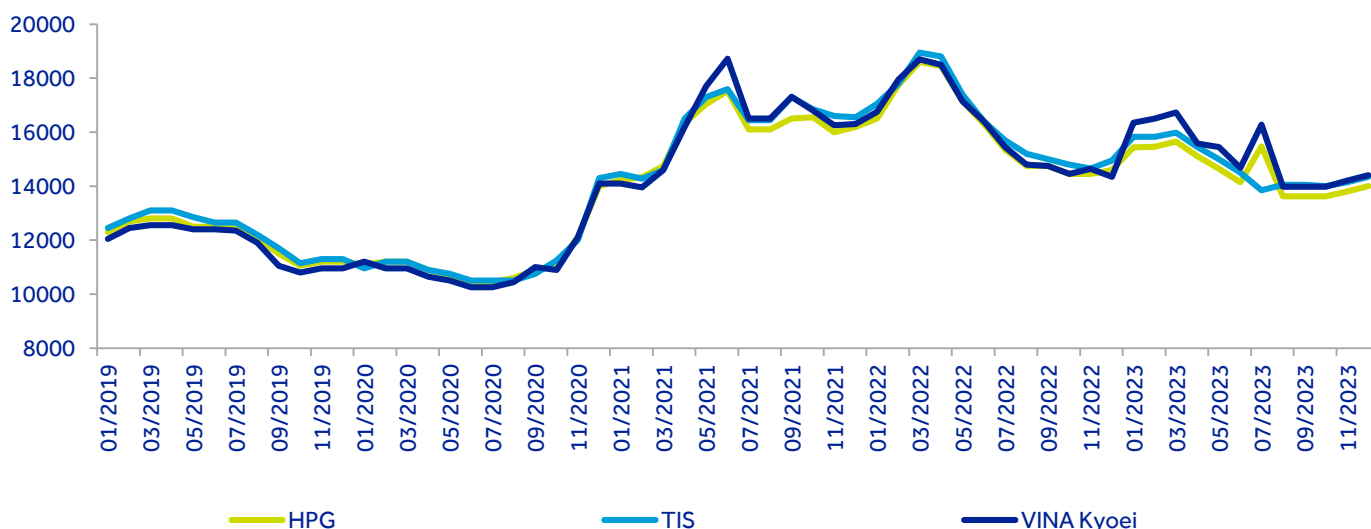
**Gross profit margin slightly reduced in 2023 compared to 2022 but showed improvement towards the year-end:** In 2023, the average steel price slightly decreased by 5% YoY while iron ore average price remained unchanged and coking coal price fell by 21% YoY. However, these still led to a thinner overall GPM for HPG. Besides, the company had to reduce excess high-cost inventories that caused a slump in profit margins.

However, HPG is still one of a few companies in the sector that were able to maintain positive net margin while others had to lay off workers, sell off fixed assets to improve margins.



Source: ACBS summarised

## Domestic Steel Selling Prices (VND/Kg)



Source: ACBS summarised

Input & output prices	2022	2023	% YoY
HPG's CB average price (VND/kg)	16,257	14,323	-11.9%
HPG's Rolled coil average price (VND/kg)	16,033	14,252	-11.1%
Iron ore's average price (USD/tonne)	121.1	121	-0.1%
Coking coal's average price (USD/tonne)	371.5	293.0	-21.1%
HPG's GPM	11.7%	10.7%	

Source: ACBS summarised

**HPG gained market share in 2023.** In Q4/2023, the market share of HPG in construction steel was around 38%.

Unit: mn tonnes	Q1 2023	Q2 2023	Q3 2023	Q4/2023
Total domestic construction steel sales volume (VSA)	2.6	2.5	2.7	3.2
HPG	0.86	0.78	0.95	1.21
Market share of HPG	33%	31%	35%	38%

Source: ACBS summarised

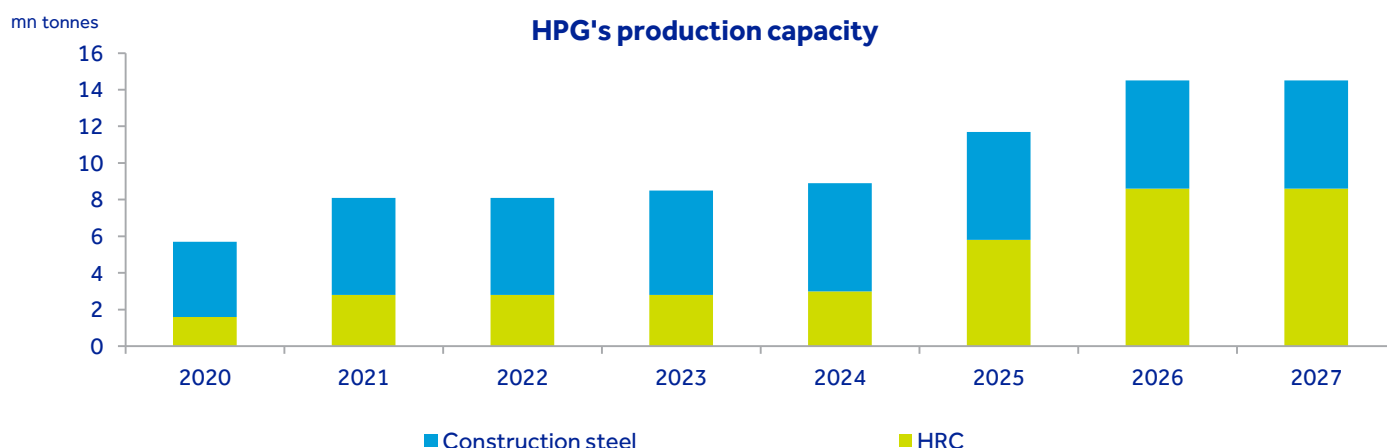
**Inventories stabilized in 2023.** In 2021, while commodity prices hiked, HPG also increased raw material inventories, accounting for 60% of total inventories compare to an average of 50% in the previous years. The inventories to COGS ratio also moved up to approximately 40% compared to a ratio of approximately 30% in the previous period, indicating that the company stocked up during this period to protect itself against commodities price hikes. However, this backed fire in 2022 as commodities prices fell, causing the company to record gross losses in Q4/2022 for clearing high-cost inventories. At the end of 2022, inventories to COGS ratio reduced to 29%. When commodities and steel prices stabilized, the company slightly increased its inventories level to 33% of COGS in 2023.

**Higher interest rates caused higher interest expenses.** Higher interest rates in 2022 due to Van Thinh Phat scandal caused effective interest rates of HPG's debts to increase from 4.41% in 2021 to 5.33% in 2022.

Overall, for 2023, the company reported a top line of VND119 tn (~16% YoY) and a NPAT of VND6,800 bn (~20% YoY), achieving 78% and 85% of its targets respectively.

## Dung Quat 2 – On-track to finish in 2024 and fully operate in Q1 2025

The project completed 50% of its progress and is expected to start trial production by the end of 2024 and will be fully functional in Q1 2025. The factory will add an extra 5.6 mn tonnes of HRC to the company's production capacity, making HPG one of the 30 biggest steel makers globally in terms of production capacity. 50% of total volume is expected to export (to EU, Mexico, Middle East countries, SEA, etc).



Source: ACBS Summarised

The incremental capacity is expected to add VND80 – 100 trn to HPG's revenues (equivalent to approximately 70%-80% of HPG total revenues in 2023).

Total CAPEX for Dung Quat 2 is VND85 trn, with VND35 trn for construction and VND35 trn for imports of machineries and equipment. Using the most advanced technologies for this project, the company aims to serve more demanding markets such as the EU, which requires a "greener production process". In addition, the company is able to save more input materials with an estimated reduction of 10% in coal input compared to Dung Quat 1.

To prepare for the launching of Dung Quat 2, HPG and Formosa submitted the requirement of anti-dumping tax for HRC to MOIT. However, details have not been disclosed.

## 2024 outlook: keep rebounding from the bottom.

### Sales growth will be supported by public investment and real estate sector.

We believe that steel demand may see further improvements in 2024 as the government will continue to increase public spending, focusing on public projects such as Long Thanh airport. In addition, the real estate sector, the main source of demand for steel, is expected to recover with new regulations being drafted. Besides, output of the real estate sector is expected to improve in the following years will help steel demand to recover.



However, we believe all the new regulations in relation to the real estate sector will only come fully effective in 2025 and there will hardly be any breakthrough for the steel industry in 2024. **Therefore, we expect that steel demand may recover slightly in 2024.** Given a positive relation between steel selling prices and input prices and considering the current uptrend in input prices as China is showing supports to its real estate market, we expect that steel prices will continue to recover in 2024.

**We expect the company's margins to improve as steel prices recover.** While input prices (iron ores, coking coal) still largely depend on the global commodities market, local steel prices are driven by (i) input prices trend and (ii) the local market's demand. For 2024, we believe input prices will slightly increase as we expect that the recovery of Chinese market will be still weak. Whereas, local steel prices might itch higher with the recovery of the real estate market.

**FX risk still is significant while interest rates risk reduces.** While FX gains/losses do not affect the company's financial results much, the exchange rates affect the company's gross margin greatly as most of HPG's inputs are imported and paid in USD. We estimated that if USD rates increase by 1%, GPM of HPG decreased by 0.7%. Therefore, a stable FX environment is crucial to HPG's results. Interest rates in Vietnam remain low while FED rates remain high, the pressure of USD appreciation is expected to be still significant in 2024, at least in the 1H2024.

Unit: Bn VND	2020	2021	2022	2023
FX Gains	483	1.306	1.898	1,211
FX Losses	546	1.081	3.757	1,348
Net FX Gains/losses	-63	225	-1.859	-137
% changes	n/a	0,7%	n/a	-93%
VND/USD	-0,2%	-1,14%	3,5%	2.9%

Source: ACBS Summarised

While we expect a slight increase in interest rates in Vietnam in 2H2024, the average interest rates might still remain low in 2024 compared to previous years. Thanks to record-low interest rates, we expect HPG's interest expenses will be reduced by approximately 20% in 2024, equivalent to approximately 5% of the forecasted net profit.

## Key earnings projection for 2024F

We expect HPG to achieve revenue of VND141,400bn (+11% YoY) and net profit reached VND9,026 bn (+32% YoY), assuming that steel prices may continue to recover and FX exchange rate is stable in 2024.

	2023	HPG's AGM plan	% YoY	ACBS's projection	% YoY
Revenue	118,953	140,000	18%	147,379	23.9%
GPM	10.9%			16.2%	
NPAT	6,800	10,000	47%	10,411	53.1%
NPM	5.7%	7.1%		7.1%	



HPG FINANCIALS MODEL	Price (VND):	30.100	Target (VND):	35,600	Mkt cap (VND bn):	175,025
(VND bn except where stated)	2021	2022	2023	2024F	2025F	
<b>Total Net Sales</b>	<b>149,680</b>	<b>141,409</b>	<b>118,953</b>	<b>147,379</b>	<b>192,442</b>	
<i>Sales growth (%)</i>	<i>66%</i>	<i>-6%</i>	<i>-16%</i>	<i>24%</i>	<i>31%</i>	
CoGS ex-dep'n	102,495	117,874	99,242	123,474	156,764	
SG&A	3,444	3,685	3,269	3,104	4,053	
SG&A as % of sales	2%	3%	3%	2%	2%	
<b>EBITDA</b>	<b>43,741</b>	<b>19,850</b>	<b>16,443</b>	<b>20,801</b>	<b>31,625</b>	
<i>EBITDA margin (%)</i>	<i>29%</i>	<i>14%</i>	<i>14%</i>	<i>14%</i>	<i>16%</i>	
Depreciation	6,077	6,772	6,773	7,352	8,116	
<b>Operating profit</b>	<b>37,664</b>	<b>13,078</b>	<b>9,669</b>	<b>13,449</b>	<b>23,509</b>	
<i>Operating profit margin (%)</i>	<i>25%</i>	<i>9%</i>	<i>8%</i>	<i>9%</i>	<i>12%</i>	
Other profits/losses	48	129	142	176	230	
Profits/Losses from associates	4	(1)	-	-	-	
Net interest expense	(1,331)	(1,262)	(1,632)	(1,162)	(184)	
<i>as % of avg net debt</i>	<i>-5%</i>	<i>-6%</i>	<i>-6%</i>	<i>-5%</i>	<i>-2%</i>	
<i>Interest cover (x)</i>	<i>(33)</i>	<i>(16)</i>	<i>(10)</i>	<i>(18)</i>	<i>(172)</i>	
Tax	2,536	1,479	992	1,545	2,954	
<i>Effective tax rate (%)</i>	<i>7%</i>	<i>15%</i>	<i>13%</i>	<i>13%</i>	<i>13%</i>	
Minority interest	43	(39)	(35)	54	103	
<b>Attributable net profit</b>	<b>34,478</b>	<b>8,484</b>	<b>6,835</b>	<b>10,531</b>	<b>20,141</b>	
Cash earnings	40,555	15,256	13,608	17,883	28,257	
Total number of shares	4,473	5,815	5,815	5,815	5,815	
<b>EPS (VND) (after treasury shares)</b>	<b>7,166</b>	<b>1,452</b>	<b>1,175</b>	<b>1,811</b>	<b>3,464</b>	
Bonus factor (x)	0.5	0.8	1.0	1.0	1.0	
<b>Adjusted EPS (VND)</b>	<b>3,932</b>	<b>1,117</b>	<b>1,175</b>	<b>1,811</b>	<b>3,464</b>	
<i>EPS growth (%)</i>	<i>180%</i>	<i>-72%</i>	<i>5%</i>	<i>54%</i>	<i>91%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023	2024F	2025F
Increase in working capital	4,058	2,964	1,774	6,654	11,189
Capex	11,572	17,866	9,641	9,118	8,546
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	(1,520)	(29,898)	(19,068)	816	(11,886)
<b>Free cash flow</b>	<b>14,110</b>	<b>(9,068)</b>	<b>(7,653)</b>	<b>16,589</b>	<b>7,849</b>
Share issues	11	4	1	-	-
Dividends paid	(1,693)	(2,261)	(8)	-	-
Increase in net debt	(15,814)	6,802	7,644	(16,589)	(7,849)
<b>Net debt, end of year</b>	<b>16,505</b>	<b>23,307</b>	<b>30,952</b>	<b>14,363</b>	<b>6,514</b>
<b>Shareholders' equity</b>	<b>90,781</b>	<b>96,113</b>	<b>102,836</b>	<b>110,459</b>	<b>127,692</b>
BVPS (VND)	20,296	16,529	17,685	18,996	21,960
Net debt / equity (%)	18%	24%	30%	13%	5%
Net debt / EBITDA (x)	38%	117%	188%	69%	21%
<b>Total assets</b>	<b>178,236</b>	<b>170,336</b>	<b>187,783</b>	<b>187,037</b>	<b>210,558</b>

KEY RETURN AND VALUATION RATIOS	2021	2022	2023	2024F	2025F
ROE	23%	38%	9%	7%	10%
ROA	10%	19%	5%	4%	6%
ROIC	12%	23%	5%	4%	7%
WACC	12%	11%	10%	13%	14%
EVA	0%	12%	-5%	-9%	-8%
PER (x)	4	21	26	17	9
EV/EBITDA (x)	4	10	12	9	6
EV/FCF (x)	14	(21)	(25)	12	25
PBR (x)	1	2	2	2	1
PSR (x)	1	2	2	1	1
EV/sales (x)	1	1	2	1	1
Dividend yield	2%	2%	2%	2%	2%

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### Our Recommendation System

**BUY:** Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

**OUTPERFORM:** Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

**NEUTRAL:** Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

**UNDERPERFORM:** Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

**SELL:** Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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