

Recommendation BUY NAM KIM STEEL JOINT STOCK COMPANY (HSX: NKG) BACK TO THE GOLDEN AGE

Current Price:	20,250	Date	08/03/2021	Shareholder Structure	
Previous target price	N/A	Outstanding Shares (Million)	171,999,900	Ho Minh Quang	13.64%
Target price (1 year)	27,200	Market Cap (Billion)	3,285	Vo Hoang Vu	11.05%
Dividend yield	0%	Avg. 6M Trading vol	5,033	SMC Trading Investment JSC	5.29%
Upside	34.3%	% Foreign float	12.3%	Dragon Capital Group	4.68%

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Target Price 20,000
Cut Loss Price 14,080

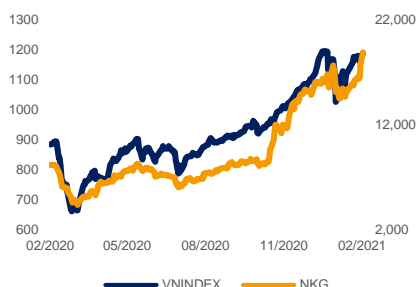
VALUATION

BSC recommends **BUY** NKG stock with a **1-year target price of VND27,200/share** by the method of comparing P/E with target P/E based on profitability performance, business outlook sales and the market discount rate for shares.

FORECAST BUSINESS RESULTS

BSC forecasts NKG's revenue growth in 2021 to reach 27.7% YoY with revenue recorded at VND 14,762 billion driven by 15% growth in volume (810 thousand tons) and increase in selling price based on HRC prices (+12%) YoY). NPAT is forecast to reach VND 600.5 billion (+103% YoY), EPS = VND 3,397/share (assuming 3% deduction for bonus and welfare fund).

Price comparison vs VN-index



INVESTMENT THESIS

- (1) (1) Steel industry entered a new growth cycle, creating favorable business conditions for enterprises in the industry
- (2) (2) NKG invests in a new warehouse to maximize the capacity of galvanizing steel mills to meet the growing demand in the coming time.

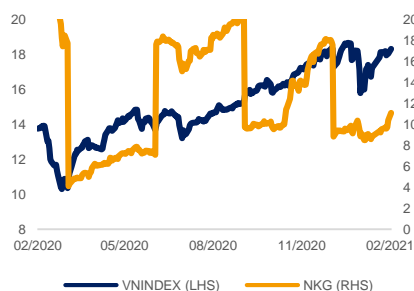
CATALYST

NKG benefits from the uptrend in HRC prices. However, there are also potential risks when the HRC price corrects.

RISKS

- (1) Fluctuations in input material prices, especially in HRC
- (2) Risks of increasing trade remedies of countries

P/E comparison vs VN-index



COMPANY UPDATE

(1) Business results in 2020 saw profit increase 6 times to 295 billion, although revenue decreased by 5.1% YoY to 11,560 billion. Positive results were achieved thanks to production restructuring, debt reduction in 2019 and the increase in HRC prices in 2H2020.

(2) The company sets a strong business plan for 2021 with the following specific targets: Revenue: 16,000 billion (+38% YoY); Profit after tax is 600 billion, double the same period. BSC assesses that NKG's plan is feasible considering the company's positive export orders until the middle of Q2/2021 and HRC's price movement in the market. In the year 2019/2020, HSG will pay a stock dividend at the rate of 10%.

	2020	2021F	Peer	VN-Index		2018	2019	2020	2021F
PE (x)	11.2	5.6	12.8	18.3	Net revenue	14,812	12,177	11,560	14,762
PB (x)	1.0	0.9	1.1	2.5	Gross profit	793	342	869	1,295
PS (x)	0.3	0.2	0.4	2.0	Profit after tax	57	47	295	601
ROE (%)	9.5%	17.4%	5.8%	13.7%	EPS	-91.9%	-17.4%	524.1%	103.3%
ROA (%)	3.8%	7.0%	2.4%	2.2%	EPS growth (%)	363	260	1,690	3,397
EV/ EBITDA (x)	6.4	5.7	8.8	17.3	Net debt/ equity (%)	1.5	1.0	0.9	1.1

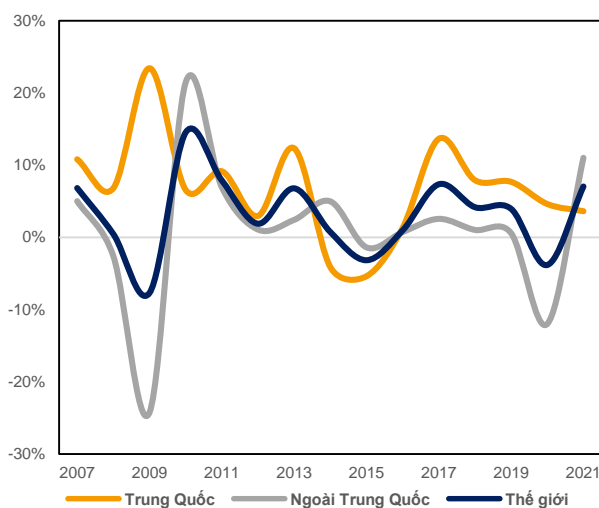
INVESTMENT THESIS

(1) Steel industry entered a new growth cycle, creating good business conditions for enterprises in the industry

World steel demand is forecast to grow by 5% in 2021 (according to Bloomberg Intelligence) thanks to the recovery of most regions in the world (China +3% YoY, outside China +11% YoY). Increased demand in markets will support global steel prices, as well as import demand for steel products in some markets such as China. This recorded a supply shortage due to the fact that production has not caught up with the rapid recovery of demand.

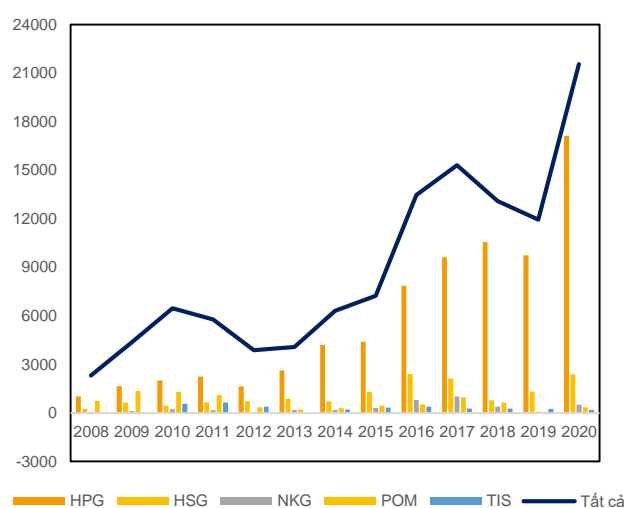
Vietnam's steel industry entered a new growth cycle from 2021 after nearly 3 difficult years with the driving force coming from (1) Investment, construction and (2) Supporting industry, processing and manufacturing. According to VSA's forecast, steel production in 2021 will increase by about 1 million tons, meeting part of the steel demand that is currently imported every year. Industry-wide consumption is forecast to reach 23.8 million tons (+2% YoY) after increasing 1.4% in 2020.

Steel demand outside China (USA, EU, India...) increased sharply thanks to the recovery of construction investment and production and business



Source: WorldSteel, Bloomberg Intelligence

Vietnam's steel industry has entered a new profit increasing cycle from the end of 2020 with the support of high selling prices



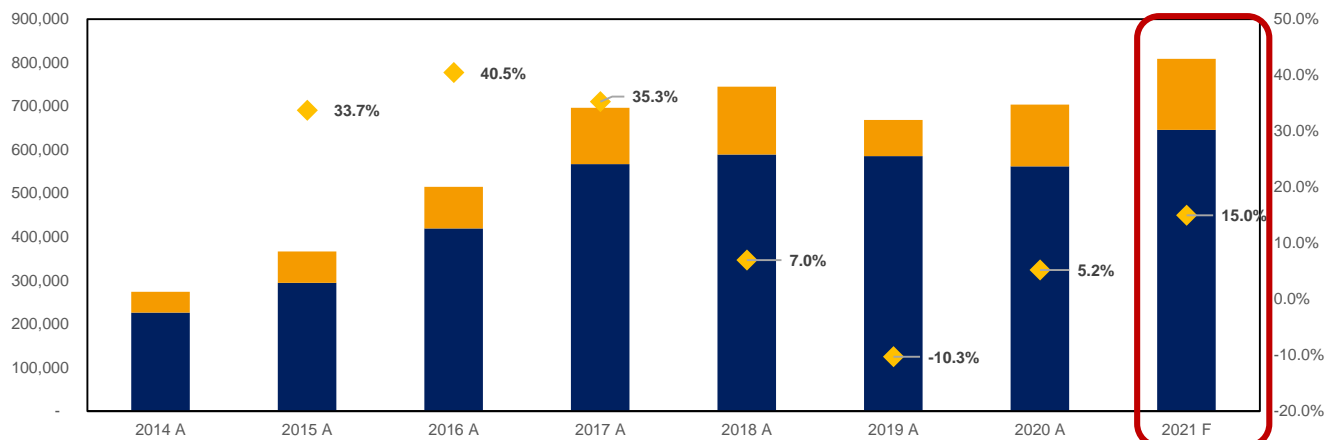
Source: FiinPro, BSC Research

(2) NKG has invested in a new centralized warehouse and relocated the steel pipe workshop with a scale of 4 hectares to maximize the capacity of the plating plants to meet the growing demand in the coming time.

NKG invested in a new centralized warehouse and relocated the steel pipe workshop with a scale of 4 hectares in order to maximize the capacity of the plating plants to meet the growing demand in the coming time. The construction of a centralized warehouse will help NKG remove the limit on growth in output, diversify production, and optimize the operation of existing factories. This is a necessary job for Nam Kim to return to the growth period after restructuring production, transferring Nam Kim 1 factory (with a capacity of 500,000 tons/year) and contributed capital at Nam Kim Korea to reduce debt in 2019. For the warehouse expansion project, the total investment is estimated at about VND 250 billion, in NKG's capacity compared with about 300 billion of EAT in 2020 and 576 billion of undistributed EAT as of December 31, 2020.

Based on the positive situation of export orders of NKG until the middle of Q2/2021 and the expectation that domestic construction demand will grow strongly in 2021, BSC assumes that NKG's consumption volume in 2021 will increase by 15% to 810 thousand ton.

Output in 2021 is forecast to increase sharply by 15% as the industry enters a new cycle and the growth limit due to warehousing is resolved after investment expansion

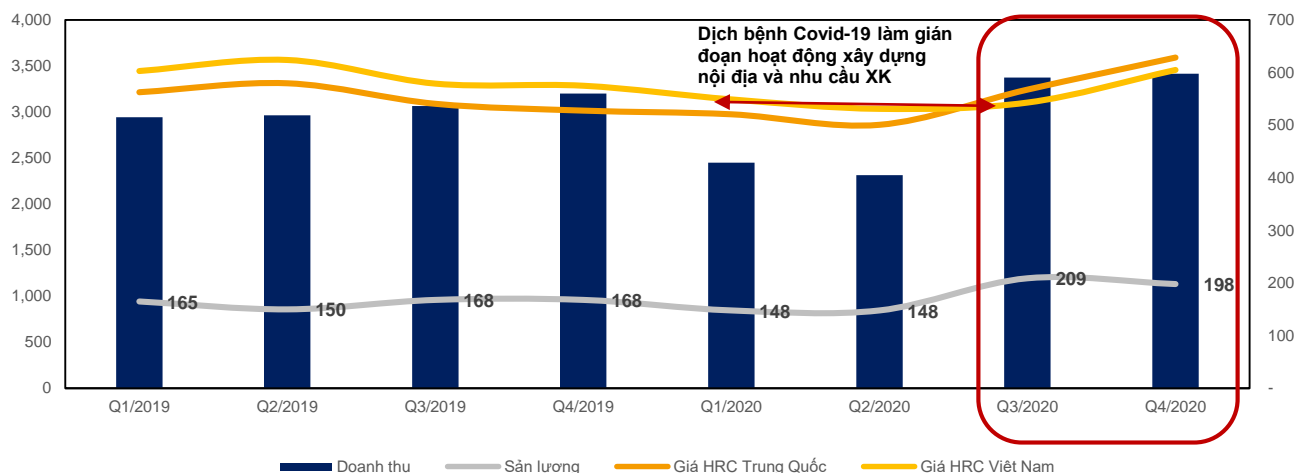


Source: WorldSteel, Bloomberg Intelligence

COMPANY UPDATE

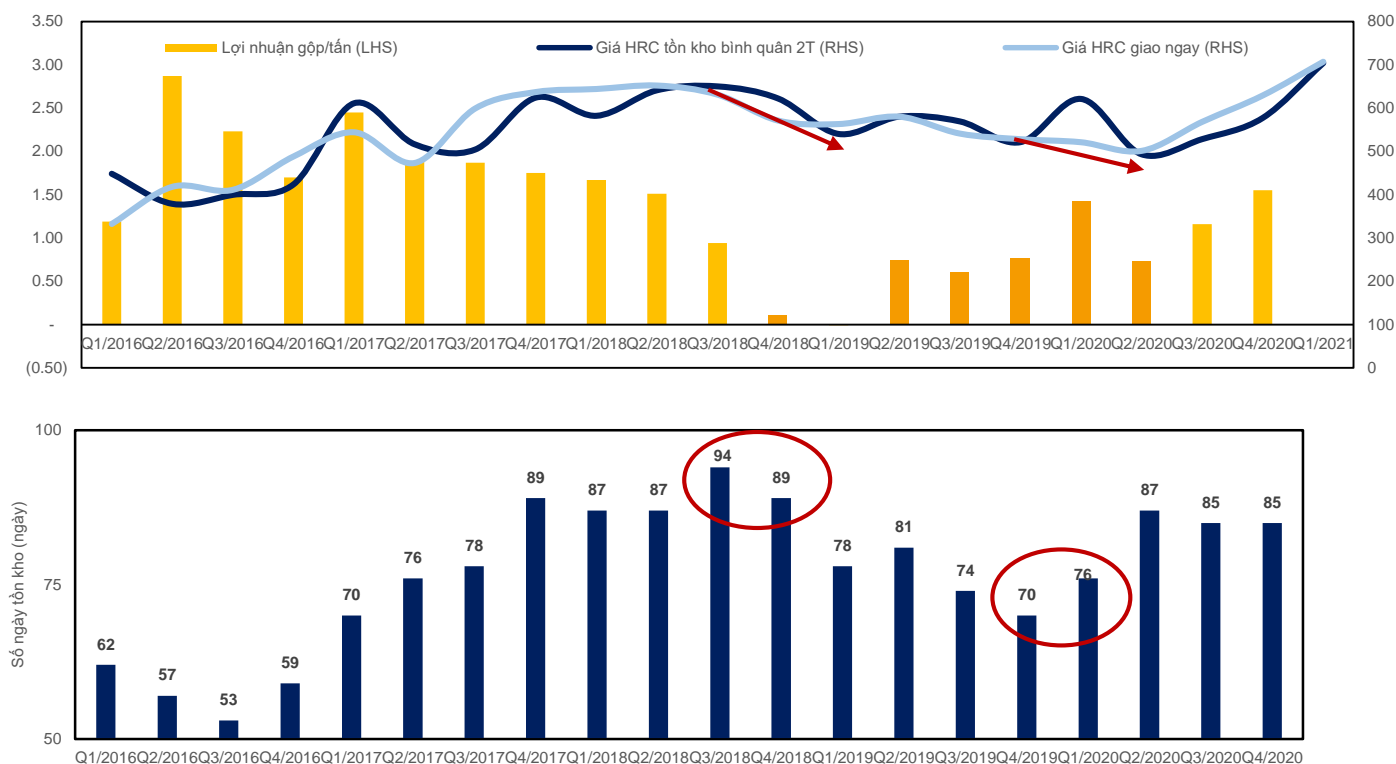
Profit in business results in 2020 increased 6 times

Revenue, after falling below 2,500 billion/quarter in the first 2 quarters, increased by over 40% in the second half of the year thanks to (1) sales volume recovered about 40% compared to the quarterly average volume in the first half of the year and (2) HRC price keeps increasing. As a result, Q3 increased by 15-60 USD/ton QoQ, in Q4 increased by 60 USD/ton QoQ. The HRC price level in 2H2020 increased by 80-90 USD/ton compared to 1H2020 and increased by about 60 USD compared to the same period in 2019.



Source: FiinPro, BSC Research

NKG's unit profit fluctuates in the same direction as the HRC price. BSC realizes that NKG is managing HTK at a more cautious level, thereby helping to reduce the negative impact of HRC price trend on unit profit as happened in Q4/2018-Q1/2019. During the period of strong increase in HRC since Q4/2020, NKG still maintained the same inventory ratio as the previous 2 quarters, instead of rushing to increase sharply for speculation. **Therefore, the company's profit can avoid a sharp drop when the HRC price suddenly corrects.**



Source: Bloomberg, FiinPro, BSC Research

	2019A	2020	% YoY	
Net revenue	12,177	11,560	-5.1%	Revenue -5.1% although total sales volume +5.2% due to average selling price adjusted down by HRC price (-3-6% YoY).
Sản lượng	668,863	703,733	+5.2%	
Steel Pipe	82,876	141,744	+71%	
Galvanised	585,987	561,989	-4.1%	
Gross profit	342	869	+154%	Gross profit margin improved strongly to 7.5% thanks to favorable movements of HRC price, especially in 2H2020.
<i>Gross profit margin</i>	2.8%	7.5%		
Selling expenses	210	268	+27.4%	
Administration expenses	69	92	+33.8%	
EBIT	63	509	+711%	Thanks to the strong improvement in operating profit, NPAT increased by 6.2 times although in 2019 the company recorded another 195 billion profit from the transfer of Nam Kim 1 factory and capital contribution at Nam Kim Korea.
Financial revenue	107	89	-16.7%	
Financial expenses	275	281	+2.3%	
Pre-tax profit/(loss)	90	321	+256%	
Profit/(loss) after tax	47	295	+524%	
EPS	260	1,690		Debt/Equity ratio decreased from a peak of 1.02 to 0.94 times thanks to the results of restructuring the financial situation, paying down long-term debt and reducing short-term debt since 2019.
Net debt/ equity	56.3%	46.1%		
ROA	1.9%	6.6%		
ROE	6.8%	19.1%		

Research

NKG confidently sets its 2021 profit plan to double

The Board of Directors of the Company has just approved the 2021 business plan with the following specific targets:

- Revenue: 16,000 billion (+38% YoY)
- Profit after tax: 600 billion (double the same period, near the peak of 700 billion profit in 2017)

BSC assesses that NKG's plan is feasible considering the company's positive export orders until the middle of Q2/2021 and HRC's price movement in the market.

Currently, HRC is still in an uptrend due to (1) recovery in demand in many areas and (2) high price of input materials (ore, coal, scrap steel).

However, BSC believes that steel prices will decrease gradually from Q2/2021 when the source supply in some areas such as China, India... will soon increase again after the fault, interruption due to the epidemic.

We favor the possibility that the price will adjust gradually according to the recovery of production rather than a sudden decrease, negatively affecting the activities of galvanized steel sheet enterprises. BSC assesses that the factors that are supporting the HRC price to maintain at a high level will be difficult to reverse quickly and cause the uptrend of HRC price to break suddenly due to two main reasons. Firstly, demand for steel (especially flat steel) is forecasted to recover stronger. In 2021, industrial production activities in many regions of the world will increase to make up for the shortages and disruptions in 2020 due to the epidemic. Second, ore prices will hardly fall deeply in the short term because the world supply shortage will continue. Mining output in Brazil recovered slowly after the Vale dam failure (2019) and the Covid-19 epidemic, along with political tensions between Australia and China (According to Severtal, one of Russia's major steel producers). In addition, coal prices are facing stronger upward pressure after falling to very low levels around 100 USD/ton in 2020.

All in all, we think the price of HRC will decline from the current high base, but not suddenly. Therefore, the pressure on NKG's cost of inventory and profit will not be as high as in the late 2018-early 2019 period.

FORECAST BUSINESS RESULTS

BSC forecasts NKG's revenue growth in 2021 to reach 27.7% YoY with revenue recorded at 14,762 billion VND with the driving force coming from 15% growth in volume (810 thousand tons) and increase in selling price based on HRC prices. The average gross profit is assumed at 1.6 million/ton, a slight increase compared to the unit profit in Q4/2020 based on BSC's assessment that the profit/ton of product will increase in Q1/2021 after that decreased slightly over the quarters. Gross profit 2021F= VND 1,295 billion, equivalent to a gross profit margin of 8.8%. NPAT is forecast to reach VND 600.5 billion (+103% YoY), EPS = VND 3,397/share (assuming 3% deduction for bonus and welfare fund)

VALUATION

BSC recommends **BUY** NKG stock with a **1-year target price of VND27,200/share** based on the method of comparing P/E with a target P/E of 8 times. In which, the target P/E level is adjusted according to the justified P/E coefficient as follows:

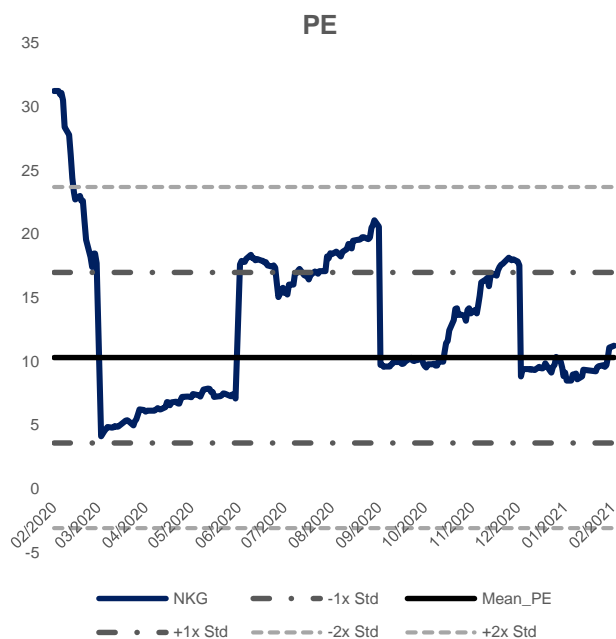
Long-term growth rate	3%
Return on equity on average in a 9-year cycle (2012-2020)	13%
Expected return on equity	12.9%
Beta	1.27
Rf	2.5%
Market risk premium	8.2%

$$\text{Justified P/E} = \frac{(ROE - g) / ROE}{k - g} = 7.8$$

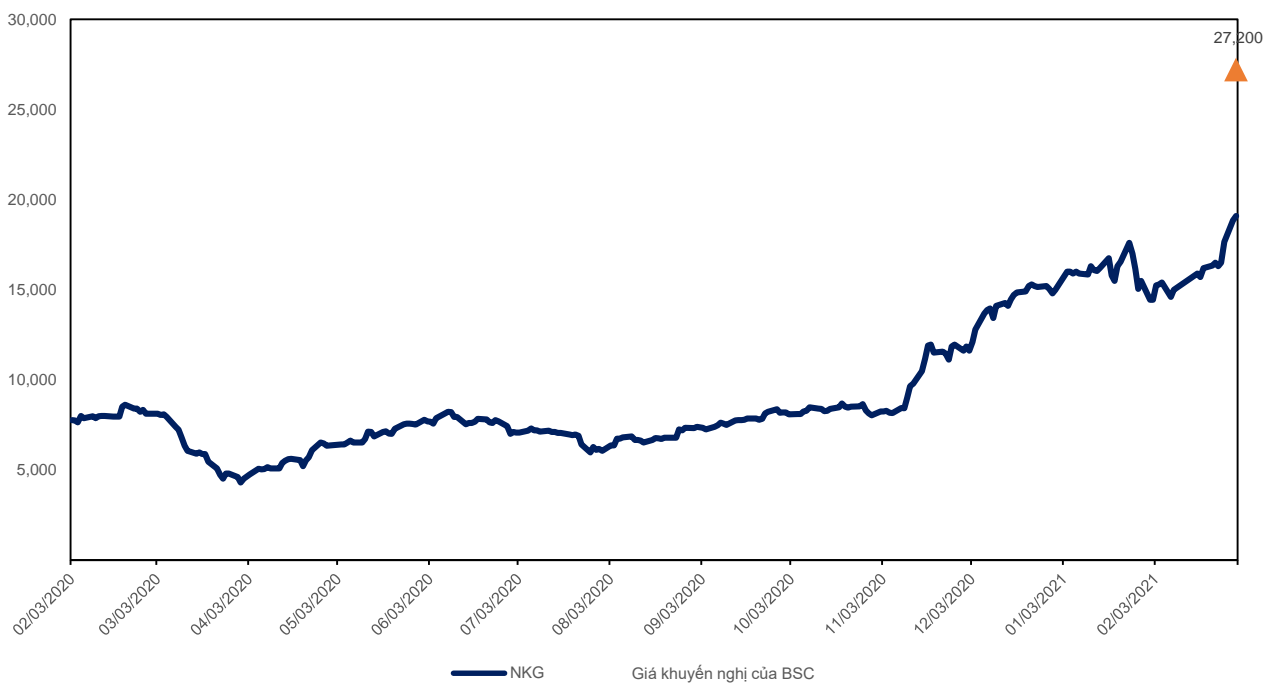
Table: Target price sensitivity analysis to P/E and forward EPS

		Value of a share (VND/share)				
		EPS 2021 (thousand VND/share)				
		3.066	3.227	3.397	3.567	3.745
P/E	27,173					
	6.0	18,393	19,361	20,380	21,399	22,469
	7.0	21,459	22,588	23,777	24,966	26,214
	8.0	24,524	25,815	27,173	28,532	29,959
	9.0	27,590	29,042	30,570	32,099	33,704
	10.0	30,655	32,268	33,967	35,665	37,448
	11.0	33,721	35,495	37,363	39,232	41,193

Source: BSC Research



Price movement of NKG's stock compared to BSC's recommendation



Source: Bloomberg, BSC Research

APPENDIX

Income Statement (bil VND)	2018	2019	2020	2021F
Net revenue	14,812	12,177	11,560	14,762
COGS	14,019	11,835	10,690	13,467
Gross profit	793	342	869	1,295
Selling expenses	325	210	268	342
Administration expenses	78	69	92	117
Operating profit	390	63	509	835
Financial revenue	98	107	89	23
Financial expenses	430	275	281	191
Interest expenses	339	237	222	191
Profit from joint ventures/associations	-	-	-	-
Other profit/loss	5	195	4	-
Pre-tax profit	62	90	321	667
Tax	5	43	25	67
Profit after tax	57	47	295	601
Non-controlling interests	0	0	0	0
Profit after tax - Non-controlling interests	57	47	295	601
EBITDA	811	505	886	1,306
EPS	363	260	1,690	3,397

Cashflow Statement (bil VND)	2018	2019	2020	2021F
(Loss)/Profit	57	47	295	601
Depreciation and amortization	421	442	376	471
Working capital changes	1,857	692	-620	-1,651
Net cash flow from operating activities	2,336	1,181	52	-580
Purchase and construction of fixed assets	-428	-96	-56	-148
Other investment	234	-134	391	0
Net cash flow from investment activities	-195	-230	334	-148
Dividends paid	-1	0	0	-55
Net borrowing fund	-1,748	-1,315	-171	0
Other charges	-24	-22	-73	1,156
Net cash flow from financing activities	-1,773	-1,336	-244	1,101
Beginning of year cash flow	93	461	76	219
Cash flow in the year	369	-385	142	374
Ending of year cash flow	461.00	76.04	219.16	592.74

CDKT (Tỷ đồng)	2018	2019	2020	2021F
Cash and cash equivalents	659	778	589	962
Short-term investments	745	877	1,439	1,779
Inventories	2,421	2,589	2,150	3,820
Other current assets	278	191	95	121
Current assets	4,102	4,435	4,273	4,047
Tangible fixed assets	3,272	3,049	2,727	2,389
Intangible fixed assets	260	247	249	234
Bất động sản đầu tư	-	162	151	139
Long-term assets in progress	444	49	59	-
Long-term investments	9	48	23	23
Other long-term assets	32	70	59	158
Long-term assets	4,020	3,629	3,271	2,887
Total assets	8,122	8,064	7,544	9,631
Current liabilities				
Short-term debt	548	1,819	850	1,107
Other current liabilities	3,201	2,389	2,520	4,065
Total current liabilities	175	135	509	646
Long-term debt	3,924	4,342	3,878	5,818
Other long-term liabilities	1,225	703	482	93
Total long-term liabilities	1	2	2	2
Total Liabilities	1,226	705	484	95
Share capital	5,151	5,048	4,362	5,913
Share premium	1,820	1,820	1,820	1,820
Undistributed earnings	766	766	766	766
Other capital	313	356	576	1,099
Non-controlling interests	72	74	18	33
Total Owners' equity	-	-	-	-
Total Liabilities and owners' equity	2,971	3,017	3,181	3,718
Number of outstanding shares	8,122	8,064	7,544	9,631

Chỉ số(%)	2018	2019	2020	2021F
Liquidity				
Current ratio	1.0	1.0	1.1	0.7
Quick ratio	0.4	0.4	0.5	0.0
Capital structure				
Debt/Total Asset	18.4%	14.1%	22.0%	27.4%
Debt/Equity	26.3%	24.8%	29.0%	29.8%
	48.3%	53.8%	51.4%	60.4%
Efficiency	54.5%	38.3%	39.8%	43.2%
Days Sales of Inventory				
Days Sales Outstanding				
Days Payable Outstanding	60	74	61	61
CCC	42	29	41	29
	228	155	150	150
Profit margin	(126)	(52)	(48)	(60)
Gross margin				
Profit after tax margin				
ROE	5.4%	2.8%	7.5%	8.8%
ROA	2.6%	0.5%	4.4%	5.7%
	0.4%	0.4%	2.6%	4.1%
Valuation	1.9%	1.6%	9.5%	17.4%
PE	0.6%	0.6%	3.8%	7.0%
PB				
Growth	65.3%	1.5%	0.7%	29.8%
Net revenue growth	29.5%	24.0%	-12.4%	51.0%
EBIT growth	61.6%	18.6%	-16.1%	55.6%
Pre-tax growth	1.4%	-7.4%	15.5%	6.3%
EPS growth	9.3%	-5.5%	9.1%	4.9%

Source: BSC Research.

Disclosure

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