

Sector: Steel

Recommendation

HOLD

**NAM KIM STEEL JOINT STOCK COMPANY (HSX: NKG)
REACH A NEW PEAK**

Current Price:	39,45
Previous target price	0
Target price (1 year)	46,50
Dividend yield	0%
Upside	17.8%

Date	25/08/2021	Shareholder Structure	
Outstanding Shares (Million)	218.4	Ho Minh Quang	12.9%
Market Cap (Billion)	8,616	Vo Hoang Vu	10.5%
Avg. 6M Trading vol	5,834,500	SMC Trading Investment JSC	5.0%
% Foreign float	12.3%	Dragon Capital Group	4.9%

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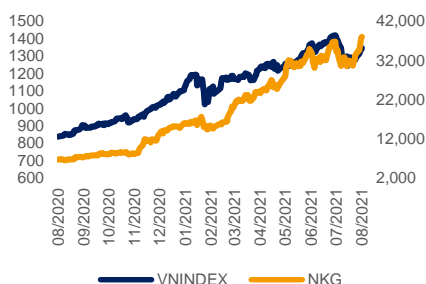
Technical Analyst:

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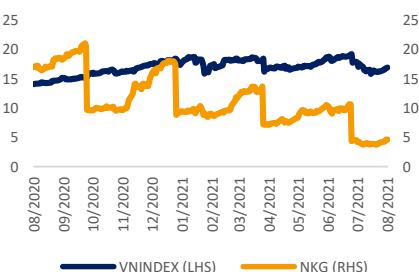
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Target Price:	42,500	VND
Cut Loss Price:	31,500	VND

Price comparison vs VN-index



P/E comparison vs VN-index



VALUATION

- BSC recommends HOLD NKG stock with a 2022 target price of 46,500 VND/share, equivalent to 17.8% upside from September 1, 2021 based on P/E = 5.5x valuation method.

FORECAST BUSINESS RESULTS

- BSC forecasts that NKG's revenue and net profit in 2021 will reach **VND 23,378 billion (+102% yoy)** and **VND 2,202 billion (+646% yoy)**, equivalent to **EPS 2021 = VND 10,957/share** with assumption (i) total sales volume reached 1.02 million tons (+44% yoy) and (ii) average selling price +40% yoy based on world HRC prices.
- BSC forecasts NKG's net profit and net profit in 2022 will reach **VND 24,066 billion (+3% yoy)** and **VND 1,928 billion (-13% yoy)** respectively, equivalent to **EPS 2022 = VND 8,524/share** with the assumption (i) sales volume +14% yoy and (ii) Average selling price -10% yoy due to the recovery of world steel supply leading to price adjustment.

INVESTMENT THESIS

- Export continues to be the driving force for NKG's business results in the future.
- HRC steel price continued to remain at a high level, helping to improve NKG's profit margin.

RISKS

- HRC price fluctuations can directly affect the profit margin of enterprises.

COMPANY UPDATE 1H2021

- NKG's net revenue and NPAT in 1H2021 reached VND 11,862 billion (+149% yoy) and VND 1,166 billion (19.7x yoy) respectively, 94% higher than the 2021 plan.
- Consumption volume in 1H2021 reached 564,500 tons (+91% yoy) thanks to strong growth in export volume.
- Inventory at the end of Q2/2021 +130% compared to Q2/2020 as NKG boosted production activities to meet market demand.

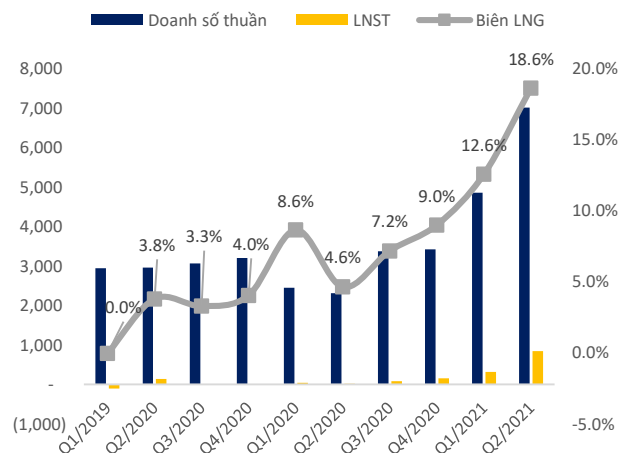
	2020	2021E	2022F	VN-Index
PE (x)	22.1	3.3	4.2	18.3
PB (x)	2.2	1.4	1.1	2.5
PS (x)	0.6	0.3	0.3	2.0
ROE (%)	9.5%	50.4%	30.1%	14%
ROA (%)	3.8%	22.4%	16.2%	2%
EV/ EBITDA (x)	6.0	3.3	3.0	17.3

	2019	2020	2021E	2022F
Net revenue	12,177	11,560	23,378	24,066
Gross profit	342	869	3,156	2,816
Profit after tax	47	295	2,202	1,928
EPS	260	1,690	10,957	8,524
EPS growth (%)	-17%	524%	646%	-13%
Net debt/ equity (%)	102%	94%	71%	22%

COMPANY UPDATE 1H2021

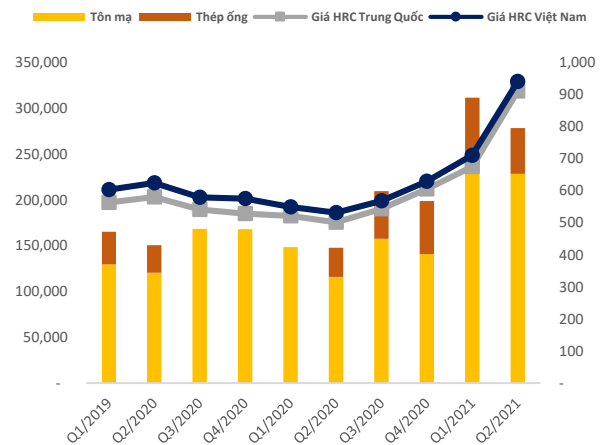
Business results in 1H2021 achieved a growth rate of 19.7 times yoy thanks to the increasing price of HRC in the world. NKG's net revenue and NPAT in 1H2021 reached VND 11,862 billion (+149% yoy) and VND 1,166 billion (19.7x yoy) respectively, 94% higher than the 2021 plan. Gross profit margin in the period reached 16%, an increase of more than 9 basis points compared to 1H2020 thanks to the main driving force coming from the increase in HRC price since 2020.

Figure 1: Q2/2021 gross margin increased by 14% points compared to Q2/2020



Source: NKG, BSC Research

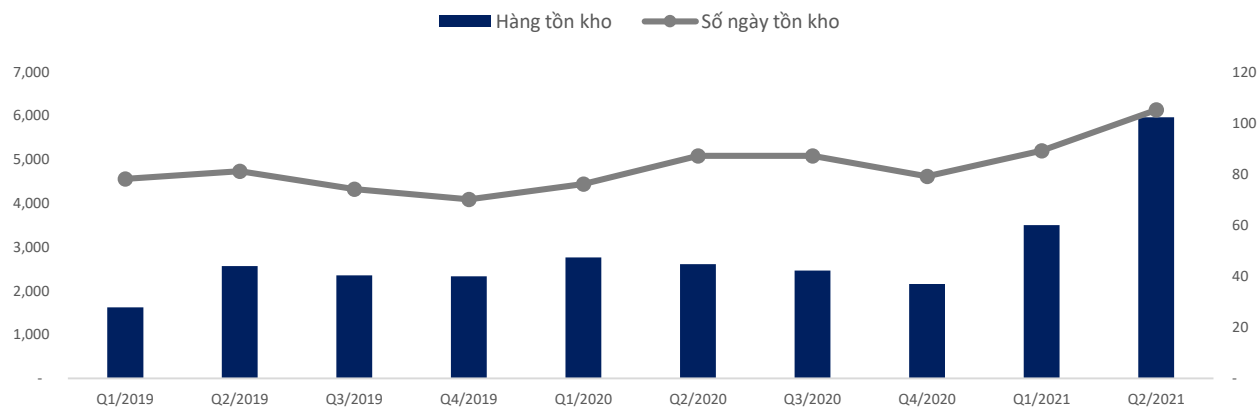
Figure 2: Output in 1H2021 increased sharply compared to 1H2020 thanks to the increase in selling price of HRC



Source: NKG, Bloomberg, BSC Research

Consumption volume grew strongly by 99% yoy thanks to export. In 1H2021, the total steel consumption of NKG reached 589,532 tons (+99% yoy), of which the output of galvanized steel and pipe steel reached 468,167 tons (+77% yoy) and 121,365 tons (+290% yoy) respectively. The export volume of galvanized steel sheet of NKG in the period reached 292,237 tons (+176% yoy), equivalent to about 50% of the total consumption volume of NKG. The main export markets of enterprises include the US and European countries.

Figure 3: Inventory volume in 1H2021 increased by 129% compared to 1H2020



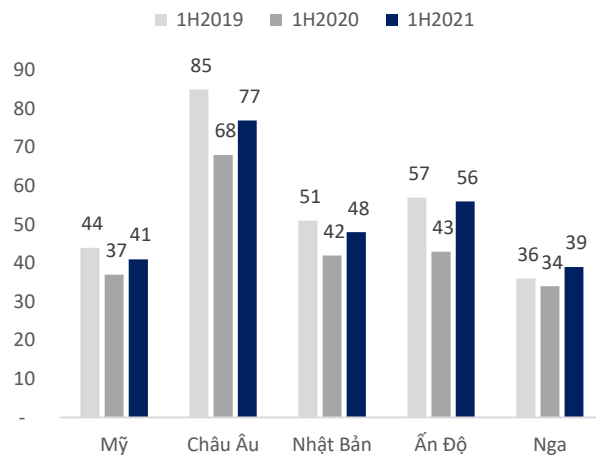
Source: NKG, BSC Research

Inventory increased by 129% yoy to meet production needs of enterprises. By the end of Q2/2021, NKG's inventory value reached nearly VND 6,000 billion, an increase of 129% compared to the end of Q2/2020. Inventory days also tend to increase by about 20 days compared to Q2/2020 as well as Q1/2021. This comes from the demand for export, resulting in more inventories being stored to serve to boost production activities.

INVESTMENT THESIS 2021-2022

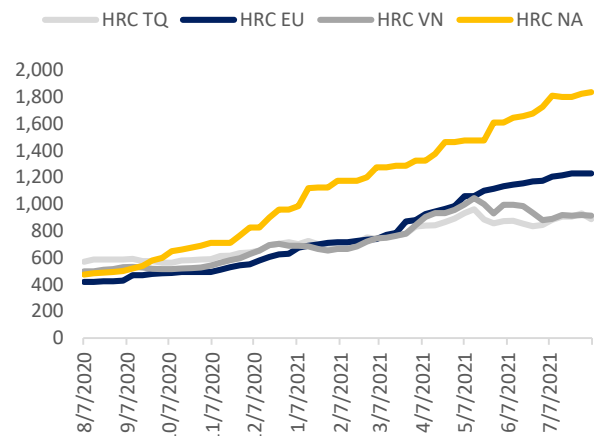
Export activities are the driving force behind NKG's business results in 2021. Currently, NKG has enough export orders to operate at full capacity until November this year. The demand for flat steel in major markets such as the US and Europe has increased sharply because these countries have implemented large infrastructure investment spending packages (such as the Senate's 1 trillion USD infrastructure investment bill). United States and the European Council's 750 billion euro infrastructure investment plan). Besides, there is a shortage of supply in major markets (USA, Europe, etc.) because production activities in these markets have not recovered to pre-epidemic levels. **This will help NKG's export volume in the near future increase to 70-80% of total output.**

Figure 4: Production volume in 1H2021 in major markets of NKG has not yet recovered to pre-epidemic levels (million tons)



Source: NKG, BSC Research

Figure 5: The selling price of HRC products in US & European markets is higher than in other markets



Source: Bloomberg, BSC Research

In addition, **the selling price of HRC in the US and European markets is also 30-90% higher than in other markets** (Figure 5). This has helped NKG's profit margin when exporting to the US and Europe significantly better, especially when the proportion of exports in the near future can account for 80% of output. In the coming time, BSC believes **that the uptrend of HRC's price in the above markets can continue in the next quarters**, helping the selling price of NKG's flat steel products to increase according to the world's selling price of HRC.

In 2022, we think that **export volume in 2022 will be difficult to maintain as high as 2021** because global steel supply will recover in 2022 when production returns to a stable state before disease, causing NKG's products to face competition again. In addition, the world steel supply is stable again, causing the price of HRC in the US and European markets to adjust. Therefore, BSC believes that **NKG's gross margin in 2022 may be affected by a decrease of about 1.7-2.0 basis points** compared to the LNG level in 2021.

FORECAST BUSINESS RESULTS

In 2021, BSC forecasts NKG's net revenue and profit after tax to reach **VND 23,378 billion (+102% yoy)** and **VND 2,202 billion (+646% yoy)** respectively, assuming:

- Total sales volume can reach **1.02 million tons (+44% yoy)**, in which galvanized steel sheet and galvanized pipe production will reach 814,884 tons (+45% yoy) and 201,276 tons (+42% yoy) respectively. .
- Average selling price +40% according to the world selling price of HRC.

In 2022, BSC forecasts NKG's net revenue and profit after tax to reach VND 24,066 billion (-11% yoy) and VND 1,928 billion (-13% yoy) respectively, assuming:

- Total consumption can reach **1.16 million tons (+14% yoy)**, of which galvanized steel sheet and steel pipe output will reach 937,117 tons (+15% yoy) and 225,430 tons (+12% yoy) respectively. .
- Average selling price is assumed to be -10% yoy due to the recovery of world steel supply leading to an adjustment in HRC price.

Table 1: Forecast of NKG's business results for 2021-2022

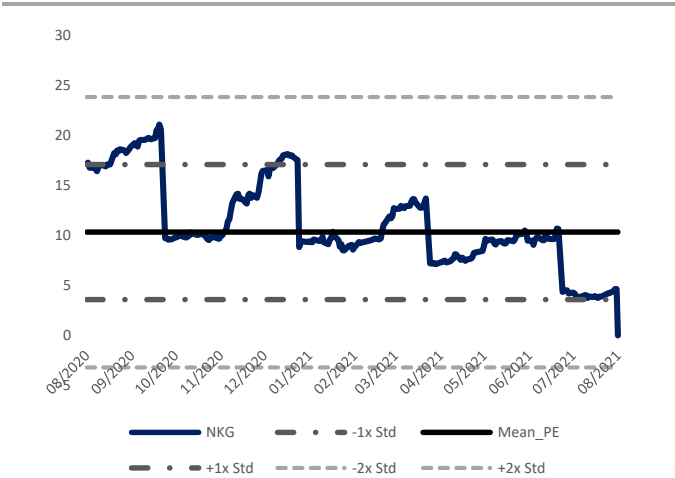
	2019	2020	2021F	2022F
Net revenue	12,177	11,560	23,378	24,066
Gross profit	342	869	3,156	2,816
Gross profit margin	3%	8%	14%	12%
Financial revenue	107	89	111	126
Financial expenses	(275)	(281)	(186)	(148)
Including: Interest expenses	(237)	(196)	(186)	(148)
Selling & Administration expenses	(279)	(360)	(634)	(652)
Pre-tax profit/(loss)	90	321	2,447	2,142
Profit/(loss) after tax	47	295	2,202	1,928
EPS	260	1,690	10,957	8,524
Volume (ton)	668,863	703,733	1,016,161	1,162,546
Galvanised sheet	585,987	561,989	814,884	937,117
Steel pipe	82,876	141,744	201,276	225,430

Source: NKG, BSC Research

VALUATION

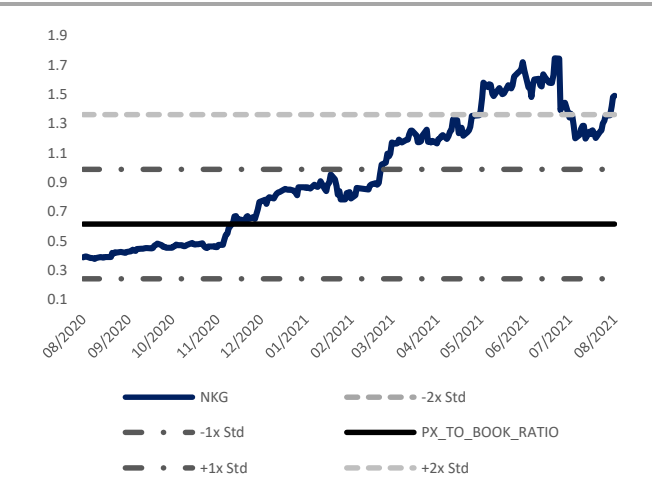
Based on the P/E comparison method, BSC believes that the reasonable P/E for NKG stock is 5.5x. With EPS 2022 FW at **VND8,524/share**, we recommend **HOLD** NKG stock for 2022 with a target price of **VND46,500/share, 17.8% upside** from the closing price on September 1, 2021.

Figure 6: P/E of NKG



Source: Bloomberg, BSC Research

Figure 7: P/B NKG



Source: Bloomberg, BSC Research

APPENDIX

Income Statement (bil VND)	2019	2020	2021F	2022F	Cashflow Statement (bil VND)	2019	2020	2021F	2022F
Net revenue	12,177	11,560	23,378	24,066	(Loss)/Profit	47	295	2,202	1,928
COGS	11,835	10,690	20,222	21,250	Depreciation and amortization	442	376	478	486
Gross profit	342	869	3,156	2,816	Working capital changes	692	-656	-2,397	94
Selling expenses	210	268	492	502	Net cash flow from operating activities	1,181	16	283	2,507
Administration expenses	69	92	142	150	Purchase and construction of fixed assets	-96	-54	-234	-241
Operating profit	63	509	2,522	2,164	Other investment	-134	400	0	0
Financial revenue	107	89	111	126	Net cash flow from investment activities	-230	346	-234	-241
Financial expenses	275	281	186	148	Dividends paid	0	0	-55	-182
Interest expenses	237	222	186	148	Net borrowing fund	-1,315	-145	0	0
Profit from joint ventures/associations	-	-	-	-	Other charges	-22	-73	1,170	-2,378
Other profit/loss	195	4	-	-	Net cash flow from financing activities	-1,336	-218	1,116	-2,560
Pre-tax profit	90	321	2,447	2,142	Beginning of year cash flow	461	76	219	1,385
Tax	43	25	245	214	Cash flow in the year	-385	143	1,166	-294
Profit after tax	47	295	2,202	1,928	Ending of year cash flow	76	219	1,385	1,091
Non-controlling interests	0	0	0	0					
Profit after tax - Non-controlling interests	47	295	2,202	1,928					
EBITDA	505	886	3,000	2,650					
EPS	260	1,690	10,957	8,524					

Balance Sheet (bil VND)	2019	2020	2021F	2022F	Ratio (%)	2019	2020	2021F	2022F
Cash and cash equivalents	778	589	1,754	1,461	Liquidity				
Short-term investments	877	1,439	2,464	2,530	Current ratio	1.0	1.1	1.4	2.1
Inventories	2,589	2,150	4,709	4,658	Quick ratio	0.4	0.5	0.7	1.0
Other current assets	191	95	192	198	Capital structure				
Current assets	4,435	4,273	9,119	8,846	Debt/Total Asset	38%	40%	32%	13%
Tangible fixed assets	3,049	2,727	2,435	2,087	Debt/Equity	102%	94%	71%	22%
Intangible fixed assets	247	249	234	227	Efficiency				
Bất động sản đầu tư	162	151	139	128	Days Sales of Inventory	77	81	62	80
Long-term assets in progress	49	59	-	-	Days Sales Outstanding	24	37	30	38
Long-term investments	48	23	23	23	Days Payable Outstanding	35	42	20	26
Other long-term assets	70	59	187	306	CCC	66	75	73	92
Long-term assets	3,629	3,271	2,887	2,887	Profit margin				
Total assets	8,064	7,544	12,146	11,627	Gross margin	3%	8%	14%	12%
Current liabilities	1,819	850	1,662	1,747	Profit after tax margin	0%	3%	9%	8%
Short-term debt	2,389	2,520	3,833	1,475	ROE	2%	10%	50%	30%
Other current liabilities	135	509	989	1,084	ROA	1%	4%	22%	16%
Total current liabilities	4,342	3,878	6,484	4,306	Valuation				
Long-term debt	703	482	103	83	PE	151.6	24.2	3.3	4.2
Other long-term liabilities	2	2	2	2	PB	2.3	2.2	1.4	1.1
Total long-term liabilities	705	484	105	85	Growth				
Total Liabilities	5,048	4,362	6,589	4,391	Net revenue growth	-18%	-5%	102%	3%
Share capital	1,820	1,820	2,184	2,184	EBIT growth	-18%	66%	385%	-13%
Share premium	766	766	766	766	Pre-tax growth	-17%	524%	646%	-12%
Undistributed earnings	356	576	2,573	4,143	EPS growth	-28%	550%	577%	-22%
Other capital	74	18	33	143					
Non-controlling interests	-	-	-	-					
Total Owners' equity	3,017	3,181	5,557	7,236					
Total Liabilities and owners' equity	8,064	7,544	12,146	11,627					
Number of outstanding shares	182	182	218	218					

Source: NKG, BSC Research

Disclosure

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