

Industry: Materials

Recommendations

BUY

NAM KIM STEEL JOINT STOCK COMPANY (HSX: NKG)
Gradually improve its position in the steel industry

Current price:	22,850
Previous target price :	60,400
New target price:	30,400
Dividend yield	N/A
Upside	27%

Report writing date:	09/06/2022	Shareholder structure	
Outstanding Shares (Million)	263.3	Ho Minh Quang	14.2%
Market capitalization (billion VND)	6,279	Unicoh Speciality Chemicals	6.89%
10 session average volume	7,740,190	SMC Trading Investment JSC	4.98%
Foreign ownership	6.56%	Nguyen Thi Nhan	4.63%

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Recommended price: 27,000 VND
Stop loss price: 22,500 VND

Valuation

- **BSC maintains its recommendation to BUY NKG shares, but adjusts its 1-year target price to 30,400 VND/share** (after dividend) equivalent to 27% upside compared to the price on June 9, 2022.
- **We use the PE method, with the target PE adjusted down from 5.5x to 4.5x** compared to the previous report because the overall market has been heavily discounted. We think the above valuation is still attractive due to the expectation that NKG will have a sales volume growth in 2022, as well as the prospect of capacity increase in the future.

Forecasting business results

- Compared to the previous report, we reduce NKG's **net revenue** and **NPAT** in 2022 to **VND 31,653 billion (+12.3% YoY)** and **VND 2,026 billion (-8.9% YoY)**, **EPS FW (diluted) respectively = 7,697 VND/share**.
- We keep our assumptions: (i) **Steel price -5% yoy**, and adjust our assumptions, (ii) **Steel sales volume growth slowed from 23.7% yoy to 17.8% yoy** (ii) **GPM -1.6% yoy** compared to -1% in the previous report.

Investment perspective

- Consumption volume in 2022 will increase thanks to a capacity increase of +20% and an increase in export quotas in the EU market after the ban on steel imports from Russia.
- Attractive valuation relative to industry peers and improvements in business performance.

Risk

- Supply chain bottlenecks affect export deliveries;
- Material price fluctuations ;
- Consumption demand in export markets declines .

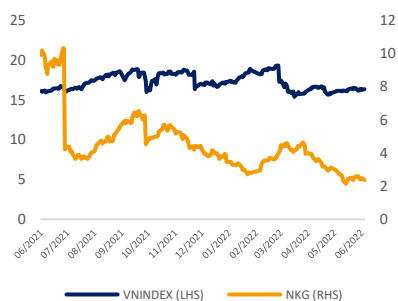
Business Update

- Total consumption of steel products in 1Q2022 is estimated at 257 thousand tons (+6% YoY), in which the output of galvanized steel is 214 thousand tons (+12% yoy), pipe steel production is 43 thousand tons (-17% yoy).
- Galvanized steel sheet export volume in 1Q2022 accounted for 72.5% of total consumption, reaching 155 thousand tons.

Stock price comparison table and VNIndex



P/E and VN index comparison table



	2021	2022F	Peer	VN-Index
PE (x)	7.2	3.1	4.2	17.2
PB (x)	1.5	0.8	1.3	2.0
PS (x)	0.4	0.2	0.7	3.5
ROE (%)	38.9%	26.1%	36.8%	14.7%
ROA (%)	14.5%	12.8%	17.8%	6.6%

	2019	2020	2021	2022F
Turnover	12,177	11,560	28,173	31,653
Gross profit	342	869	4,270	4,314
NPAT	47	295	2,225	2,026
EPS	260	1,622	10,189	7,697
EPS growth	N/A	524%	528%	-8.9%

BUSINESS UPDATE

NKG's business results in Q1.2022 recorded growth (net revenue reached VND 7,151 billion, +47% yoy and EAT at VND 507 billion, +59%) **with the main contribution from the export of galvanized steel sheet.**

Table 1: Summary of Q1.2022 results

<i>Billion VND</i>	Q1.2022	Q1.2021	% yoy	Q4.2021	% qoq	Note
Net Revenue	7,151	4,853	47%	8,780	-19%	Net revenue grew strongly when consumption of all kinds of steel +6% yoy and steel price in domestic market +10.5% yoy, export market like US +9.5% yoy and EU +38% yoy
Revenue structure by market:						
Domestic	37.3%	38.2%				
Export	62.7%	61.8%				
Gross profit	957	610	57%	1,058	-10%	
Gross profit margin	13.4%	12.6%		12.0%		
Selling and G&A expenses	316	200	58%	537	-41%	Selling expenses increased sharply due to increased export costs
% Selling and G&A expenses/Net revenue	4.4%	4.1%		6.1%		
EBIT	641	410	56%	521	23%	
Borrowing interest	123	72	71%	68	-7%	
Financial revenue	73	17	329%	106	-31%	Average cash and financial investment in the last 2 quarters +45% yoy and increased deposit interest rates, helping to increase financial revenue
NPAT	507	319	59%	452	12%	
Steel consumption volume (ton)						
Steel pipe	43,426	52,332	-17%	34,315	27%	
Galvanized steel sheet	213,911	190,789	12%	251,692	-15%	
Domestic consumption market share						
Steel pipe	7.5%	9.5%		7%		
Galvanized steel sheet	9.8%	9.8%		9%		
Export market share						
Galvanized steel sheet	23.6%	18.7%		22%		
Export share in total consumption						
Galvanized steel sheet	72.5%	72.9%		80%		
Some indicators of the balance sheet						
Short-term loans	5,260	3,081	71%	3,773	39%	Short-term debt increased as inventories remained high and receivables increased sharply
Long-term loans	18	482	-96%	46	-62%	
Inventory	8,502	3,500	143%	8,281	3%	Reverted 300 billion Allowance for devaluation of inventories from Q4.2021 Provision reversal due to steel price recovery in 1Q2022
Provision for devaluation of inventory	102	-	N/A	420	-75%	
Receivables	2,756	2,062	34%	751	45%	

Source: Company financial statements, Fiiipro, BSC Research

Galvanized steel sheet exports continue to be a major contributor to NKG's business results, consistent with our previous analysis. ([link](#))

NKG continues to maintain a large export proportion in total consumption. Steel export volume grew slightly, +11% yoy and the export market share of galvanized steel increased from 21% at the end of 2021 to 23% in 4M2022.

Figure : Steel export output of NKG (thousand tons)

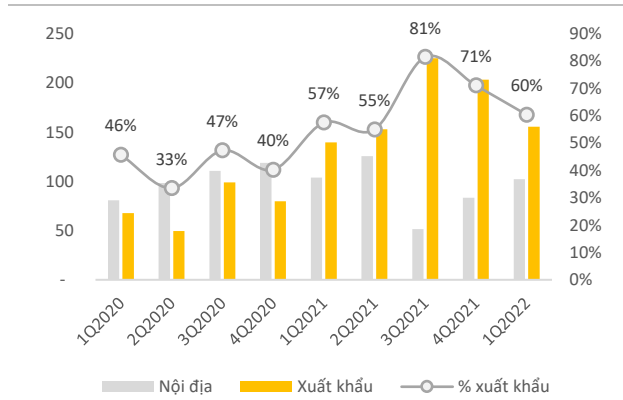
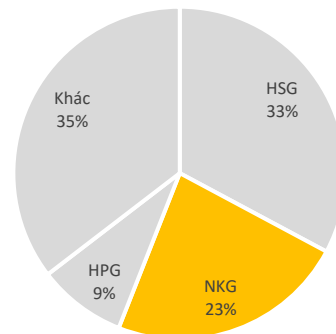


Figure : Export market share of galvanized steel in 4M2022



Source: NKG, Fiinpro, BSC Research

Steel exports from Vietnam to key markets such as the US and EU are growing well. In the first 4 months, exports to Europe +27.8% yoy, up to the US increased 3.6 times over the same period. We expect exporters in Vietnam can benefit from the decline in steel supply from Russia and Ukraine especially in the European market after the bloc issued a ban on steel imports to Russia (accounting for 14% of output) and reallocating Russian import quotas to other countries.

Figure : Steel export volume to the EU (thousand tons)

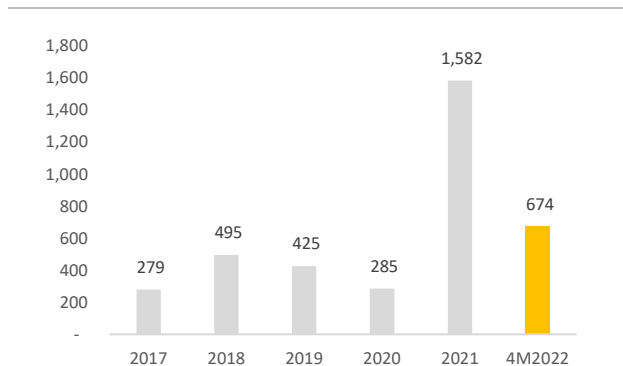
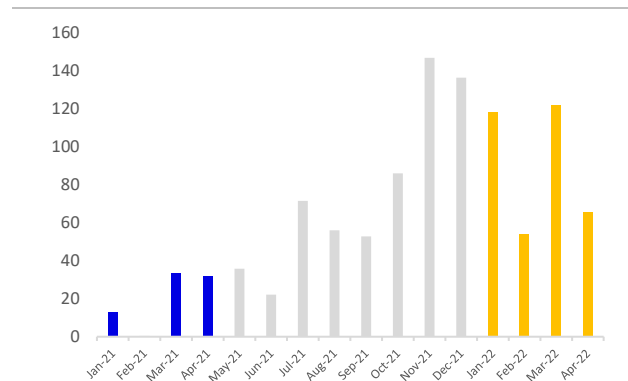


Figure : Export output of flat steel to the US (thousand tons)



Source: Eurofer, US Census, BSC Research

Gross profit margin decreases if provision reversal is not included.

In the previous analysis report ([link](#)), we believe that the recovery of HRC price in 1Q2022 has a positive impact on the company's gross profit margin. Although gross profit margin in 1Q2022 increased to 13.4% (+140 bps QoQ), we note that NKG made a reversal of VND318 billion in provision for inventory devaluation during the period, gross profit margin excluding rollback is only 8.9%.

Figure : Large inventory is maintained, with a cycle of about 90-120 days

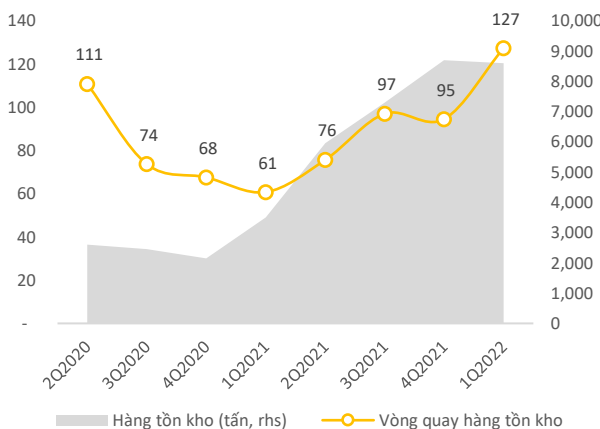
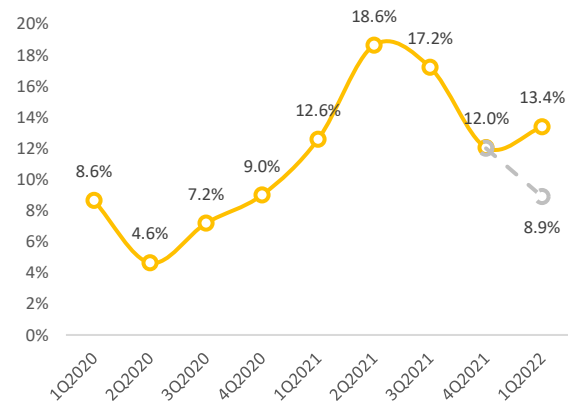
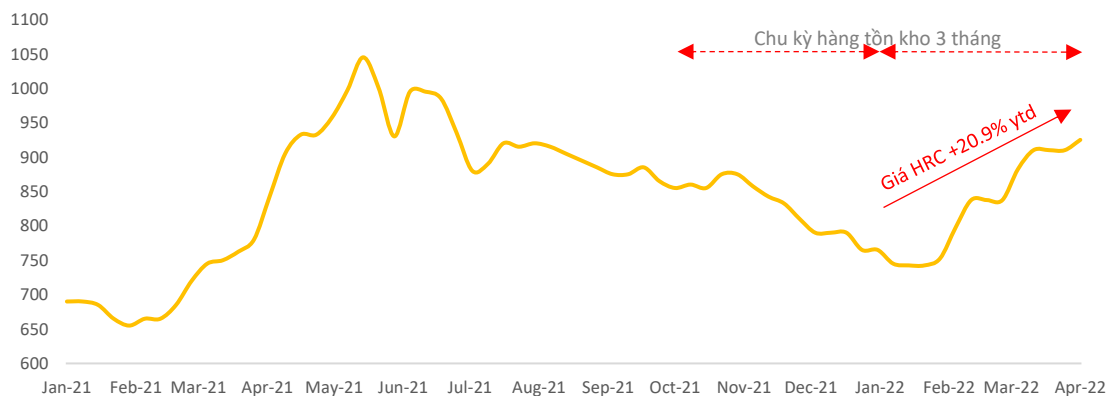


Figure : Gross profit margin improved in Q1.222, but actually declined excluding the reversal of provision for devaluation of inventory



Source: BCTC công ty, BSC Research

Figure : HRC prices in Vietnam have recovered since the beginning of 2022 (USD/ton)



Source: Bloomberg, BSC Research

- (1) We believe that profit margin (excluding provision reversal) will decrease due to:** (1) NKG has not yet recorded revenue for orders closed in March - the time when steel prices increased the most and (2) Export deliveries are affected by supply chain bottlenecks. Chưa ghi nhận doanh thu các đơn hàng xuất khẩu đã chốt tại thời điểm giá thép tăng mạnh.
- (2) HRC price in EU market (accounting for 50% of export volume in 2021) peaked in March 2022, +44% ytd, while the price of HRC in the US rebounded in March after a period of continuous decline since Q4.2021. As export orders are usually delivered around 1-2 months later, revenue and profit from orders closed at high prices have not been recorded in Q1/2022.**

Figure : HRC price in Europe (USD/ton) increased sharply in March 2022

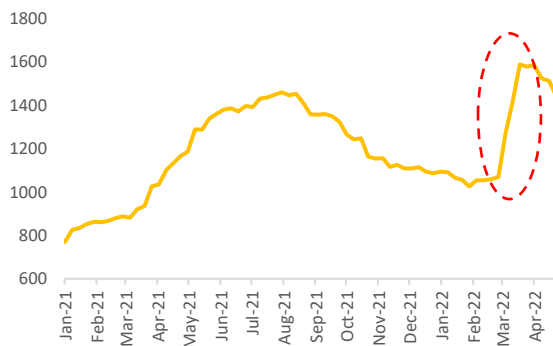
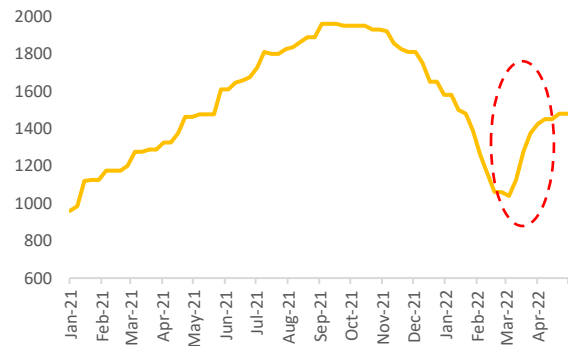


Figure : HRC price in North America (USD/ton) increased sharply in March 2022



Source: Bloomberg, BSC Research

(3) Supply chain congestion affects export deliveries. China's major seaports are blocked because of the Covid 19 outbreak and the Russia-Ukraine conflict, which has significantly affected global shipping. We believe that the above situation will gradually improve when China reopens Shanghai from June 1.

Figure : Number of ships entering and leaving Vietnam decreased in 1Q2022 (-12% yoy)

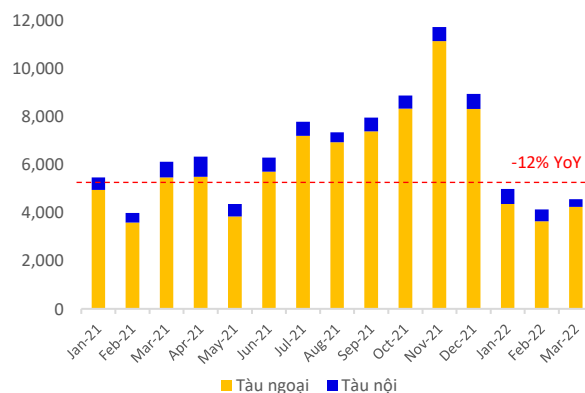
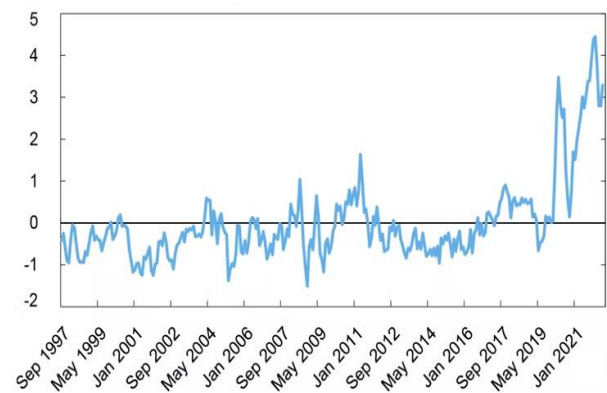


Figure : The Global Supply Chain Volatility Index (GSCPI) has increased strongly since the beginning of 2022 (% Standard Deviation)



Source: Vinamarine, New York FED, BSC Research

We expect that when logistics activities return to normal, NKG will record revenue for orders closed in March 2022 at a high price, helping to improve gross profit margin in the following quarters compared to 8.9% in Q1/2022.

FULL-YEAR OUTLOOK 2022 – GROWTH STILL GROWTH

Consumption volume increased thanks to the grant of additional export quotas

Steel export quotas were extended. In the previous report ([link](#)), we expect the Russia-Ukraine conflict to open up opportunities to increase consumption for other exporting countries, including Vietnam. On March 15, the EU officially imposed an import ban on steel originating from Russia, and reallocated Russia's export quota (estimated 14% in 2021) to other countries.

NKG's products are competitive in the import market. Although the demand for steel imports in developed countries (the main consumption market of NKG) is forecasted to grow slowly in 2022, we believe that NKG still has the ability to compete on price thanks to the advantage of lower production costs.

Figure : Steel demand is forecasted to grow slowly in 2022

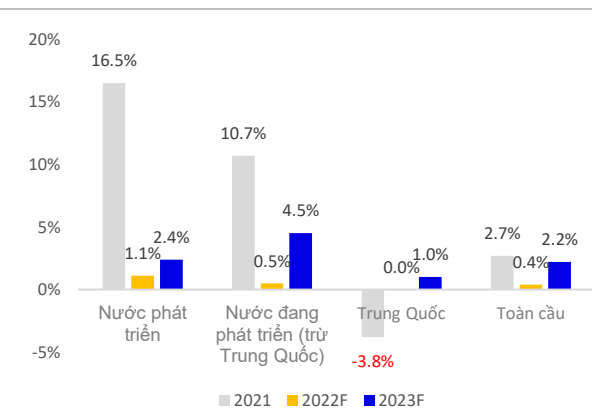
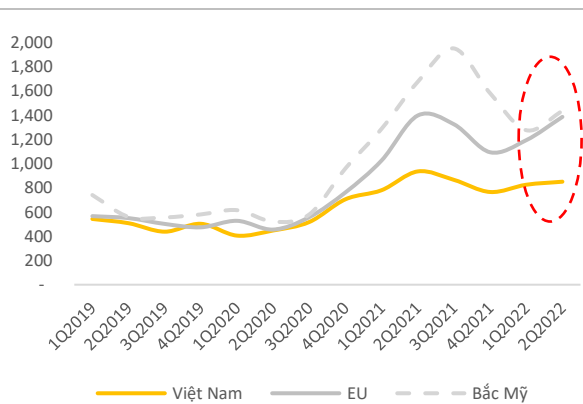


Figure : HRC price differential between Vietnam, EU and North America widens since March 2022 (USD/ton)

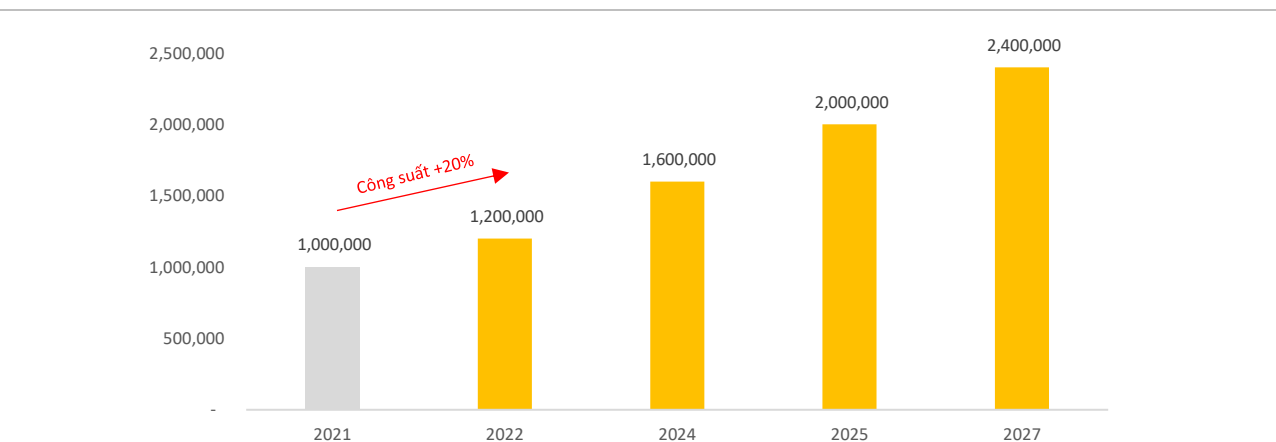


Source: WSA, Bloomberg, BSC Research

Capacity to expand capacity to meet consumption needs

The supply of galvanized steel is expected to increase thanks to continued capacity expansion. Besides the plan to increase capacity by +20% in 2022 as we mentioned in the previous report ([link](#)), NKG is planning to deploy a new project in My Xuan, Ba Ria Vung Tau with a total capacity of 1.2 million tons/year (~120% of current capacity) divided into 3 phases and focuses on high quality products.

Figure : NKG's galvanized steel sheet capacity is expected to be +20% in 2022 (tons)



Source: NKG, BSC Research

Based on the advantages of export quotas and price competitiveness, we expect that in 2022, NKG will still have a growth in consumption volume after increasing capacity, at +17.8% yoy.

CHEAP VALUATION COMPARED WITH COMPANY POTENTIAL

We believe that NKG should be paid a better price for: (i) its leading position in the galvanized steel industry; (ii) improved business performance..

(i) **Leading position in galvanized steel sheet industry.** NKG has maintained its market share of galvanized steel sheet in the last 5 years and will grow in 2021 despite increased competitive pressure when a big competitor joins. Profit margin gradually improved and approached the top enterprises in the industry.

Figure : NKG has maintained a good market share in the last 5 years

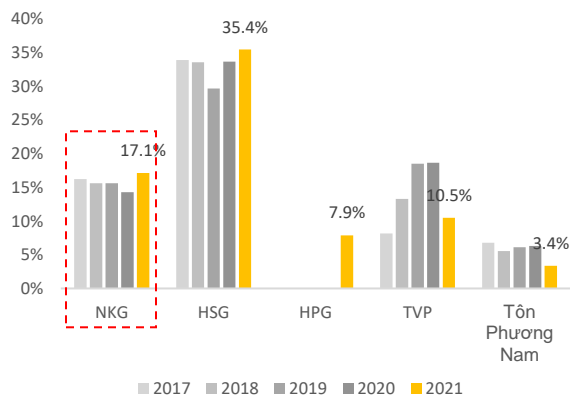
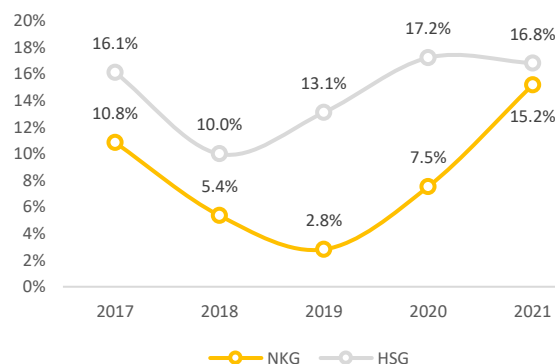


Figure : NKG's gross margin is approaching that of the leading company in the galvanized steel industry



Source: BCTC công ty, BSC Research

(ii) Business efficiency is improved. During the favorable period of the steel industry in the past 2 years, NKG is one of the enterprises with the best business performance. As Vietnam's steel export market is still very potential, we think that the current valuation for NKG is relatively attractive compared to other companies in the same industry.

Figure : NKG has high profitability with a relatively large scale of capacity among listed companies

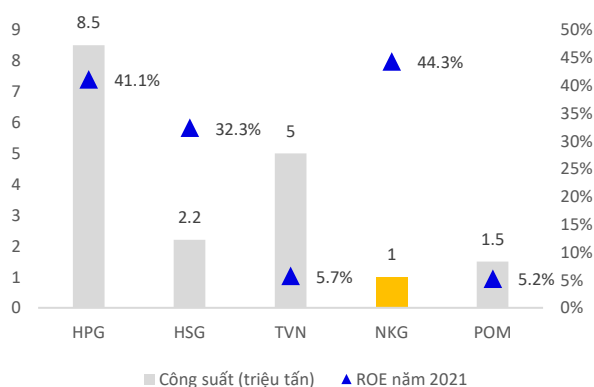
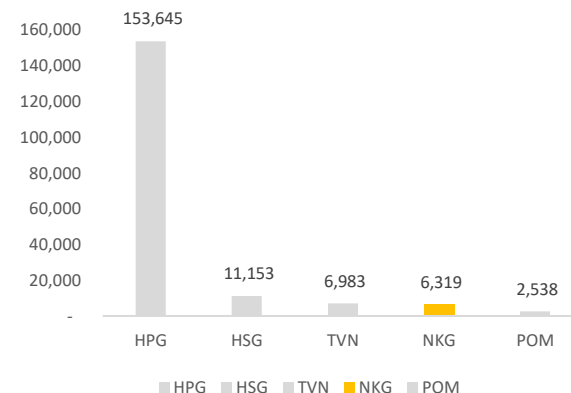
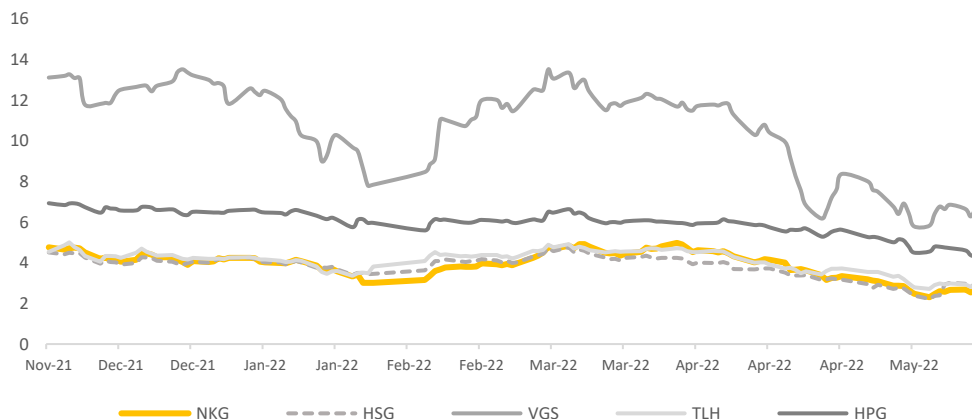


Figure : NKG's market capitalization is still relatively low compared to the industry



Source: Company financial statements, BSC Research

Figure : Valuation (in PE) of NKG is relatively cheap compared to stocks in the same industry



Source: Fiinpro, BSC Research

FORECAST OF BUSINESS RESULTS

Compared to the previous report (link), BSC adjusted its forecast of NKG's **net revenue** and **NPAT** in 2022 as follows::

Table: Forecast before and after adjustment

	Previous forecast	Adjusted forecast	+/- compared to previous forecast	% YoY
Net revenue (billion VND)	33,788	31,653	-6.3%	+12.3%
Profit after tax (billion VND)	2,399	2,026	-15.5%	-8.9%
EPS (VND/share) ^(*)	9,112	7,687	-15.6%	-8.9%
(*)Diluted EPS after stock dividend, rate 20%				
Source: BSC Research				

Net sales and NPAT forecasts will change as we adjust some assumptions based on the company's announced business plan and fluctuations in raw material and steel prices in the first 5 months of 2022. Speci::

Table: Assumptions

Assumption	Previous reports	Update report	Note
Consumption output of steel of all kinds	+25.7% yoy	+17.8% yoy	Downward adjustment due to expected decrease in domestic and export steel consumption
Annual average steel price	-5% yoy	-5% yoy	
Gross profit margin	-1% yoy	-1.6% yoy	Adjusted down due to the prospect of falling steel prices
Source: BSC Research			

VALUATION

We use the P/E method, with a target PE of 4.5x – lower than the target PE of 5.5x in the previous report (link) reflecting that the general market has discounted quite deeply compared to the old valuation in the face of inflation risks and declining demand. With an EPS forecast of 2022 FW at VND 7,697/share, we recommend **BUY** for NKG stock with a 1-year target price of **VND 30,400/share, 27% upside** from the closing price on June 9, 2022..

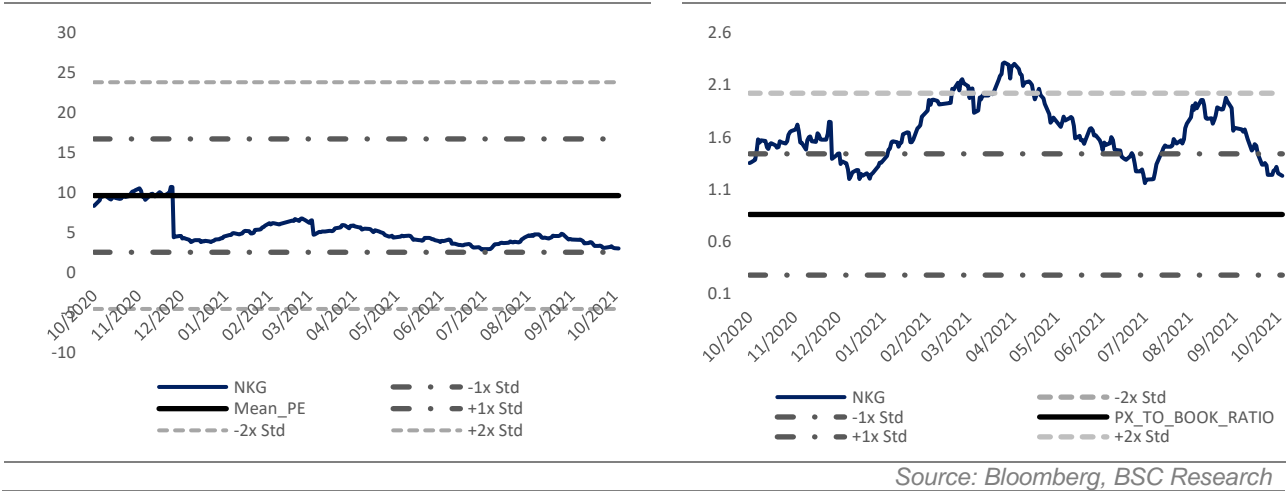
Table : Summary of valuation

NPAT for shareholders of parent company before provision reversal (VND billion)	1,708
Target PE	4.5x
Reversal of provision (VND billion)	318
Enterprise value (billion VND)	8,004
Number of outstanding shares (Shares)	263,278,281
Target price (VND/share)	30,400

Source: BSC Research

Figure : NKG .'s P/E ratio

Figure : NKG .'s P/B ratio



APPENDIX

Business results (Billion VND)	2019	2020	2021	2022F	Cash circulation (Billion VND)	2019	2020	2021	2022F
Net Revenue	12,177	11,560	28,173	31,653	(Loss)/EBT	90	321	2,562	2,333
Cost of goods sold	11,835	10,690	23,904	27,339	Depreciation and Allocation	427	585	1,052	295
Gross profit	342	869	4,270	4,314	Change in working capital	664	(891)	(3,922)	(1,995)
Cost of sales	210	268	1,398	1,806	Cash flow from business activities	1,181	16	(308)	633
Enterprise management cost	69	92	123	138	Money spent to buy fixed assets	(96)	(54)	(145)	189
Business profit/loss	63	509	2,749	2,370	Other investment	(134)	400	(164)	(779)
Financial revenue	107	89	199	241	Cash flow from Investment Activities	(230)	346	(309)	(590)
Financial expenses	275	281	397	288	Payment of dividends	-	-	-	-
Interest expense	237	222	244	202	Cash from net borrowing	(1,315)	(67)	862	(327)
Profit from joint ventures	-	-	-	-	Other revenue	(22)	(151)	288	(20)
Other profit/loss	195	4	11	10	Cash flow from Financial Operations	(1,336)	(218)	1,150	(347)
Profit before tax	90	321	2,562	2,333	Cash flow at the beginning of the period	461	76	219	751
Corporate income tax	43	26	337	307	Money in the period	(385)	143	533	(305)
Profit after tax	47	295	2,225	2,026	Ending cash flow	76	219	752	447
Property mode	-	-	-	-					
NPAT - Asset mode	47	295	2,225	2,026					
EBITDA	299	867	3,139	2,748					
EPS	260	1,622	10,189	7,697					
Accounting balance (Billion VND)	2019	2020	2021	2022F	Index (%)	2019	2020	2021	2022F
Money and financial revenue	778	589	1,199	1,297	Solvency				
Short-term receivables	877	1,438	1,902	2,529	Short-term payment ratio	1.02	1.10	1.27	1.60
Inventory	2,589	2,371	8,281	8,139	Quick Payout Ratio	0.43	0.52	0.41	0.58
Other short-term assets	191	95	833	839					
Short-term assets	4,435	4,492	12,216	12,803	Capital structure				
Tangible fixed assets	3,049	2,727	2,530	2,305	Debt/Total Assets Ratio	63%	59%	63%	51%
Intangible fixed assets	247	249	241	246	Debt/Equity Ratio	167%	144%	169%	104%
Financial lease fixed assets	162	151	-	-					
Financial lease fixed assets	49	59	176	207	Working capital				
Long-term investment	48	23	8	8	Inventory days	77	85	85	110
Other long-term assets	74	63	227	210	Receivable days	20	30	18	24
Long-term assets	3,629	3,271	3,182	2,976	Payable days	36	49	45	47
Total assets	8,064	7,763	15,398	15,779	CCC	60	66	63	64
Short-term payables	1,819	1,070	4,879	3,548					
Short-term loans	2,389	2,520	3,773	3,315	Margin				
Other short-term debt	135	507	946	1,117	Gross margin	3%	8%	15%	14%
Total Short-Term Debt	4,342	4,098	9,598	7,981	NPAT margin	0%	3%	8%	6%
Long-term loan	703	482	46	16	ROE	2%	9%	39%	26%
Other long-term debt	2	2	30	30	ROA	1%	4%	14%	13%
Total Long-term Debt	705	484	77	46					
Liabilities must pay	5,048	4,582	9,675	8,027	Valuation				
Capital	1,820	1,820	2,184	2,633	PE	N/A	16.3	7.2	3.1
Equity surplus	766	766	786	786	PB	0.4	0.5	1.5	0.8
Undistributed profit	356	576	2,636	4,214					
Other equity	74	18	117	120	Revenue growth				
Minority Shareholders	-	-	-	-	Net Revenue Growth	-18%	-5%	144%	12%
Equity	3,017	3,181	5,723	7,752	EBIT Growth	-84%	711%	440%	-14%
Total capital	8,064	7,763	15,398	15,779	EBT growth	-17%	256%	699%	-9%
Number of shares (million)	182	182	218	263	EPS growth	-17%	524%	528%	-9%

Source: NKG, BSC Research

Disclosure

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