

**Recommendation BUY VICEM HA TIEN Cement Joint Stock Company (HSX: HT1)
BUSINESS RECOVERY AFTER COVID**

Current price:	15,500	Date:	30/06/2022	Shareholder structure	
Target price:	18,700	Outstanding Shares (Million):	381.6	VICEM	79.7%
Dividend yield:	7.5%	Market Capitalization (Billion):	5,915	Le Phuong Thuy	1.9%
Upside:	20%	Avg. Trading Vol for 10 Sessions:	810,880	Nguyen Van Chuyen	0.9%
		Remaining Foreign Ownership:	1.82%	Vietcombank Fund	0.6%

Industry Analyst::

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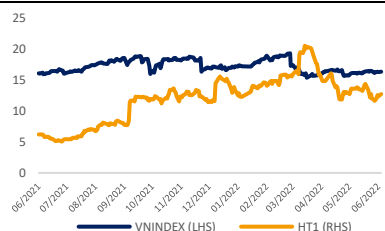
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Target price: 15,500
Stop loss price: 15,000

Comparison table between the stock price of HT1 and VN-Index



Comparison table between the P/E of HT1 and VN-Index



Valuation

- BSC recommends BUY for HT1**, a target price of **18,700 VND/share**, equivalent to an upside of 20% compared to the price on 30/06/2022 based on discounted cash flow method (FCFF), assuming HT1 will gradually increase output to pre-pandemic levels and operate stably at this capacity.

Forecast business performance

- BSC forecasts Net Revenue and NPAT in 2022 at 9,236 billion VND (+30.7% YoY) and 380 billion VND (+2.7% YoY)**, assuming: output +9% YoY, gross profit margin down to 10.9% due to coal price +100% YoY but selling price is only +20% YoY.
- In 2023, BSC forecasts Net Profit and NPAT of 9,160 billion VND (-1% YoY) and 419 billion VND (+10.2% YoY)**, assuming: output +4.4% YoY, gross profit margin increases to 11.5% due to price coal -20% YoY when supply stabilizes and selling price -5% YoY due to domestic oversupply.

Investment thesis

- HT1 has always had an outstanding performance in the cement industry due to the advantage of low transportation costs.
- Consumption volume will gradually recover to pre-epidemic levels in 2022-2023 due to benefits from public investment in infrastructure and oversupply in the Southern market.
- The gross profit margin in 2022 will decrease because the increase in selling price is not enough to offset the increase in coal price.

Catalyst

- Future growth potential from the project to convert 10.6 hectares of old factory in Thu Duc City into a complex office for lease.

Risks

- Fluctuations in raw material prices, especially coal prices;
- Demand for cement decreased, increasing competitive pressure .

Business update

- In Q1/2022, the Net Revenue of HT1 reached 1,957 billion VND (+12% YoY) but NPAT only reached 25 billion VND (-74% YoY). Gross profit margin decreased because the increase in selling price was not enough to offset the increase in coal price.
- Sales volume in Q1/2022 increased slightly, +3% YoY.

	2021	2022F	Peer	VN-Index
PE (x)	26.0	15.6	14.0	17.2
PB (x)	1.2	1.2	1.7	2.0
PS (x)	0.9	0.6	1.8	3.5
ROE (%)	7.2%	7.4%	15.5%	14.7%
ROA (%)	4.2%	4.2%	9.0%	6.6%
EV/ EBITDA (x)	6.4	4.9	19.5	N/A

	2019	2020	2021	2022F
Net revenue	8,839	7,963	7,064	9,236
Gross profit	1,561	1,356	869	1,010
NPAT	741	608	370	380
EPS	1,940	1,593	969	995
EPS Growth	16.8%	-17.9%	-39.1%	2.7%
Net debt/Equity	44.1%	24.1%	25.4%	21.0%

BUSINESS UPDATE

The Net Revenue in Q1/2022 of HT1 grew (+12% YoY), mainly coming from the increase in cement selling price. However, NPAT had a sharp drop (-74% YoY) due to high input costs, especially coal prices, when the Russia-Ukraine conflict broke out.

Table 1: Summary of Business Performance in Q1/2022

Billion VND	Q1.2022	Q1.2021	% YoY	Q4.2021	%QoQ	Note
Net Revenue	1,957	1,741	12%	2,024	-3%	Output increased slightly, and revenue increased due to an increase in selling price, estimated at +9.4% YoY
<i>Cement, clinker</i>	2,067	1,836	13%	2,143	-4%	
<i>ISO sand, other</i>	5	3	44%	8	-46%	
Gross profit	164	240	-32%	144	13%	Gross profit margin dropped sharply due to high input costs, especially coal price x2 compared to the end of the period.
<i>Gross profit margin</i>	8.4%	13.8%		7.1%		
Selling and administrative expenses	93	84	11%	43	116%	
<i>% Selling and administrative expenses/Net Revenue</i>	4.8%	4.8%		2.1%		
EBIT	71	156	-55%	101	-30%	
<i>Interest</i>	17	3	467%	21	-19%	
<i>Financial income</i>	-	7	-100%	3	-100%	Financial income dropped sharply due to a sharp decrease in term deposits.
NPAT	25	95	-74%	53	-54%	
<i>NPAT Margin</i>	1.3%	5.4%		2.6%		
Consumption Output						
<i>Cement, clinker (million tons)</i>	1.51	1.47	3%	1.66	-9%	
Some indicators on the balance sheet						
<i>Short-term debt</i>	1,759	2,250	-22%	1,611	9%	
<i>Long-term debt</i>	-	-	N/A	-	N/A	Enterprises have paid off all long-term debt since Q4/2022
<i>Inventory</i>	578	843	-31%	709	-19%	
<i>Accounts receivable from customers</i>	284	376	-24%	258	10%	
<i>Cash, cash equivalent & Short-term investment</i>	461	228	102%	296	55%	

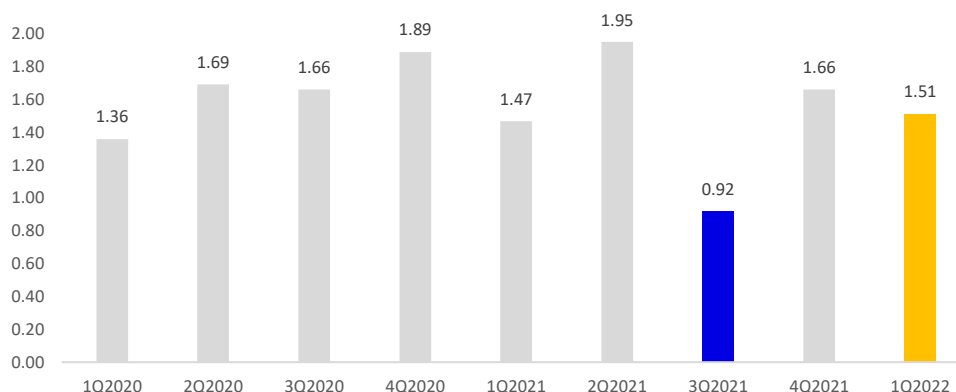
Sources: HT1, BSC Research

BUSINESS OUTLOOK IN 2022-2023

Cement consumption volume recovered after the epidemic

We expect the sales volume of HT1 will gradually recover to pre-pandemic levels in 2022-2023. The cement consumption volume of HT1 was severely affected in Q3/2021 because the Southern region had to implement social distancing. In 2022-2023, when the epidemic is under control, we expect the sales volume of HT1 gradually recover to pre-pandemic levels due to (i) low cement supply in the South; (ii) high cement demand due to large infrastructure investment projects in the South.

Figure 1: Cement consumption dropped sharply in Q3/2021 because of the epidemic (million tons)



Sources: HT1, BSC Research

(i) Cement supply is low in the South region: Cement capacity in the South is low because limestone reserves (the primary raw material for cement production) are mostly located in the North and Central regions, while the South accounts for only 10.7% of national reserves. Therefore, we think that when the market demand increases, the cement of HT1 will be sold well due to owning an on-site quarry, while the competitiveness of cement transported from the North and Central regions will decline due to high fuel prices.

Figure 2: The number of rotary kilns (capacity - tons/day) is mainly distributed in the North and Central regions

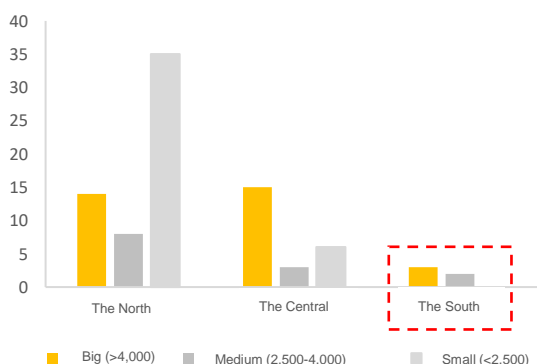
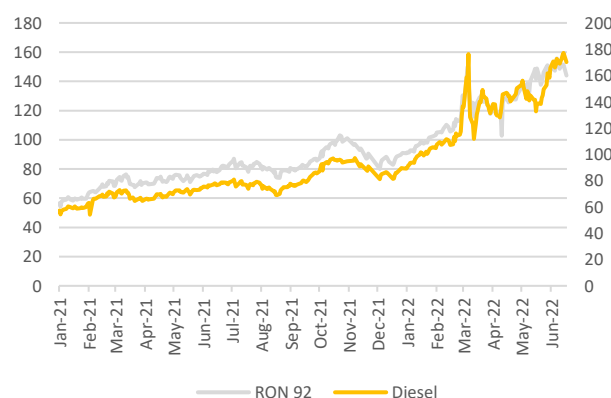


Figure 3: Rising fuel prices will increase the cost of transporting cement from other regions to the Southern market



Sources: VNCA, Platts, BSC Research

(ii) Expect high cement demand due to infrastructure investment: Most of the mega infrastructure projects expected to be implemented in the 2021-2025 period are concentrated in the Southern region, such as components of the North-South expressway, Long Thanh international airport, etc. We expect the above projects will boost cement consumption demand in the region.

Table 2: Key traffic works in the South are expected to be implemented in 2022-2025.

Projects	Total investment (Billion VND)	Excerpt from public investment capital 2021-2025	Excerpt from Economic Recovery Package	
			2022	2023
North-South Expressway, East (Phase 2)	146,990	47,169	2,051	70,425
Expressway Bien Hoa - Vung Tau	18,635	5,740	37	3,463
Expressway An Huu (Tien Giang) - Cao Lanh (Đông Thap)	6,054	1,864	12	1,192
Chau Doc - Can Tho - Soc Trang - Tran De	49,745	14,247	99	3,701
Traffic project, connecting to gateways, regions, industrial zones, and ports.	18,554	2,412	2,316	8,214
Long Thanh Airport (Phase 1)	109,111	109,111	-	-

Sources: BSC Research

HT1 plans to expand capacity by +25%. The enterprise said it is planning to increase the capacity of the Kien Luong Cement Plant by 1 million tons/year and Long An crushing station by 1 million tons/year. These two projects are at the equipment bidding stage, and the implementation time is unknown. Therefore, we haven't included additional capacity in our valuation model yet.

BSC forecasts that consumption volume in 2022 will be +9.0% YoY and reach +4.4% YoY in 2023 to gradually recover to the average production level in the period 2017-2020, at 7.35 million tons.

The decrease in profit margin due to the increase in selling price did not completely offset the increase in raw material prices

Coal prices double the average in 2021. Coal accounts for 30%-35% of the cost of cement production. Enterprises in the industry are importing about 66% of the coal needed for production. Therefore, they are strongly affected when the price of imported coal increases.

We believe that coal and oil prices will remain high until the end of 2022 due to the impact of the ban on oil and coal exports from Russia. If coal price stays at 250-300 USD/ton as it is now, we forecast COGS of HT1 will be +30% YoY in 2022.

Figure 4: Coal price accounts for a large proportion of the structure of cement cost

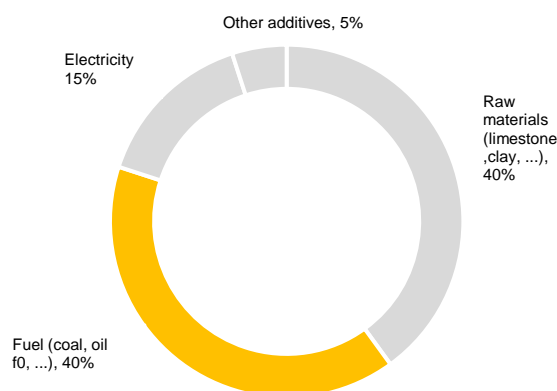
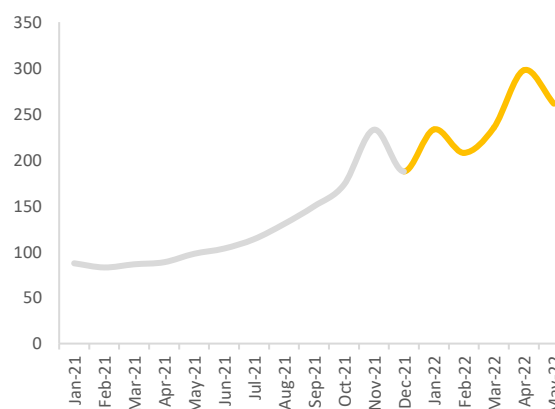


Figure 5: The price of imported coal into Vietnam increased sharply compared to the average in 2021



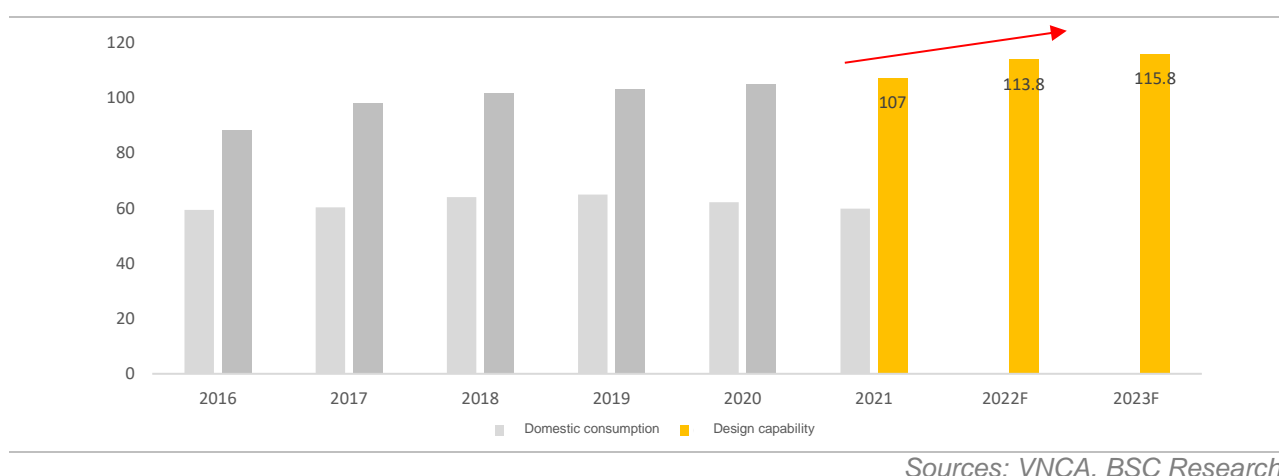
Sources: General Department of Customs, BSC Research

The selling price increased but could not offset the increase in raw material prices. The price of cement has increased three times in a row since the beginning of the year, with an increase of + 10% -15% YoY. Although domestic enterprises agree to increase the selling price, we think that it is difficult for the selling price to increase sharply and keep up with production costs due to: (i) excess supply of cement in the country, (ii) Poor export prospects increase competition in the domestic market.

(i) Excess domestic supply: Domestic demand for cement has been flat in the past five years, while the industry's total capacity has tended to increase. The current total design capacity is about 107 million tons/year, but we estimate the production capacity can be up to 128 million tons/year due to the increase in the proportion of additives, which exceeds about 106% of average domestic consumption in the period 2017-2021.

From 2022 through 2023, the industry's capacity is expected to increase by 8.8 million tons/year when three newly approved cement plant projects come into operation, including Xuan Thanh 3 (4.5 million tons/year), Long Thanh (2.3 million tons/year), Dai Duong 1 (2 million tons/year).

Figure 6: Domestic demand for cement is saturated, while design capacity is expected to continue to increase (million tons)



(ii) Export prospects are not optimistic: Export volume has increased continuously in the past five years, helping to free up excess capacity in the country, of which China is Vietnam's largest cement import market (accounting for 55% of exports in 2021). However, we think China's import demand will decline in 2022-2023 due to: (i) Zero Covid policy causes socio-economic activities to be affected (ii) The real estate market in this country is in recession. The poor export performance will increase competitive pressure in the domestic market, limiting the possibility of increasing cement selling prices.

Figure 7: The proportion of cement exports have increased sharply and now accounts for a significant part of total consumption

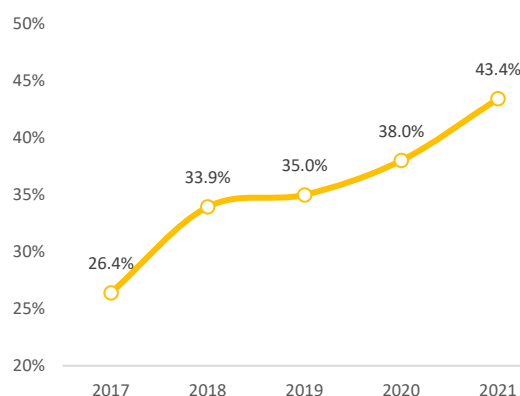
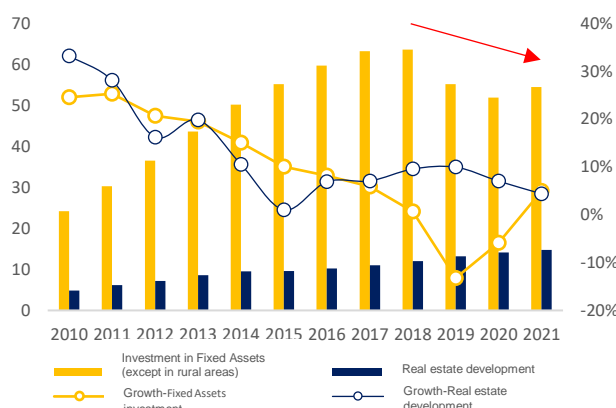


Figure 8: Infrastructure investment and real estate development in China are slowing (billion Yuan)



Sources: VNCA, CNBS, BSC Research

We forecast that the gross profit margin in 2022 will decrease to 10.9% (12.3% in 2021) based on the following assumptions: (i) average coal price +100% YoY in 2022; (ii) selling price +20% YoY.

In 2023, BSC forecasts gross profit margin to increase to 11.5%, assuming: (i) coal price adjusted -25% YoY as coal supply increased to stabilize the market; (ii) selling price -5% YoY because the domestic cement market is still in an oversupply situation, creating tremendous competitive pressure.

HT1 has consistently outperformed the industry due to low transportation costs

Transportation costs greatly influence the net profit margin of cement businesses. The cement industry's average gross profit margin is 12.3%, but many businesses' net profit margin is very low. Because of the bulky cement product, the sale price is not high (the price of 1 ton of cement is only 1/13 the price of 1 ton of construction steel). Thus, any business that optimizes transportation costs will have a higher profit margin.

HT1 has an advantage over competitors in terms of transportation costs because: (i) HT1 sells mainly to domestic markets (export rate <3% of total output) (ii) The factory is located next to a river port, so inland waterways can be used for transportation at a low cost, only 25%-40% of road freight.

Figure 9: Selling cost/net revenue ratio of HT1 is lower than many competitors in the same industry

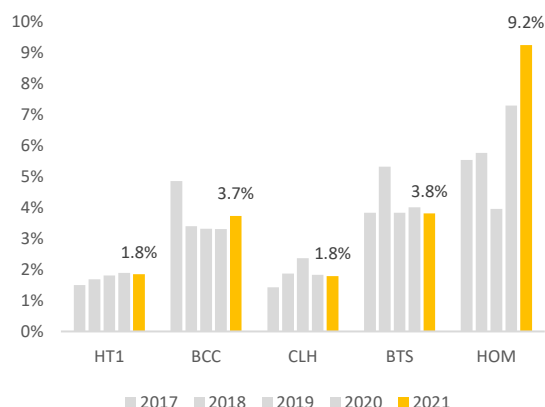
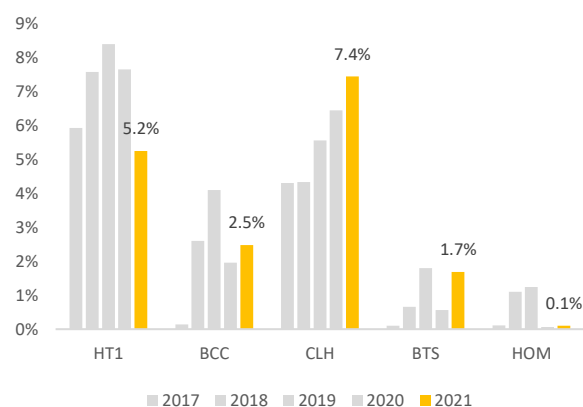


Figure 10: The net profit margin of HT1 outperforms the cement industry average.



Sources: Company financial statements, BSC Research

We believe this advantage will continue to be maintained in 2022 due to favorable hydrological conditions. According to IRI's forecast, the La Nina phenomenon will continue to last until the end of 2022. The Mekong River's water flows into Stung Treng, Cambodia, in May 2022, reached the second highest level in 112 years (according to Mekong Dam Monitor) due to the flood of Chinese hydroelectric dams and the sizeable unseasonal rainfall every year.

Figure 11: La Nina is forecasted to last until the end of 2022 before turning into a neutral phase

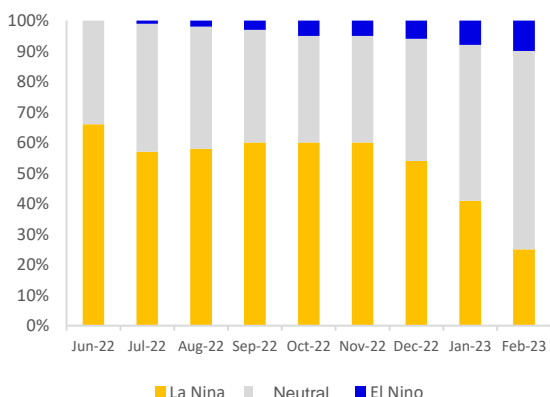
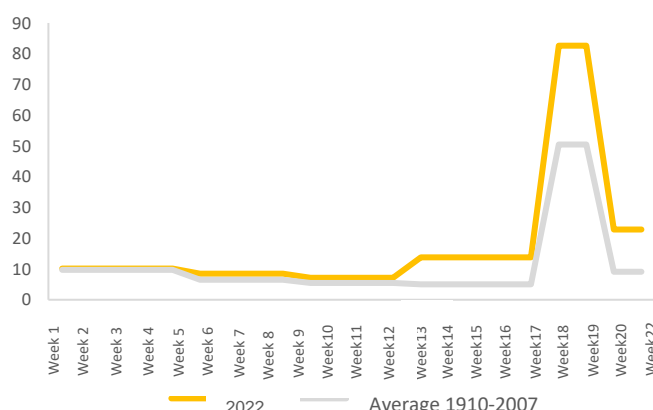


Figure 12: Water flows into the Mekong River are higher than the average of many years ago



Sources: IRI, MDM, BSC Research

Growth potential from the project to convert the old factory into a complex office for lease

HT1 owns a part of a real estate project converted from the old cement factory land. HT1 owns a land area of 10.6 hectares (formerly Thu Duc crushing station of the company's branch) in the project of converting the purpose of using 30 hectares of factories in Truong Tho ward, Thu Duc city, to build a new complex and office for rent. When approved and implemented, the project will add revenue from real estate rental and business to HT1. However, the project's implementation time is still unknown, so we have not included it in the valuation model.

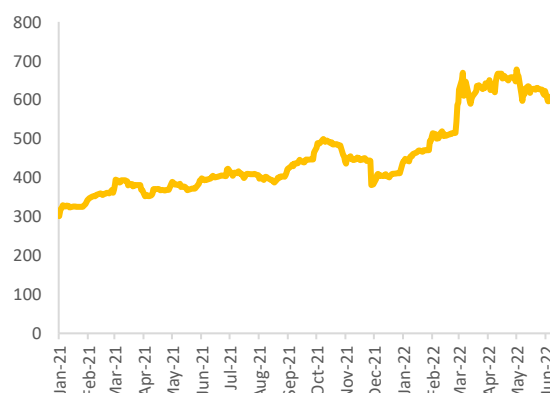
RISKS

Fuel price volatility. Fuel prices increased sharply due to the impact of the Russia-Ukraine conflict causing a supply shortage. The prolonged impact of sanctions on fuel exports from Russia will increase production costs while selling prices are unlikely to increase correspondingly because the excess supply of cement will reduce the profit margins of businesses in the industry.

Figure 13: The price of thermal coal in Newcatsle, Australia, has increased sharply since the outbreak of the Russia-Ukraine conflict (USD/ton)



Figure 14: Oil futures contract F0 380cts, Singapore increased sharply (USD/m3)



Sources: Bloomberg, BSC Research

Demand for cement decreased. The price of construction materials increased too quickly, and the Government tightened credit to the real estate industry may slow down construction activities in the short term, causing the domestic demand for cement to decline. China's lockdown to limit the Covid-19 pandemic disrupted construction activities and reduced demand for cement imports from Vietnam, increasing competitive pressure in the country.

Figure 14: Construction industry value growth has not recovered to the same level as the previous period.

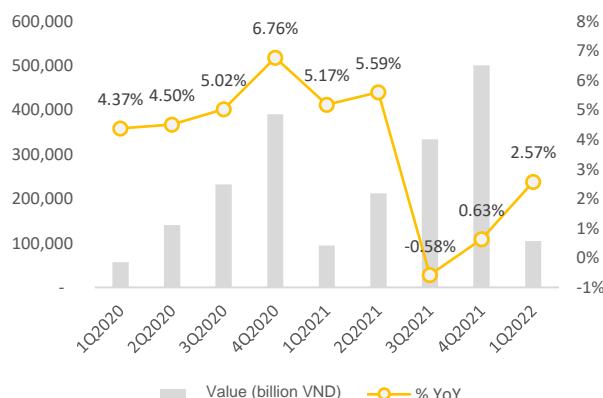
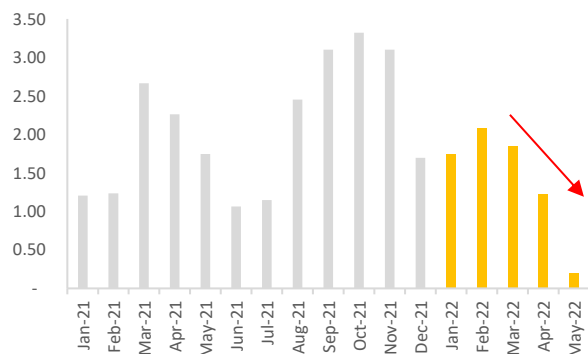


Figure 15: Vietnam's cement exports to China fell sharply due to the lockdown (million tons)



Sources: GSO, General Department of Customs, BSC Research

FORECAST OF BUSINESS PERFORMANCES

BSC forecasts the net revenue and NPAT of HT1 in 2022 at 9,236 billion VND (+30.7% YoY) and 380 billion VND (+2.7% YoY), EPS fwd = 995 VND/Share, assuming:

- Consumption output +9% YoY;
- Gross profit margin -140 bps to 10.9% because coal price +100% YoY but selling price only +20% YoY.

In 2023, BSC forecasts the net revenue and NPAT of HT1 will reach 9,160 billion VND (-1% YoY) and 419 billion VND (+10.3% YoY), EPS fwd = 1,099 VND/Share, assuming:

- Consumption output +4.4% YoY;
- Gross profit margin +60bps up to 11.5% because coal price -25% YoY and selling price -5% YoY.

VALUATION

We use the discounted cash flow method (FCFF) with the assumption that HT1 will gradually increase production to pre-pandemic levels and operate stably at this capacity. With a valuation discount of 10%, we **recommend BUY HT1 with the target price of 18,700 VND/share, an upside of 20%** compared to the closing price on 30/06/2022.

Table: Target price (VND/Share)

Fair value	20,794
Discount rate	10%
Target price	18,700
Upside	20%

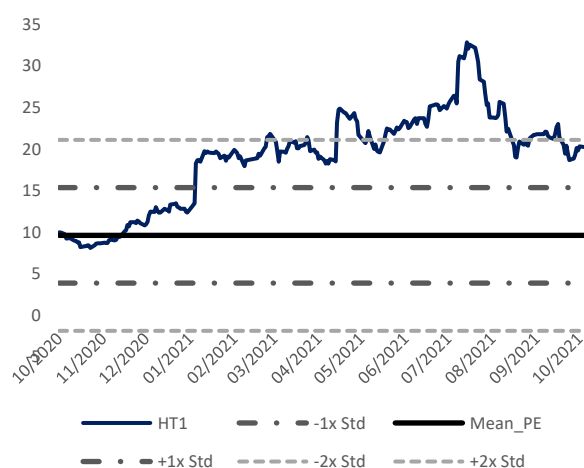
Source: BSC Research

Table: Summary of valuations

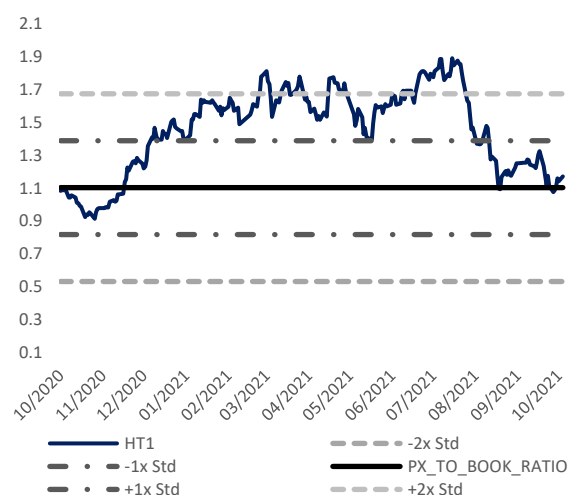
Beta	0.78x	EBITDA final year (billion VND)	1,493
Market risk premium	7.0%	Target EV/EBITDA	5.0x
Risk free rate	5.5%	Liquidation price (billion VND)	7,467
Cost of equity	11.0%	Discount value (billion VND)	9,006
Cost of debt	10.0%	(-) Net debt (billion VND)	1,071
Debt/Total assets	45.0%	Fair value (billion VND)	7,935
Tax	20.0%	Outstanding shares (millions)	382
WACC (%)	9.4%	Target price	20,794

Source: BSC Research

Picture: P/E ratio of HT1



Picture: P/B ratio of HT1



Sources: Bloomberg, BSC Research

APPENDIX

Business result (Billion VND)	2019	2020	2021	2022F	Cash flow (Billion VND)	2019	2020	2021	2022F
Net revenue	8,839	7,963	7,064	9,236	(Loss)/Profit after income tax	928	768	462	475
Cost of goods sold	7,278	6,607	6,195	8,226	Depreciation and amortization	938	852	660	719
Gross profit	1,561	1,356	869	1,010	Working capital change	(657)	(370)	(386)	(581)
Selling expenses	160	150	131	175	Net cash flow from operating activities	1,209	1,249	735	613
Administration expenses	215	201	168	220	Purchase of fixed assets	(76)	(93)	(125)	(88)
Operating profit	1,186	1,005	570	615	Other investment	11	10	11	176
Financial revenue	27	12	18	15	Net cash flow from investment activities	(65)	(84)	(114)	88
Financial expenses	272	223	125	154	Dividends paid	(457)	(92)	(637)	(458)
Interest expenses	238	181	100	124	Net borrowing fund	(645)	(812)	(766)	128
Profit from joint ventures/associations	-	-	-	-	Other receivables	-	-	-	-
Other profit/loss	(13)	(26)	(2)	(2)	Net cash flow from financing activities	(1,102)	(905)	(1,404)	(330)
Profit income before tax	928	768	462	475	Beginning of the year cash flow	776	818	1,079	296
Income tax	187	160	92	95	Cash flow in the year	41	261	(782)	371
Profit income after tax	741	608	370	380	Ending of year cash flow	818	1,079	296	667
Non-controlling interests	(0)	(0)	(0)	-					
Profit income after tax - Noncontrolling interests	741	608	370	380					
EBITDA	1,875	1,605	1,146	1,217					
EPS	1,940	1,593	969	995					

Balance Sheet (Billion VND)	2019	2020	2021	2022F	Ratio (%)	2019	2020	2021	2022F
Cash and cash equivalents	831	1,092	311	682	Solvency				
Short-term receivables	499	489	527	685	Short-term payment ratio	0.51	0.50	0.42	0.58
Inventory	729	717	664	871	Quick Payout ratio	0.32	0.34	0.23	0.35
Other current assets	15	34	22	22	Capital structure				
Current assets	2,074	2,333	1,524	2,261	Ratio of Debt/Total Assets	48%	46%	41%	43%
Tangible fixed assets	6,761	6,239	5,764	5,277	Ratio of Debt/Equity	92%	86%	70%	77%
Intangible fixed assets	98	95	95	96	Operational capacity				
Fixed assets of finance leasing	-	-	-	-	Number of days				
Long-term assets in progress	974	935	951	905	Inventory	36	42	43	41
Long-term investment	26	31	44	44	Number of days receivable	15	17	16	16
Other long-term investment	355	407	431	431	Number of days payable	60	73	76	60
Long-term assets	8,214	7,708	7,285	6,754	CCC	(9)	(14)	(17)	(3)
Total assets	10,289	10,041	8,809	9,015	Profit rate				
Short-term payable	1,271	1,368	1,208	1,364	Gross profit	18%	17%	12%	11%
Short-term debt	2,375	2,377	1,611	1,739	Net profit after income tax	8%	8%	5%	4%
Other current liabilities	456	884	799	799	ROE	13.8%	11.3%	7.2%	7.4%
Total current liabilities	4,102	4,629	3,618	3,902	ROA	7.2%	6.1%	4.2%	4.2%
Long-term debt	808	-	-	-	Valuation				
Other long-term liabilities	15	19	16	16	PE (x)	9.8	12.7	26.0	15.6
Total long-term liabilities	822	19	16	16	PB (x)	1.1	1.1	1.2	1.2
Total Liabilities	4,924	4,648	3,634	3,917	Growth				
Contributed capital	3,816	3,816	3,816	3,816	Net Revenue Growth	5.5%	-9.9%	-11.3%	30.7%
Share premium	71	71	71	71	EBIT Growth	7.2%	-18.7%	-40.8%	6.6%
Undistributed profits	854	728	488	409	Profit Before income tax	16.9%	-17.9%	-39.1%	2.6%
Other equity	623	778	801	802	Growth				
Non-controlling interests	-	-	-	-	EPS Growth	16.8%	-17.9%	-39.1%	2.7%
Owners' equity	5,365	5,392	5,175	5,098					
Total equity	10,289	10,041	8,809	9,015					
Number of outstanding shares (million)	382	382	382	382					

Sources: HT1, BSC Research

Disclosure

The information, statements, forecasts, and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable, but their accuracy, completeness, or correctness are not guaranteed. Expressions of opinion herein were arrived at after careful consideration. They were based upon the best information known to us and, in our opinion, are fair and reasonable in the prevailing circumstances. Expressions of opinion contained herein are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors, and employees may have positions, affect securities transactions of companies mentioned herein, and perform or seek to perform investment banking services for these companies. This document is for private circulation, not for publication in the press or elsewhere. BSC accepts no liability for any direct or consequential loss arising from any use of this or its content. The use of any information, statements, forecasts, and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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