

Industry: Steel (Latest update report: [Link](#))

RECOMMENDATION	BUY	NAM KIM STEEL JSC (HSX: NKG) BACK TO THE HEYDAY			
Current price (VND)	20,250	Date	08/03/2021	Shareholder structure	
Previous target price (VND)	N/A	Outstanding shares	71,999,900	Ho Minh Quang	13.64%
Target price (VND)	27,200	Market capitalization (bil VND)	3,285	Vo Hoang Vu	11.05%
Dividend yield	0%	Avg. 30d trading vol (thousand)	5,033	SMC JSC	5.29%
Upside	34.3%	% Foreign float	12.3%	KIMC	4.68%

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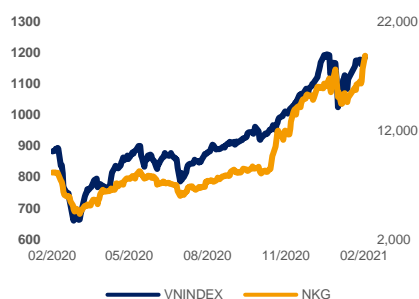
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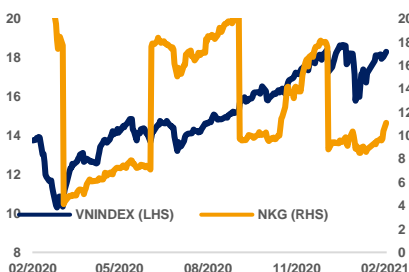
Target price (VND) 20,000

Stop-loss price (VND) 14,080

Share price & VN index movement



NKG's P/E & VN index movement



VALUATION

We issue a **BUY** recommendation on NKG shares, with a **target price of VND27,200 per share** based on P / E method with a target P / E of 8 times, drawing from company profitability, prospects and the market discount rate for the stock.

FORECAST OF BUSINESS PERFORMANCE (For details, please refer to page 5)

BSC forecasts that NKG's revenue growth in 2021 will reach 27.7% YoY with recorded revenue of VND14,762 billion, driven by 15% growth in volume (810 thousand tons) & the increase in HRC selling price (+ 12% YoY). NPAT is estimated to reach VND 600.5 bil (+103% YoY), EPS = VND3,397/ share (assuming deduct 3% from welfare fund).

INVESTMENT THESIS

- (1) Vietnam's steel industry has entered a new growth cycle, creating favorable conditions for steel producers.
- (2) NKG invests in new warehouses to maximize the capacity of galvanizing steel mills to meet the growing demand in the upcoming period.

CATALYST

NKG's profit has benefited from the continuous increase in HRC. However, there are also risks when HRC.

INVESTMENT RISKS

- (1) Volatility in input material prices, especially in HRC prices.
- (2) Increasing risks of trade defense measures by other countries.

FINANCIAL RESULTS & BUSINESS UPDATE (For details, please refer to page 3)

- (1) **2020 recorded NKG's NPAT increase 6 times to VND295 billion, although revenue decreased by 5.1% YoY to VND11,560 billion.** Positive results obtained by active restructuring of production, reduction of debt in 2019 and rising HRC prices in 2H2020.
- (2) The company sets a strong business plan for 2021 with the following specific targets that revenue: VND16,000 billion (+38% YoY); NPAT: VND600 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.

Unit: billion VND

	2020	2021F	Peer	VN-Index		2018	2019	2020	2021F
PE (x)	11.2	5.6	12.8	18.3	Total 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	NPAT	57	47	295	601
ROE (%)	9.5%	17.4%	5.8%	13.7%	NPAT growth	-91.9%	-17.4%	524.1%	103.3%
ROA (%)	3.8%	7.0%	2.4%	2.2%	EPS	363	260	1,690	3,397
EV/ EBITDA (x)	6.4	5.7	8.8	17.3	Debt/Equity	1.5	1.0	0.9	1.1

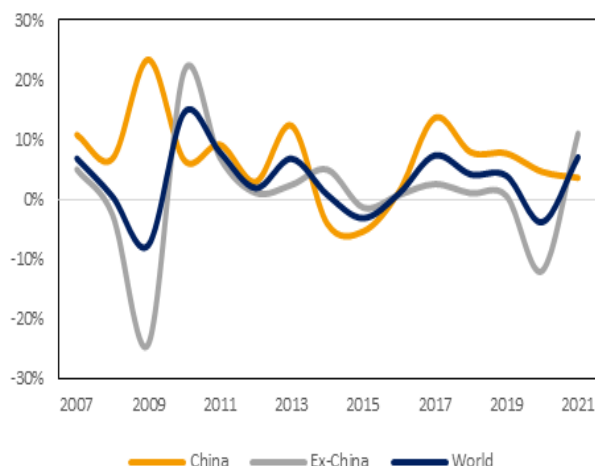
INVESTMENT THESIS

(1) Vietnam's steel industry has entered a new growth cycle, creating favorable conditions for steel producers
(For details, refer to [BSC Sector Outlook Report 2021](#))

World steel demand is forecasted 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 in some markets such as China, which has recorded a supply shortage because production has not caught up with the rapid demand recovery.

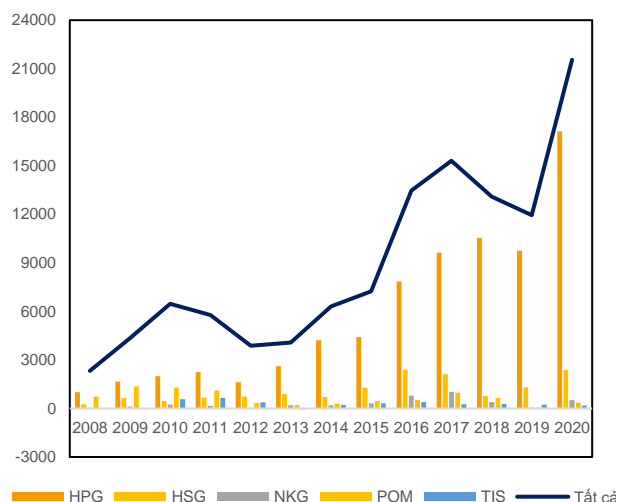
Vietnam steel industry has entered a new growth cycle from 2021 after nearly 3 tough years with motivation from (1) Investment, construction and (2) Supporting industry, processing and manufacturing. According to VSA's forecast, steel production in 2021 will increase by about 1 million tons, meeting 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 (US, EU, India...) increased sharply owing to the recovery of construction & business's production



Source: World Steel, Bloomberg Intelligence

Vietnam steel industry has entered a new stage of increased profits since the end of 2020 with the support of the high selling price

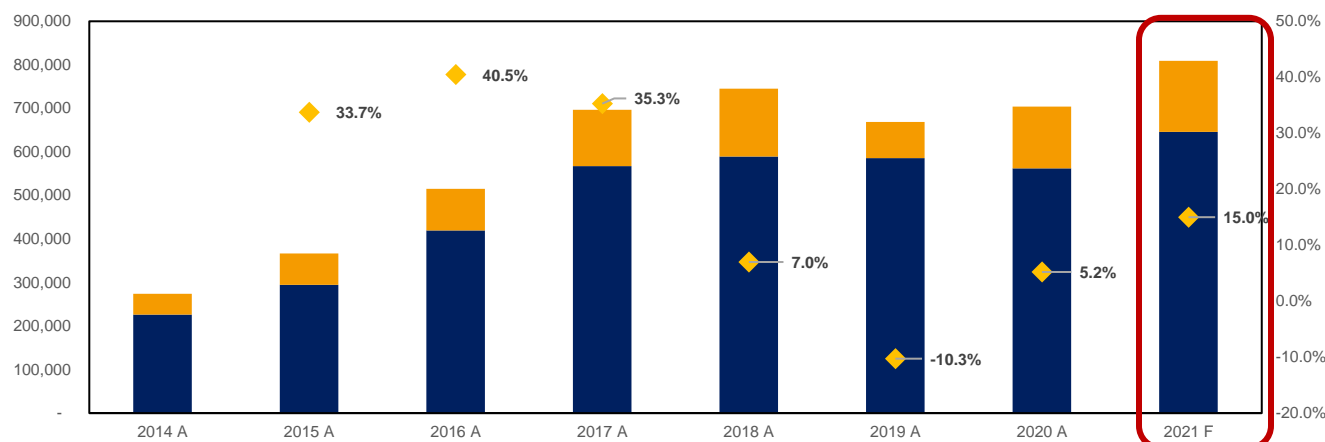


Source: FiinPro, BSC Research

(2) NKG invested in a 4-hectare area to build a new centralized warehouse and relocate the steel pipe workshop, which will utilize NKG's plating capacity to meet the growing demand in the upcoming period. The construction of a centralized warehouse will help NKG remove the limit on output growth, diversify manufacturing, and optimize the operation of the factories. This is a vital step for NKG to get a growth return after restructuring production, transferring Nam Kim 1 plant (with a capacity of 500k tons/year), coupled with the contributed capital at Nam Kim Korea to reduce debt in 2019. For the warehouse expansion project, the total investment is estimated at VND250 bn, in the capacity of NKG compared to about VND 300 bn of NPAT in 2020 and VND 576 bn of undistributed NPAT as of Dec 31, 2020.

Based on NKG's export orders to 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 tons.

Steel output in 2021 is forecasted to increase sharply by 15% as the industry enters a new stage and the growth limit of warehousing is resolved after expansion.

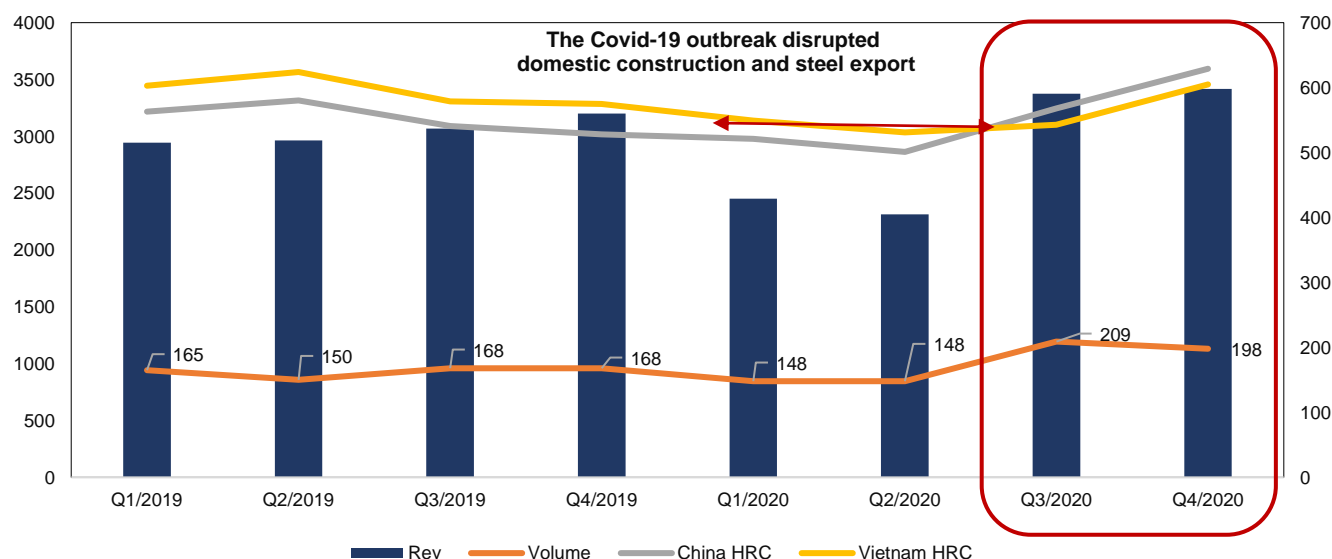


Source: WorldSteel, Bloomberg Intelligence

FINANCIAL RESULTS & BUSINESS UPDATE

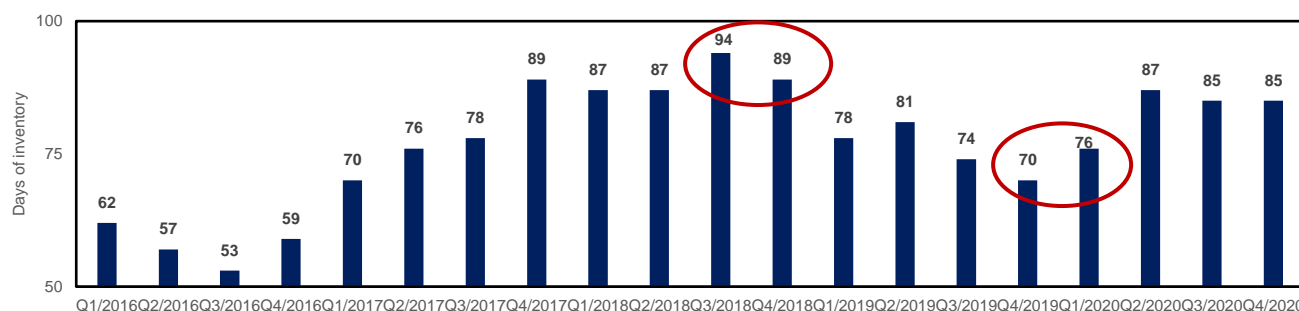
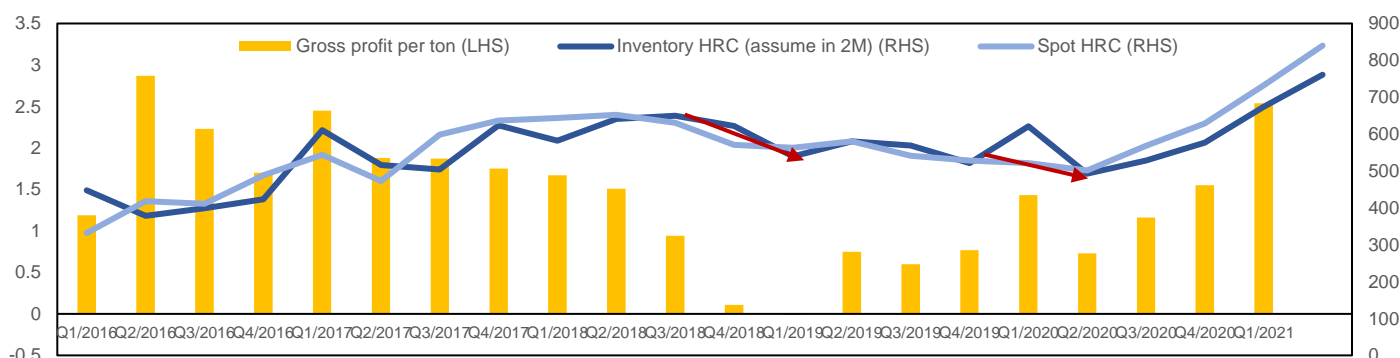
2020 recorded NKG's NPAT increase 6 times

After falling below VND2,500 billion per quarter in 1H2020, NKG's revenue increased by over 40% in 2H2020 for the following reasons: (1) sales volume was about 40% higher than the quarterly average volume in 1H2020, and (2) HRC price increased continuously (Q3 increased by \$15-60 /ton QoQ; Q4 increased by \$60/ton QoQ, and the HRC price level in 2H2020 increased by \$80-90/ton compared to 1H2020 and increased by \$60 compared to the same period of 2019).



Source: FiinPro, BSC Research

NKG's unit profit fluctuates in line with HRC prices. BSC realizes that NKG is managing inventory with more caution. It helps limit the negative impact of the HRC downtrend on unit profit as happened in Q4/2018-Q1/2019. During the surging period of HRC since Q4/2020, NKG still maintained the same inventory turnover as the previous two quarters, instead of rushing to speculate. **Therefore, the company's profit would avoid a sharp decline when the HRC prices suddenly change.**



Unit: billion VND

Source: Bloomberg, FiinPro, BSC Research

	2019A	2020	% YoY	
Net revenue	12,177	11,560	-5.1%	Net revenue decreased by 5.1% although total sales volume increased 5.2% due to the average selling price adjusted down according to HRC prices (-3-6% YoY).
Output	668,863	703,733	+5.2%	
Steel pipes	82,876	141,744	+71%	
Galvanized steel	585,987	561,989	-4.1%	
Gross profit	342	869	+154%	Gross profit margin rose strongly to 7.5% thanks to the continuous increase of HRC prices, especially in 2H2020.
GPM	2.8%	7.5%		
Selling expenses	210	268	+27.4%	
G&A expenses	69	92	+33.8%	
EBIT	63	509	+711%	
Financial income	107	89	-16.7%	
Financial expenses	275	281	+2.3%	Thanks to the improvement in operating profit, NPAT increased 6.2 times, let alone a one-off profit of VND95 billion from transferring Nam Kim 1 factory and Nam Kim Korea.
Profit before tax	90	321	+256%	
Profit after tax	47	295	+524%	
EPS	260	1,690		
Debt/ Total assets	56.3%	46.1%		Debt/Equity ratio decreased from a peak of 1.02 to 0.94 times as a result of financial restructuring, paying down long-term debt and reducing short-term debt since 2019.
ROA	1.9%	6.6%		
ROE	6.8%	19.1%		

NKG confidently sets its 2021 profit plan to double

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

- Revenue: VND16,000 billion (+38% YoY)
- Net profit after tax: VND600 billion (double the same period, approaching the peak of VND700 billion 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.

Currently, HRC prices are still in an uptrend due to (1) the recovery of demand in many areas and (2) the increase in input materials' prices (ore, coal, scrap steel).

However, BSC reckons that steel prices will decrease gradually from Q2/2021 when the supply in some areas such as China, India ... will soon increase 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 that will lead to a negative impact on the activities of galvanized steel producers.

BSC assesses that the factors that are supporting the HRC prices to maintain at a high level will be difficult to reverse quickly and break the HRC uptrend suddenly due to two main reasons.

Firstly, steel demand (especially flat steel) is expected to recover more strongly in 2021 as manufacturing activities in many regions of the world recover in compensation for shortages and disruptions in 2020 because of the pandemic.

Secondly, it will be difficult for the ore price to fall sharply in the short term because the supply shortage will continue. The weak recovery of mining output in Brazil after the Vale failure (2019) and the Covid-19 pandemic and the political tensions between Australia and China are reasons (According to Severtal, one of the major Russian steel producers). In addition, coal prices are facing stronger upside pressure after falling to a very low level around 100 USD/ton in 2020.

⇒ To sum up, we think HRC prices will decrease 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.

BUSINESS RESULTS FORECAST

BSC forecasts NKG's revenue growth in 2021 to reach 27.7% YoY with revenue recorded at VND14,762 billion, with the driving force coming from 15% growth in volume (810 thousand tons) and the increase in selling price according to HRC prices. The average gross profit is assumed at 1.6 million/ton, a slight increase compared to the unit profit in Q4/2020. This is based on BSC's assessment that the profit/ton of products will rise in Q1/2021, then will decreased slightly over the quarters. 2021F gross profit = VND1,295 billion, equivalent to a gross margin of 8.8%. NPAT is forecast to reach VND 600.5 bn (+103% YoY), EPS = VND 3,397/share (assuming 3% bonus and welfare fund deduction).

VALUATION

We issue a **BUY** recommendation for NKG, with a **1-year target price of VND27,200** per share based on the method of comparing P / E with a target P / E of 8 times. In which, the target P/E is adjusted according to the justified P/E as follows:

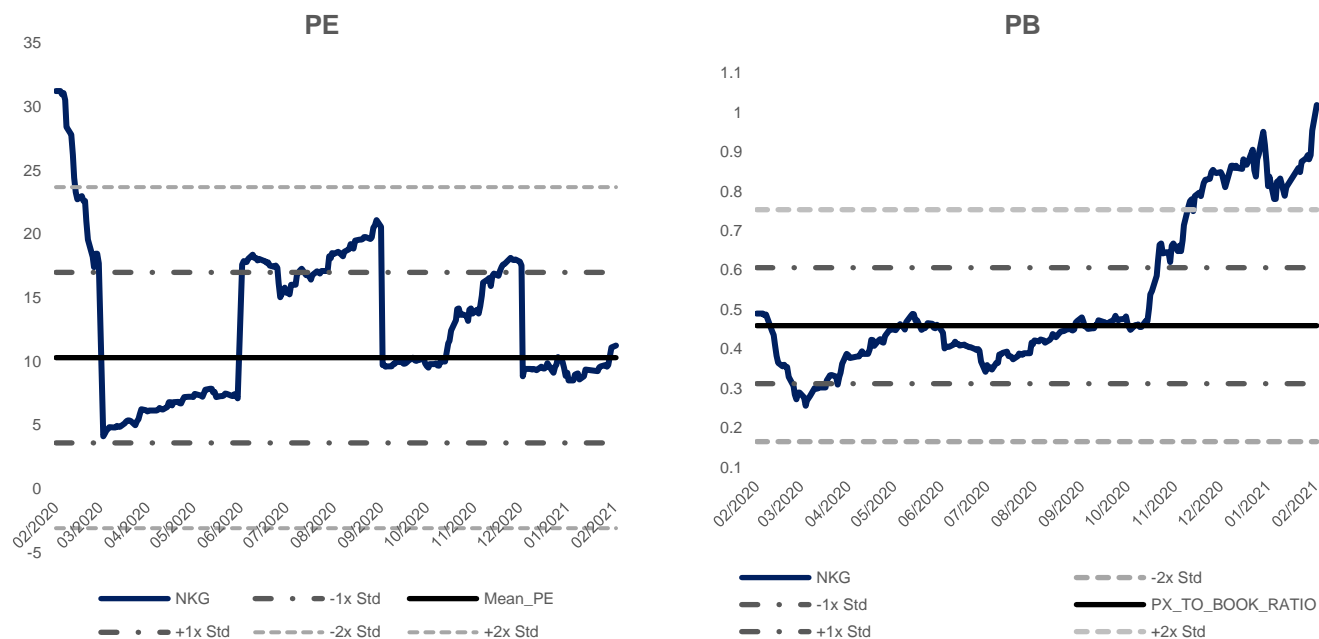
Long-term growth rate	3%
Average return on equity (ROE) in 9-year cycle (2012-2020)	13%
Expected return on equity (Ke)	12.9%
<i>Beta coefficient</i>	1.27
<i>Risk Free Rate (Rf)</i>	2.5%
<i>Market risk premium</i>	8.2%

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

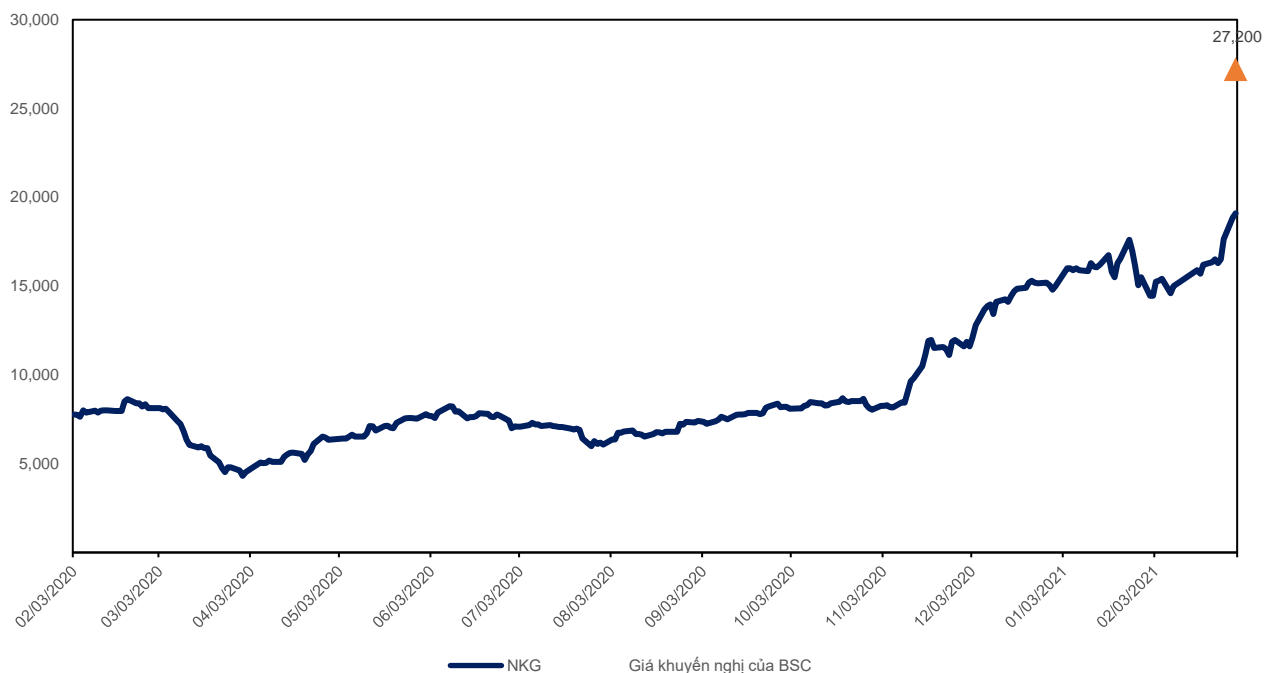
Table: Analysis of the sensitivity of the target price with a P / E and EPS

		Value of a share (VND/share)				
		EPS 2021 (thousand VND/share)				
P/E	27,173	3.066	3.227	3.397	3.567	3.745
	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



NKG's price movement compared to BSC's recommendation



Source: Bloomberg, BSC Research

APPENDIX

IS (billion VND)	2018	2019	2020	2021F
Net revenue	14,812	12,177	11,560	14,762
Cost of goods sold	14,019	11,835	10,690	13,467
Gross profit	793	342	869	1,295
Selling expenses	325	210	268	342
Administrative expenses	78	69	92	117
Operating profit	390	63	509	835
Financial income	98	107	89	23
Financial expenses	430	275	281	191
Interest expenses	339	237	222	191
Profit/ Loss from affiliates	-	-	-	-
Other gains/losses	5	195	4	-
Profit before tax	62	90	321	667
Tax payment	5	43	25	67
Profit after tax	57	47	295	601
Minority interest	0	0	0	0
NPAT- minority interest	57	47	295	601
EBITDA	811	505	886	1,306
EPS	363	260	1,690	3,397

BS (billion VND)	2018	2019	2020	2021F
Cash & cash equivalent	659	778	589	962
Account receivables	745	877	1,439	1,779
Inventory	2,421	2,589	2,150	3,820
Other current assets	278	191	95	121
Total current assets	4,102	4,435	4,273	4,047
Tangible fassets	3,272	3,049	2,727	2,389
Intangible assets	260	247	249	234
Finance lease fixed assets	-	162	151	139
Long-term assets in progress	444	49	59	-
Long-term investments	9	48	23	23
Other non-current assets	32	70	59	158
Total non-current assets	4,020	3,629	3,271	2,887
TOTAL ASSETS	8,122	8,064	7,544	9,631
Account payable	548	1,819	850	1,107
Short-term debt	3,201	2,389	2,520	4,065
Other short-term debt	175	135	509	646
Current liabilities	3,924	4,342	3,878	5,818
Long-term debt	1,225	703	482	93
Other long-term debt	1	2	2	2
Non- current liabilities	1,226	705	484	95
Total Liabilities	5,151	5,048	4,362	5,913
Paid-in capital	1,820	1,820	1,820	1,820
Capital surplus	766	766	766	766
Retained earnings	313	356	576	1,099
Other equity	72	74	18	33
Minority interest	-	-	-	-
Owner's equity	2,971	3,017	3,181	3,718
TOTAL RESOURCES	8,122	8,064	7,544	9,631

CF (billion VND)	2018	2019	2020	2021F
Profit after tax	57	47	295	601
Depreciation	421	442	376	471
Change in net working capital	1,857	692	-620	-1,651
CF from operating activities	2,336	1,181	52	-580
Fixed assets investment	-428	-96	-56	-148
Other investment activities	234	-134	391	0
CF from investing activities	-195	-230	334	-148
Dividend paid	-1	0	0	-55
Cash from net borrowing	-1,748	-1,315	-171	0
Other revenue	-24	-22	-73	1,156
CF from financing activities	-1,773	-1,336	-244	1,101
Cash & cash equivalent, beginning of the year	93	461	76	219
CF during the year	369	-385	142	374
Cash & cash equivalent, end of the year	461.00	76.04	219.16	592.74
Profit after tax	57	47	295	601

Ratios (%)	2018	2019	2020	2021F
Liquidity ratios				
Current ratio	1.0	1.0	1.1	0.7
Quick ratio	0.4	0.4	0.5	0.0
Solvency ratios				
Current assets/ Total assets	18.4%	14.1%	22.0%	27.4%
Liabilities/ Total assets	26.3%	24.8%	29.0%	29.8%
Short-term debt/ Total assets	48.3%	53.8%	51.4%	60.4%
Debt/ Total assets	54.5%	38.3%	39.8%	43.2%
Efficiency ratios				
Days of inventories	60	74	61	61
Days of receivable	42	29	41	29
Days of payable	228	155	150	150
CCC	(126)	(52)	(48)	(60)
Profitability ratios				
Gross profit margin	5.4%	2.8%	7.5%	8.8%
EBIT margin	2.6%	0.5%	4.4%	5.7%
Net profit margin	0.4%	0.4%	2.6%	4.1%
ROE	1.9%	1.6%	9.5%	17.4%
ROA	0.6%	0.6%	3.8%	7.0%
Growth				
Net revenue growth	65.3%	1.5%	0.7%	29.8%
EBIT growth	29.5%	24.0%	-12.4%	51.0%
NPAT growth	61.6%	18.6%	-16.1%	55.6%
Total assets growth	1.4%	-7.4%	15.5%	6.3%
Equity growth	9.3%	-5.5%	9.1%	4.9%

Source: BSC Research

Disclosure

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