

Sector: Materials (Latest Report: [Link](#))

Recommendation	BUY	Hoa Phat Joint Stock Company (HSX: HPG)			
STEEL DRAGON GET OFF THE GROUND					
Current price:	65,400	Date	25/05/2021	Shareholder Structure	
Previous target price	73,500	Outstanding Shares (Million)	3,313.3	Tran Dinh Long	26.1%
New target price:	76,500	Market Cap (VND billion)	216,688	Vu Thi Hien	7.3%
Dividend yield	0.7%	Avg. 30D Trading vol (thousand)	28,500	Dragon Capital	6.0%
Upside	16.9%	% Foreign float	29.24%	Tran Tuan Duong	2.7%

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VALUATION (Refer to page 10 for details)

BSC maintains **BUY** recommendation with HPG and raises its 2021 target price to **VND76,500/share** (+5% compared to the target price in the [Q2.2021 Industry Report](#)) due to (1) raising the company's forecast for 2021's business results more 23% (2) reduce target P/E from 10.0 to 9.0x and EV/EBITDA from 7.0 to 6.0x to reflect reduced profit growth forecast in 2H2021 and the possibility of lower profit in 2022 when the ground level steel and raw material prices gradually return to average (BSC forecasts profit 2022 -18% YoY).

FORECAST OF BUSINESS RESULTS (Refer to page 5 for details)

BSC forecasts HPG's 2021 revenue to reach VND 147,209 billion (+63.3% YoY), NPAT of VND 31,015 billion (+130.8% YoY), equivalent to EPS = VND 8,893/share (assuming the bonus and welfare fund is deducted 5%).

INVESTMENT THESIS

- (1) Steel industry entered a new growth cycle with a new price level
- (2) Accelerate construction of the expansion phase at Dung Quat Complex to take advantage of favorable conditions of the industry (expected to start construction from the beginning of 2022)
- (3) Strong financial potential

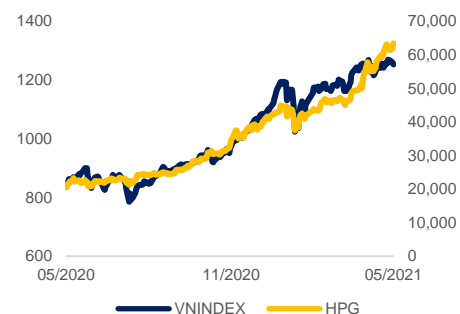
RISKS

- (1) Risk of governments taking measures to curb the rise in steel prices
- (2) Risk of material price fluctuations, especially ore and HRC

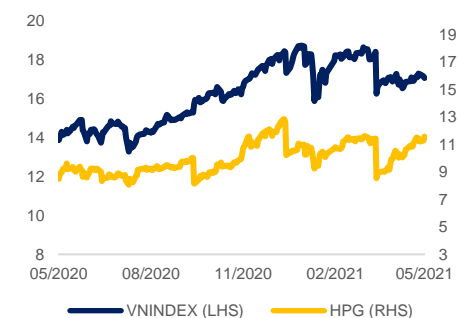
COMPANY UPDATE (Refer to page 5 for details)

- (1) **HPG recorded a record profit in Q1/2021.** Net revenue of 31.177 billion (+62% YoY), NPAT 7,005 billion (+204% YoY), completing 26.2% and 38.9% of the plan, respectively.
- (2) **The 2021 AGM marks HPG's transformation with the optimal orientation of the ecosystem** and investment in expansion of Dung Quat Complex. HPG closes the ex-rights date to receive the 2020 dividend (5% cash and 35% shares) as May 31, 2021, and paid on June 11, 2021
- (3) **Factories operate at 100% capacity. Consumption volume in April was positive. Selling prices continued to increase** to reflect rising raw material costs, especially in April and May 2021.
- (4) Measures to "cool down" steel prices being studied by the government are not a big risk in the short term for Hoa Phat, and are positive in the medium term.

Price comparison between HPG and VN index



P/E comparison between HPG and VN index



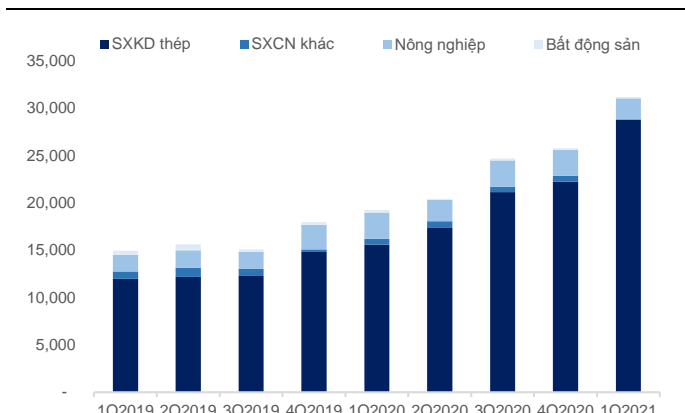
	2020	2021F	Peer	VN-Index		2019	2020	2021F	2022F
PE (x)	8.8	7.0	16.81	17.1	Net Sales	63,658	90,119	147,209	131,033
PB (x)	2.0	2.8	1.51	2.5	Gross Profit	17.6%	21.0%	26.6%	24.5%
PS (x)	1.3	1.5	0.44	2.1	NPAT	7,527	13,439	31,015	25,402
ROE (%)	25.1%	43.7%	16.9%	15.0%	EPS	2,726	4,056	8,893	6,621
ROA (%)	11.5%	21.0%	3.07%	2.4%	EPS Growth	-32.5%	48.8%	119.3%	-25.5%
EV/ EBITDA (x)	7.9	9.1	7.63	16.5	Net Debt/ Equity	64.4%	54.6%	12.1%	-21.5%

COMPANY UPDATE

(1) Business results in Q1/2021 tripled in the same period

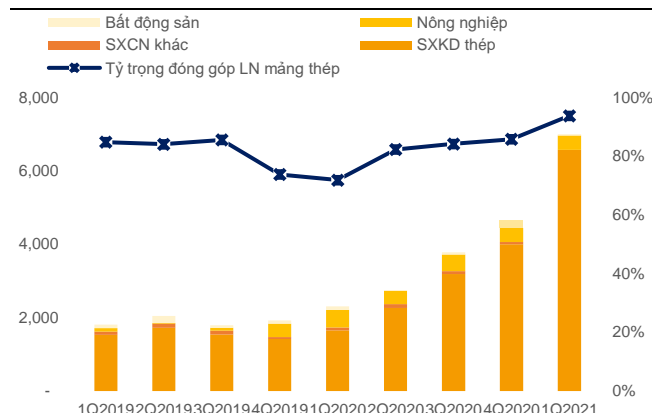
HPG recorded a record profit in Q1/2021. Net revenue of 31.177 billion (+62% YoY), NPAT 7,005 billion (+204% YoY), completing 26.2% and 38.9% of the 2021 plan, respectively. Steel segment is the mainstay of growth in Q1/2021

Steel production and business revenue was 2.4 times higher than the same period last year, contributing 92.3% of total consolidated revenue



Source: Company FS, BSC Research

Profit contribution ratio of steel segment is increasing, from 75-85% to 93.8% in Q1/2021



Source: Company FS, BSC Research

Table: Business results by activity segment Q1.2021

Business segment	Q1/2021 Revenue	% YoY	Q1/2021 NPAT	% YoY	Q1/2021 NPM	Q4/2020 NPM	Q1/2020 NPM
Steel production	28,804	84.7%	6,573	296.7%	22.8%	18.0%	10.6%
Agriculture	2,248	-19.1%	392	-18.7%	17.4%	14.0%	17.3%
Other production	0	-100%	0	-100%	N/A	10.8%	12.0%
Real estate	125	-50.6%	40	-57%	32%	122.2%	36.8%
Total	31,177	62.1%	7,005	203.9%	22.5%	18.1%	12.0%

Source: Company FS, BSC Research

Business results in Q1/2021 strongly grew thanks to both price and volume factors. HPG's total sales of steel products in Q1 reached 2.17 million tons (+10.5% QoQ, +77.3% YoY). Excluding the amount of HRC used internally for galvanized steel sheet and steel pipe, BSC estimates that sales volume to outside in 1Q2021 will reach 1.9 million tons (+12% QoQ, +56% YoY).

Average selling price of construction steel in Q1/2021 increased by 30% YoY. The price of construction steel products of HPG until the end of March 2021 only increased slightly compared to the beginning of the year, however, it has increased continuously since April 2021, reflecting the increasing momentum of raw material prices and world steel prices (Refer to [Sector Update](#), [AGM Note](#)). As a result, the after-tax profit margin of the steel segment increased sharply from 18% in Q4/2020 to 22.8%.

In Q1/2021, HPG also divested from the furniture segment according to the company's restructuring plan, earning a profit of VND 502 billion (contributing 7% of Q1's consolidated profit).

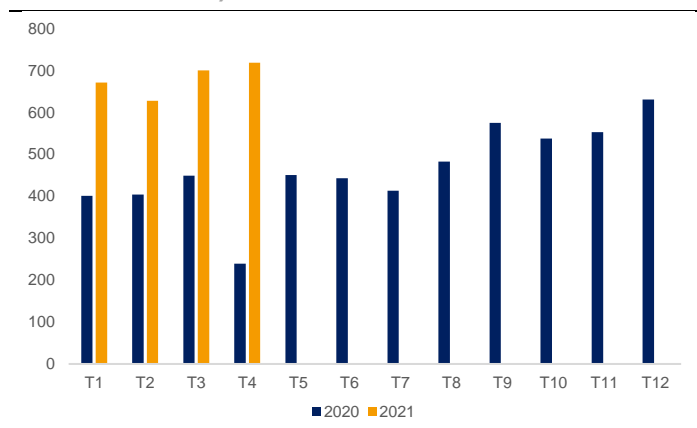
(2) The General Meeting of Shareholders 2021 marks the Group's transformation with the optimal orientation of the ecosystem and investment in expansion of Dung Quat Complex (Refer to the [AGM Note](#)). HPG is also in the process of transferring management rights to the next generation of leaders, through the appointment of Mr.

Nguyen Viet Thang as General Director to replace Mr. Tran Tuan Duong; while continuing to nurture future generations of leaders.

(3) Factories operate at 100% capacity. Consumption volume in April was positive

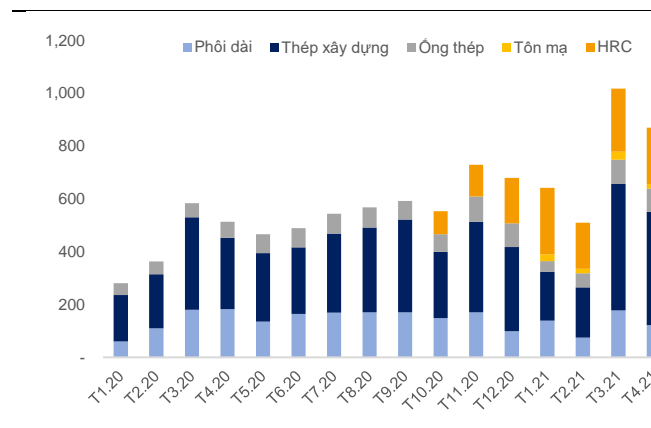
The blast furnaces operate at 100% capacity, helping to produce 718,500 tons of crude steel in 4/2021 (+2.5% MoM)

HPG's crude steel output after operating the entire Dung Quat Complex is over 8 million tons/year (Unit: thousand tons)



Source: VSA, BSC Research

Consumption of steel products +69.5% YoY
(Unit: thousand tons)



Source: VSA, BSC Research

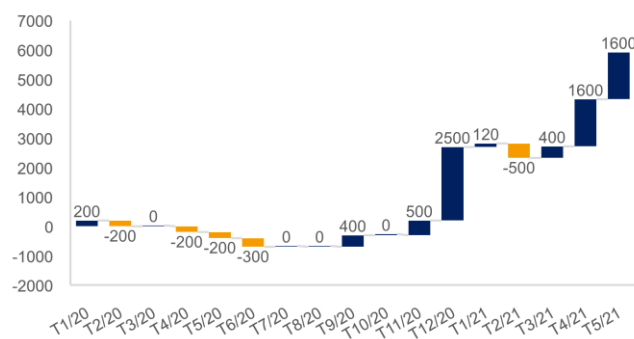
Consumption of steel products in T4 reached 869 thousand tons (-14.5% MoM, +69.5% YoY). Consumption of all kinds of products decreased slightly compared to 3/2021 due to strong increase in demand in T3 after being suppressed in the previous month due to the impact of Tet holiday and the fear of importing when steel prices increased. However, consumption witnessed strong growth year-on-year thanks to (1) increased capacity and (2) low consumption in April 2020 due to social distancing due to the epidemic.

- **Construction steel 428,541 tons (+59% YoY)** thanks to strong sales volume in both domestic market +42.8% and export market (3.5 times higher than the same period).
- **Steel pipe and galvanized sheet recorded high output growth** thanks to the self-reliance in the source of input HRC in the context of scarcity of goods at some point in time and the price continuously increasing. In particular, the output of galvanized steel sheet for export accounts for over 80% thanks to high demand from the international market.

Accumulated 4M2021, HPG's steel products consumption volume reached 3 million tons (+75% YoY), of which: construction steel 1.28 million tons (+28% YoY), billet 513.165 tons (-3% YoY), steel pipe 271,368 tons (+32.1%), galvanized steel 92,898 tons (x2.6 times the same period) and HRC 877,272 tons. Thus, HPG has completed 36%, 29.5%, 31% and 32% of the annual output plan for long steel, steel pipe, galvanized steel and HRC.

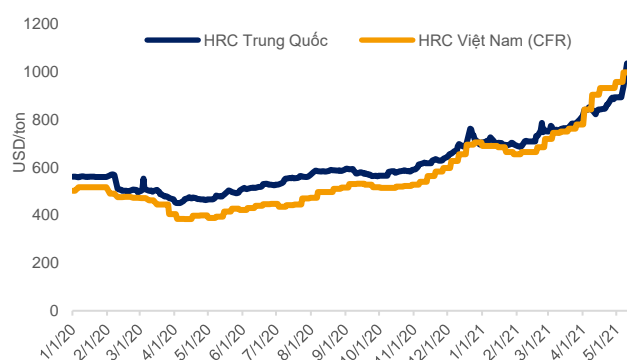
(4) Selling price is continuously adjusted to reflect increased input material costs, especially in April and May 2021

Hoa Phat construction steel price continuously increased (VND/kg)



Source: Giathepton.com, BSC Research summarize

The price of HRC is also in a strong upward trend globally



Source: Bloomberg, BSC Research

(5) Measures to "cool down" steel prices being studied by the government are not a big risk in the short term for Hoa Phat, and are positive in the medium term

With the sharp increase in steel prices due to the price of raw materials, the Ministry of Industry and Trade has sent a document to the Vietnam Steel Association (VSA), businesses and large domestic steel manufacturers to request the Association to review and consider the following issues: problems related to input materials, reduce production costs to lower product costs, take measures to increase capacity to meet maximum domestic demand, limit the export of goods and products with high demand, check distribution agents in providing goods to consumers, avoid hoarding, push up prices.

With the opinion of considering adjusting the steel safeguard tax policy to lower the domestic steel price, the Ministry of Finance said that "The issue of reducing the preferential import tax rate for finished steel products should be considered, carefully calculated to both contribute to promoting the domestic steel industry to develop sustainably and stabilize the domestic steel market". Currently, Vietnam only applies a safeguard tax to steel products whose domestic production capacity fully meets domestic demand and is abundant for export, notably billet and long steel (13.3% and 7.9%, roadmap to reduce to 0% in 2023 if not extended), color coating (out-of-quota tax 19%)...BSC assesses that the adjustment of safeguard tax (if any) will cause oversupply, great competitive pressure on small and medium-sized steel enterprises, which do not have the advantage of production costs.

For large-scale enterprises and closed production processes like Hoa Phat, BSC believes that the competitive advantage is still outstanding even when this tax is eliminated. Specifically, BSC estimates that HPG's current construction steel production cost is about 14-14.5 million VND/ton (equivalent to 600-630 USD/ton), much lower than the average spot price of long billet of other countries. Chinese factory about 800-850 USD/ton and steel bar about 850-990 USD/ton.

For the proposal of studying, applying export tax on construction steel and hot rolled coil when there is a shortage of domestic supply. The representative of the Vietnam Steel Association (VSA) suggested that the export of finished steel should not be restricted, but only policies should be given to manufacturers to give priority to selling in the domestic market, temporarily restricting the export of billet. steel to prioritize domestic demand. Hoa Phat is the largest exporter of long steel (including billet and construction steel) with an output of about 180,000 tons/month, of which billet accounts for about 70%. **The promotion of consumption in the domestic market when the demand is high or export does not significantly affect Hoa Phat's business activities**, BSC believes that the company can be flexible with this decision.

Regarding the long-term solution to stabilize the supply and demand of steel prices, the Ministry of Industry and Trade said that it would strengthen trade remedies for construction steel and should have tax policies and investment incentives for hot rolled coil to make it more attractive. meet the growing demand in the near future. BSC

assesses that the above operating point will be favorable for Hoa Phat in deploying phase 2 of Dung Quat Complex with a capacity of 5.6 million tons with a focus on flat steel (Refer to [AGM Note](#))

FORECAST OF BUSINESS RESULTS

We estimate HPG's profit will grow strongly in Q2/2021 thanks to the continuous adjustment of selling prices to the increase in raw material prices and Q2 is usually the peak consumption season of the year.

BSC raised HPG's 2021 revenue forecast to VND 147,209 billion (+63.3% YoY), NPAT VND 31,015 billion (+130.8% YoY), equivalent to EPS = 8,893 dong/share (assuming 5% bonus and welfare fund deduction is assumed. This forecast is 11% and 23% higher than our latest forecast in the [AGM Note](#) due to (1) adjusting the consumption structure of long steel products in the direction of increasing the proportion of finished steel; (2) increase the assumption that the selling price of construction steel and HRC will follow closely the market movements.

Table: Summary of some key assumptions

		2020	2021F		% YoY	Thesis
			Old (Link)	New		
Consumption		6.3	7.6	7.6	20.8%	Crude steel output is over 8 million tons after operating at full capacity at Dung Quat Complex
- Billet		1.8	1.01	1.4	-20.7%	Consumption of steel billet decreased due to increasing proportion of construction steel and HRC production
- Construction Steel		3.4	4.0	3.52	3.6%	Consumption of steel products increased thanks to general demand, which was actively supported by public investment and civil construction to accelerate the economic recovery after the epidemic and positive exports, especially with galvanized steel.
- Steel pipe		0.82	0.92	0.92	12.0%	
- Galvanized steel		0.16	0.19	0.3	87.5%	
- HRC		0.15	1.52	1.5	985%	
Construction price	Steel	-9%	+10%	+40%		steel prices are forecasted to continue to stay high until Q3/2021 and adjust downwards towards the end of the year. Risks to steel prices are price restraint measures in many countries.
Iron Ore (USD/ton)		105	130	175	+66.7%	BSC change our view on the outlook for ore prices in 2021, we think that ore prices will continue to stay at a high level until Q3/2021 before falling slightly in Q4. Due to the strong increase in input material prices and strong demand, HRC prices have continuously set new highs. We believe that prices will only correct when raw material prices have similar movements, thus raising the assumption of the average annual HRC price in the forecast.
Coke refining coal (USD)		135	145	140	+3.7%	
HRC (USD/ton)		535	590	750	+40%	

Source: BSC Research

VALUATION

We use a combination of P/E and EV/EBITDA methods to value HPG stock for 2021. In this update, we reduce the target multiplier, respectively P/E from 10.0 to 9.0 times and EV/EBITDA from 7.0 to 6.0 times to reflect the forecast of lower profit growth in 2H2021 and a high possibility of profit reduction in 2022 when the price of steel and raw materials gradually returns to average (BSC forecasts profit 2022 profit reached 25.402 billion (-18% YoY).

Table: Valuation Summary

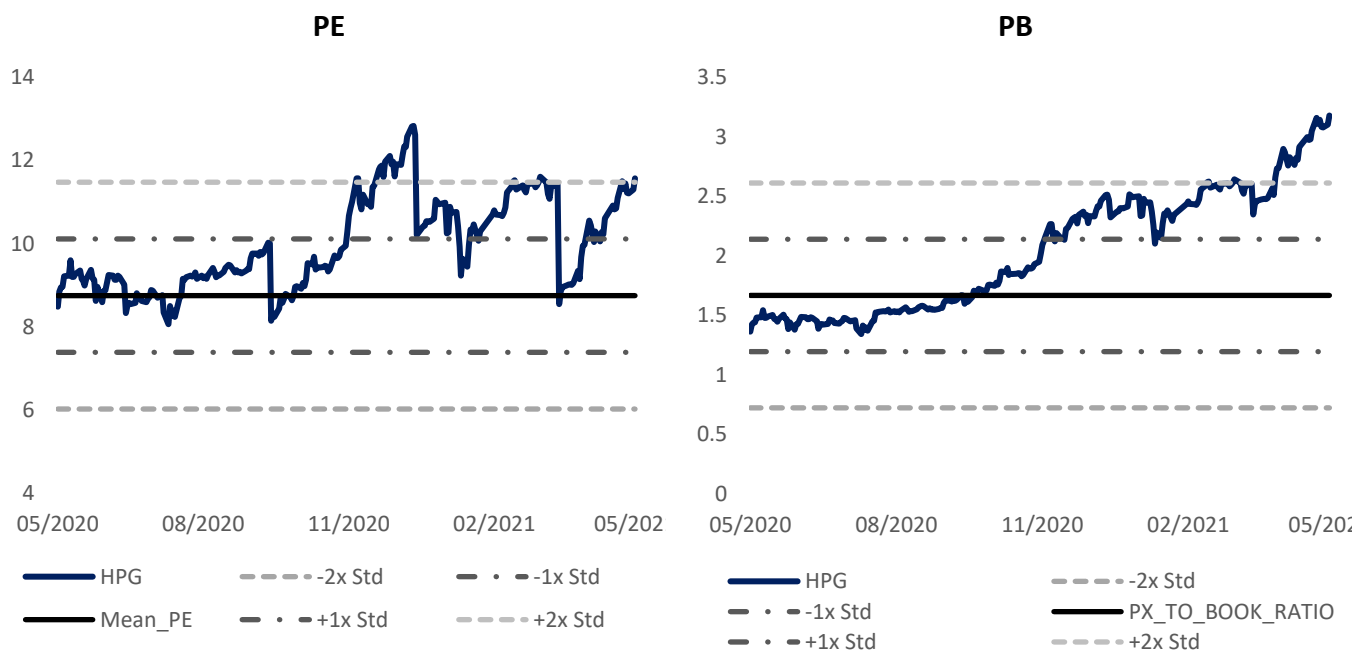
P/E method	50%
2021F EPS (VND/share) (removing extraordinary income from interior divestment)	8,742
Target P/E (times)	9
Target price for 2021 (VND)	78,677
EV/EBITDA method	50%
2021 EBITDA	42,665
Target EV/EBITDA	6
Enterprise value	255,993
+ Cash and short-term financial investment	36,668
- Debts	(46,702)
Equity value	245,959
Number of outstanding shares	3,331,288,938
Fair value per share (VND)	74,234
1 year target price	76,500

Source: BSC Research

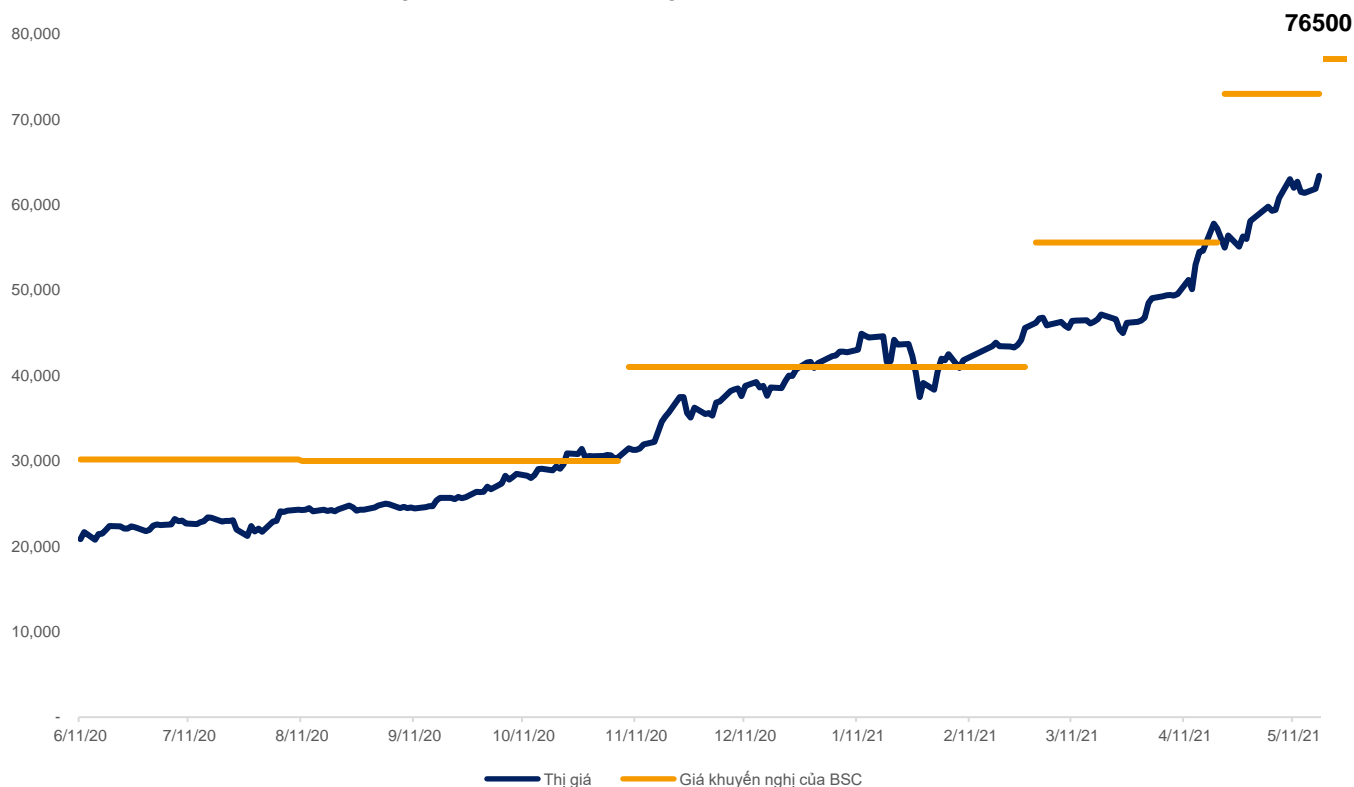
Table: Sensitivity analysis of the multiple method

		EBITDA 2021 (VND Billion)				
		38,505	40,532	42,665	44,799	47,039
EV/EBITDA	74,234					
	4.00	43,458	45,904	48,480	51,055	53,760
	5.00	55,079	58,138	61,357	64,576	67,957
	6.00	66,701	70,371	74,234	78,097	82,153
	7.00	78,323	82,604	87,111	91,618	96,350
	8.00	89,944	94,837	99,988	105,139	110,547
	9.00	101,566	107,071	112,865	118,660	124,744

		2021F NPAT (VND Billion)				
		24,628	28,881	31,015	33,149	38,043
		2021F EPS, excluded profit from divestment of furniture segment (Thousand VND)				
		6.911	8.130	8.742	9.354	10.757
P/E	78,677					
	7.00	48,374	56,910	61,194	65,477	75,299
	8.00	55,284	65,040	69,935	74,831	86,056
	9.00	62,195	73,170	78,677	84,185	96,813
	10.00	69,105	81,300	87,419	93,539	107,570
	11.00	76,016	89,430	96,161	102,893	118,326
	12.00	82,926	97,560	104,903	112,246	129,083



HPG stock price movement compared to BSC's recommendation



Source: Bloomberg, BSC Research

APPENDIX

IS (VND billion)	2018	2019	2020	2021F	CF (VND billion)	2018	2019	2020	2021F
Net revenue	55,836	63,658	90,119	147,209	Profit after tax	10,071	9,097	15,355	34,849
COGS	44,166	52,473	71,214	108,067	Depreciation	2,260	2,593	4,799	6,010
Gross profit	11,671	11,185	18,905	39,141	Change in NWC	(4,688)	(3,975)	(11,150)	(15,445)
Selling expenses	677	873	1,094	1,587	CF from operating activities	7,642	7,715	9,004	25,413
G&A	444	569	690	899	Fixed assets investment	(27,594)	(20,825)	(9,370)	(1,472)
Operating income	10,550	9,743	17,120	36,655	Other investment	(116)	-	-	-
Financial income	294	471	991	1,094	CF from investing activities	(20,533)	(18,064)	(16,605)	(1,472)
Financial expenses	772	1,182	2,824	3,401	Dividend paid	(6)	(13)	(1,419)	(1,657)
Interest expenses	540	937	2,192	3,401	Cash from net borrowing	11,137	12,391	17,468	(7,439)
Gain/loss from affiliates	-	(1)	2	-	Other revenue	11	0	3	-
Other gain/loss	(1)	66	66	500	CF from financing activities	11,143	12,378	16,051	(9,096)
Profit before tax	10,071	9,097	15,355	34,849	Beginning cash balance	4,265	2,516	4,545	13,001
Corporate tax payment	1,471	1,518	1,849	3,833	Cash in year	(1,748)	2,029	8,450	14,845
Profit after tax	8,601	7,578	13,506	31,015	Ending cash balance	2,516	4,545	13,001	27,846
Minority interest	28	51	67	-	NPATMI	8,573	7,527	13,439	31,015
NPATMI	8,573	7,527	13,439	31,015					
EBITDA	12,810	12,336	21,919	42,665					
EPS	4,037	3,082	4,056	8,893					

BS (VND billion)	2018	2019	2020	2021F	Ratios (%)	2018	2019	2020	2021F
Cash & Short-term investment	6,240	5,919	21,823	36,668	Liquidity ratios				
Short-term receivables	3,210	3,561	6,125	8,666	Current ratio	1.1	1.1	1.1	1.6
Inventory	14,115	19,412	26,287	39,890	Quick ratio	0.4	0.4	0.5	0.8
Other current assets	1,743	1,544	2,566	4,191	Solvency ratios				
Total current assets	25,309	30,437	56,800	89,416	Current Asset/ Total assets	32.4%	29.9%	43.2%	54.8%
Tangible fixed assets	12,565	30,980	65,308	68,633	Total Liabilities/ Total assets	48.1%	53.0%	55.0%	49.3%
Intangible fixed assets	217	269	254	232	Short-term debt/ Total assets	28.9%	26.5%	39.5%	34.7%
Financial lease fixed assets	-	-	-	1	Total debt/ Total assets	31.1%	36.0%	41.2%	28.6%
Long-term incomplete assets	38,107	37,435	6,247	693	Efficiency ratios				
Long-term investment	67	46	171	171	Days of inventories	117	135	135	135
Other non-current assets	1,756	2,004	1,862	3,041	Days of receivables	21	20	25	21
Total non-current assets	52,914	71,339	74,711	73,833	Days of payables	72	52	56	55
TOTAL ASSETS	78,223	101,776	131,511	163,249	CCC	66	103	104	101
Account payables	8,707	7,507	10,916	16,284	Profitability ratios				
Short-term debt	11,495	16,838	36,798	34,490	Gross profit margin	20.9%	17.6%	21.0%	26.6%
Other short-term debt	2,435	2,639	4,261	5,858	EBIT margin	18.9%	15.3%	19.0%	24.9%
Current liabilities	22,636	26,984	51,975	56,632	Net profit margin	15.4%	11.9%	15.0%	21.1%
Long-term debt	12,811	19,842	17,343	12,212	ROE	23.5%	17.0%	25.1%	43.7%
Other long-term debt	2,153	7,163	2,973	11,603	ROA	13.1%	8.4%	11.5%	21.0%
Non-current liabilities	14,964	27,005	20,316	23,815	Growth				
Total Liabilities	37,600	53,989	72,292	80,447	Net revenue growth	21.0%	14.0%	41.6%	63.3%
Paid-in capital	21,239	27,611	33,133	36,446	EBIT growth	9.6%	-7.6%	75.7%	114.1%
Capital surplus	3,212	3,212	3,212	3,212	Net profit growth	7.1%	-12.2%	78.5%	130.8%
Retained earnings	15,126	15,877	21,783	41,381	Total Assets growth	47.5%	30.1%	29.2%	24.1%
Other equity	919	924	934	1,606	Shareholder's equity growth	25.4%	17.6%	23.9%	39.8%
Minority interest	127	163	158	158					
Shareholder's equity	40,623	47,787	59,220	82,802					
TOTAL RESOURCES	78,223	101,776	131,511	163,249					

Source: BSC Research.

Disclosure

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