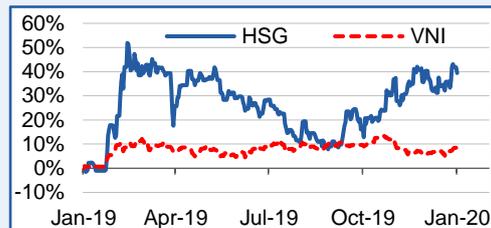


Industry	Steel		FY19	Q1/FY20	FY20
Report Date	January 20, 2020	Rev y/y	-18.6%	-12.7%	6.0%
Current Price	VND8,300	EPS y/y	-11.6%	198.6%	-6.7%
Last Target Price	VND10,000	GPM	11.4%	14.5%	11.7%
Upside	+20.5%	NPM	1.3%	2.8%	1.1%
Dividend yield	0.0%	EV/EBITDA	6.6x		6.1x
TSR	+20.5%	P/B	0.6x		0.6x
Last Rating	BUY	P/E	9.9x		10.6x

			HSG	Peers*	VNI
Market Cap	USD152.7mn		7.4x	12.6x	16.1x
Foreign Room	USD47.6mn	P/E (ttm)	0.6x	0.6x	2.3x
ADTV30D	USD1.4mn	P/B (curr)	1.6x	0.4x	N/A
State Ownership	0.0%	Net D/E	8.9%	5.6%	14.7%
Outstanding Shares	423.2 mn	ROE	3.1%	3.0%	2.4%
Fully Diluted Shares	423.2 mn	ROA			

Note: FY of HSG starts from October 1 to September 30; * foreign peers



Company Overview

Founded in 2001, HSG is a leading manufacturer of galvanized steel sheets (2.7 million-ton capacity, more than 30% market share) in Vietnam. Other products include steel pipes (990,000-ton capacity) and plastic pipes. HSG also has its own distribution retail network with 536 branches.

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Positive Q1 FY2020 results solidify profit turnaround

HSG reported Q1 FY2020 results with net revenue of VND6.6tn (USD286.3mn, -13% YoY) and NPAT-MI of VND181bn (USD7.9mn, +199% vs a very low base in Q1 FY2019 when HSG was still making losses in its core business). This NPAT-MI result is slightly better than the prelim result (VND170bn/USD7.4mn, +180% YoY) that was announced prior to HSG's AGM on January 13, 2020. We note these positive Q1 FY2020 earnings come purely from the recovery of core business (i.e., HSG recorded no abnormal gain in Q1 FY2020 vs VND223bn/USD9.7mn in Q1 FY2019), which we believe is underpinned by HSG's ongoing effort in destocking inventory, cutting operational expenses and reducing its reliance on debt as a trade-off for sales volume growth. HSG's gross margin expanded to 14.5% in Q1 FY2020 vs a record low of 8.0% in Q1 FY2019 and 13.1% in Q4 FY2019.

HSG's Q1 FY2020 revenue and earnings fulfil 22% and 54% of our full-year forecast, respectively. As these earnings results are better than our expectation – especially for gross margin – we see upside risk to our forecast for HSG.

Figure: HSG's Q1 FY2020 results

VND bn	Q1 FY2019	Q1 FY2020	Growth	FY2020F	Q1 FY2020 as % of FY2020F
Net revenue	7,545	6,585	-12.7%	29,711	22.2%
Gross profit	607	953	57.0%	3,473	27.4%
SG&A expenses	-549	-572	4.2%	-2,329	24.6%
EBIT	58	381	554.4%	1,144	33.3%
Interest expenses	-187	-158	-15.5%	-730	21.7%
FX gain/loss	7	-10	N/M	1	N/M
Other gain/loss	223	7	-96.8%	6	124.9%
PBT	101	220	116.7%	421	52.2%
NPAT-MI	61	181	198.6%	337	53.7%
<i>Gross margin</i>	<i>8.0%</i>	<i>14.5%</i>		<i>11.7%</i>	
<i>SG&A exp./Sales</i>	<i>7.3%</i>	<i>8.7%</i>		<i>7.8%</i>	
<i>EBIT margin</i>	<i>0.8%</i>	<i>5.8%</i>		<i>3.8%</i>	
<i>Effective tax rate</i>	<i>40.2%</i>	<i>17.6%</i>		<i>20.0%</i>	
<i>NPAT-MI margin</i>	<i>0.8%</i>	<i>2.8%</i>		<i>1.1%</i>	

Note: Financial year (FY) of HSG lasts from October 1 to September 30

Source: HSG's financial statements, VCSC forecast

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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