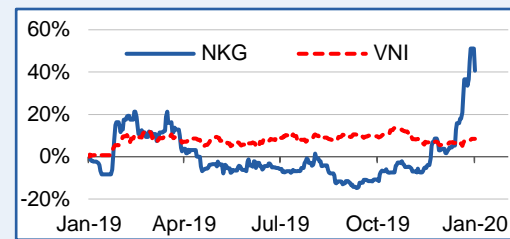




# Nam Kim Steel (NKG)

# Earnings Flash

Industry	Steel		2018	2019
<b>Report Date</b>	<b>January 20, 2020</b>			
Current Price	VND9,210	Rev y/y	17.4%	-7.6%
Last Target Price	VND7,100	EPS y/y	-93.6%	-17.4%
Upside	-22.9%	GPM	5.4%	2.8%
Dividend yield	0.0%	NPM	0.4%	0.4%
TSR	-22.9%	EV/EBITDA	6.7x	4.8x
Last Rating	OUTPERFORM	P/B	0.6x	0.6x
		P/E	30.1x	35.8x



			NKG	Peers*	VNI
Market Cap	USD72.9mn				
Foreign Room	USD44.7mn	P/E (ttm)	35.8x	12.6x	16.1x
ADTV30D	USD62,000	P/B (curr)	0.6x	0.6x	2.3x
State Ownership	0.0%	Net D/E	0.8x	0.4x	N/A
Outstanding Shares	182.0 mn	ROE	0.7%	5.6%	14.7%
Fully Diluted Shares	182.0 mn	ROA	1.9%	3.0%	2.4%

\* foreign peers

## Company Overview

Founded in 2002, Nam Kim Steel is one of Vietnam's largest manufacturers of galvanized steel sheets and steel pipes (a combined market share of 11%) for use in residential, industrial and civil construction.

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## Q4 core earnings continue to show recovery, as expected

NKG reported its Q4 2019 results in which revenue dropped 8% YoY (VND3.2tn/USD139.3mn) while NPAT-MI reached VND7.2bn (USD311,100) vs Q4 2018's net loss of VND173.4bn (USD7.5mn). We note that Q4 2018 was NKG's record low quarter in terms of core business performance, which was mainly due to a tough competitive industry landscape. This quarter's results continue to show NKG's recovery in core profitability despite slow sales volume growth that was amid domestic competition and weak export activities, as expected. NKG's Q4 2019 EBIT margin recovered to 1.5% vs -2.6% in Q4 2018 and 0.2% in 9M 2019. Nevertheless, we notice abnormally large financial income and higher-than-expected interest expenses in Q4 2019 despite NKG's declining outstanding total debt balance (NKG's end-2019 total debt balance dropped 30% vs end-2018 and 7% vs end-Q3 2019), which we will seek further clarification from the company.

For full-year 2019, NKG's revenue fell 18% to reach VND12.2tn (USD529.4mn) while NPAT-MI fell 17% to reach VND47bn (USD2.1mn). As these results came in broadly in line with our expectations, we anticipate insignificant changes to our forecasts for NKG. Details on our current forecast for 2020F can be found in our last update [NKG \[OUTPERFORM +17.2%\] - Improving core business performance - Update](#), dated November 29, 2019.

**Figure 1: NKG's 2019 results**

VND bn	Q4 2018	Q4 2019	Growth	2018	2019	Growth	2019F	2019 as % of 2019F
<b>Net revenue</b>	<b>3,463</b>	<b>3,201</b>	<b>-7.6%</b>	<b>14,812</b>	<b>12,177</b>	<b>-17.8%</b>	<b>12,202</b>	<b>100%</b>
<b>Gross profit</b>	<b>20</b>	<b>130</b>	<b>545.5%</b>	<b>793</b>	<b>342</b>	<b>-56.9%</b>	<b>322</b>	<b>106%</b>
SG&A expenses	-110	-83	-24.8%	-403	-279	-30.8%	-268	104%
<b>EBIT</b>	<b>-90</b>	<b>47</b>	<b>N/M</b>	<b>390</b>	<b>63</b>	<b>-83.9%</b>	<b>54</b>	<b>117%</b>
Financial income	18	102	463.8%	98	179	83.4%	98	183%
Financial expense	-115	-144	24.8%	-430	-347	-19.3%	-255	136%
Interest expense	-91	-134	47.4%	-339	-309	-8.7%	-255	121%
Other gain/loss	1	3	341.2%	5	195	3845.4%	2s00	98%
PBT	-187	7	N/M	62	90	44.9%	96	94%
<b>NPAT-MI</b>	<b>-173.4</b>	<b>7.2</b>	<b>N/M</b>	<b>57</b>	<b>47</b>	<b>-17.4%</b>	<b>56</b>	<b>85%</b>
Gross margin %	0.6%	4.0%		5.4%	2.8%		2.6%	
SG&A as % sales	3.2%	2.6%		2.7%	2.3%		2.2%	
EBIT margin %	-2.6%	1.5%		2.6%	0.5%		0.4%	
Effective tax rate %	7.2%	1.6%		7.8%	47.5%		41.5%	
NPAT-MI margin %	-5.0%	0.2%		0.4%	0.4%		0.5%	

Source: NKG's Q4 2019 financial statements, VCSC forecasts

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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%
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