



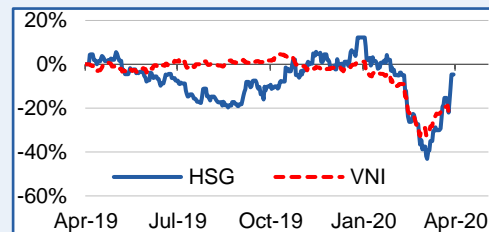
Hoa Sen Group (HSG)

Earnings Flash

| Industry | Steel | | FY19A | H1/FY20 | FY20F |
|--------------------|-----------------------|-----------|--------|---------|-------|
| Report Date | April 27, 2020 | Rev y/y | -18.6% | -14.5% | 2.1% |
| Current Price | VND7,400 | EPS y/y | -11.6% | 228.4% | -0.9% |
| Last Target Price | VND10,300 | GPM | 11.4% | 16.4% | 12.6% |
| Upside | +39.2% | NPM | 1.3% | 3.1% | 1.3% |
| Dividend yield | 0.0% | EV/EBITDA | 5.3x | | 4.8x |
| TSR | +39.2% | P/B | 0.6x | | 0.5x |
| Last Rating | BUY | P/E | 8.8x | | 8.9x |

| | | | HSG | Peers* | VNI |
|----------------------|------------|------------|-------|--------|-------|
| Market Cap | USD136.2mn | | | | |
| Foreign Room | USD43.1mn | P/E (ttm) | 5.1x | 8.5x | 12.1x |
| ADTV30D | USD1.4mn | P/B (curr) | 0.5x | 0.4x | 1.7x |
| State Ownership | 0.0% | Net D/E | 1.4x | 0.4x | N/A |
| Outstanding Shares | 423.2 mn | ROE | 11.2% | 4.9% | 14.6% |
| Fully Diluted Shares | 423.2 mn | ROA | 3.6% | 2.3% | 2.5% |

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.

Vy Nguyen

Senior Analyst

vy.nguyen@vcsc.com.vn

+8428 3914 3588 ext.147

Hong Luu

Senior Manager

hong.luu@vcsc.com.vn

+8428 3914 3588 ext.120

Favorable HRC prices drive strong earnings growth

HSG reported Q2 FY2020 financial statements that are in line with the preliminary results announced on April 22, 2020. Q2 FY2020 revenue fell 16% YoY to VND5.8tn (USD251.3mn) while NPAT-MI surged 261% YoY to VND201bn (USD8.7mn). The strong recovery in earnings was driven by a sharp expansion of gross margin despite falling total sales volume, which we attribute to HSG benefitting from low-priced hot rolled coil (HRC) accumulation.

For H1 FY2020, revenue declined 15% YoY to VND12.4tn (USD537.5mn) while NPAT-MI jumped 228% YoY to VND382bn (USD16.6mn). HSG recorded total sales volume of 738,000 tons, declining 4% YoY in H1 FY2020.

As stated in our last update report, [HSG \[BUY +26.5%\] - Core business strengthens amid possible sales slowdown](#), dated February 18, 2020, HSG's Q1 FY2020 gross margin expanded to 14.5% (the highest quarterly level since FY2018) as HRC prices inched down in Q4 FY2019 (July – September 2019) before rebounding in Q1 FY2020 (October – December 2019), creating a low-cost HRC accumulation opportunity. We believe that HSG continued to benefit from low-cost HRC inventory in Q2 FY2020. However, as HRC prices took a deep dive beginning in January, we expect HSG's ability to expand margin via HRC accumulation will fade in Q3 FY2020.

As these results were more positive than our expectation, we anticipate upside risk to our forecasts for HSG, pending a fuller review.

Figure 1: HSG's H1 FY2020 results

| VND bn | Q2 FY19 | Q2 FY20 | Growth | H1 FY19 | H1 FY20 | Growth | FY20F | H1 as % of FY20F |
|---------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|------------------|
| Net revenue | 6,911 | 5,779 | -16.4% | 14,457 | 12,364 | -14.5% | 28,612 | 43% |
| Gross profit | 781 | 1,076 | 37.8% | 1,388 | 2,029 | 46.2% | 3,602 | 56% |
| SG&A expenses | -546 | -646 | 18.2% | -1,095 | -1,218 | 11.2% | -2,432 | 50% |
| EBIT | 235 | 430 | 83.4% | 293 | 811 | 177.0% | 1,170 | 69% |
| Interest expenses | -195 | -152 | -22.2% | -382 | -310 | -19.0% | -730 | 42% |
| FX gain/loss | -2 | -34 | N/M | 5 | -45 | N/M | 2 | N/M |
| Other gain/loss | 9 | -14 | N/M | 232 | -7 | N/M | 6 | N/M |
| PBT | 47 | 230 | 390.7% | 148 | 450 | 203.3% | 448 | 101% |
| NPAT-MI | 56 | 201 | 260.9% | 116 | 382 | 228.4% | 358 | 107% |
| Gross margin | 11.3% | 18.6% | | 9.6% | 16.4% | | 12.6% | |
| SG&A exp./Sales | 7.9% | 11.2% | | 7.6% | 9.9% | | 8.5% | |
| EBIT margin | 3.4% | 7.4% | | 2.0% | 6.6% | | 4.1% | |
| NPAT-MI margin | 0.8% | 3.5% | | 0.8% | 3.1% | | 1.3% | |

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

Source: HSG's financial statements, VCSC forecast

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|---------------------------------------|---|
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| 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 |
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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Nghia Dien, Senior Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Ha Dao, Analyst, ext 194
- Vinh Bui, Analyst, ext 191

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Senior Analyst, ext 147
- Duc Pham, Analyst, ext 174

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Huy Nguyen, Analyst, ext 173
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Nghia Le, Analyst, ext 181
- Duc Le, Analyst, ext 196

Industrials and Transportation

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Retail & Corporate Brokerage

Ho Chi Minh & Hanoi

Quynh Chau

+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn