



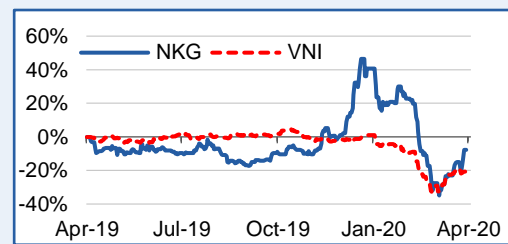
Nam Kim Steel (NKG)

Earnings Flash

Industry	Steel		2019A	Q1/20	2020F
Report Date	April 27, 2020				
Current Price	VN6,660	Rev y/y	17.8%	-16.7%	-1.3%
Last Target Price	VND7,400	EPS y/y	-17.4%	N/M	4.1%
Upside	+11.1%	GPM	2.8%	8.6%	3.6%
Dividend yield	0.0%	NPM	0.4%	1.7%	0.4%
TSR	+11.1%	EV/EBITDA	7.0x		5.8x
Last Rating	MARKET PERFORM	P/B	0.4x		0.4x
		P/E	26.4x		25.4x

			NKG	Peers*	VNI
Market Cap	USD52.7mn				
Foreign Room	USD39.2mn	P/E (ttm)	6.6x	8.5x	12.1x
ADTV30D	USD262,000	P/B (curr)	0.4x	0.4x	1.7x
State Ownership	0.0%	Net D/E	1.0x	0.4x	N/A
Outstanding Shares	182.0 mn	ROE	6.3%	4.9%	14.6%
Fully Diluted Shares	182.0 mn	ROA	2.4%	2.3%	2.5%

* 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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Strong gross margin expansion buttresses Q1 earnings

NKG reported positive Q1 2020 results with NPAT-MI reaching VND41bn (USD1.8mn) vs a low base of VND102bn (USD4.4mn) of net loss in Q1 2019. The strong recovery in earnings was driven by a sharp expansion of gross margin despite falling total sales volume, which we attribute to NKG benefitting from low-priced hot rolled coil (HRC) accumulation.

For Q1 2020, NKG recorded total galvanized steel sheet and steel pipe sales volume of 148,300 tons, declining by 11% YoY due to slow domestic demand and weak export activities amid COVID-19. As stated in our last update report, [NKG \[MARKET PERFORM -9.0%\] - Core business continues to make solid recovery progress](#), dated February 18, 2020, HRC prices fell in Q2-Q3 2019 but rebounded sharply in Q4 2019, creating a low-cost HRC accumulation opportunity. This together with NKG's inventory destocking helped the company's gross margin to gradually recover throughout 2019 from its record low in Q1 2019. We believe that NKG continued to benefit from low-cost HRC inventory in Q1 2020. However, as HRC prices took a deep dive beginning January, we expect NKG's ability to expand margin via HRC accumulation will fade in Q2 2020.

As these results came in more positive than our expectation, we anticipate upside risk to our earnings forecast for NKG, pending a fuller review.

Figure 1: NKG's Q1 2020 results

VND bn	Q1 2019	Q1 2020	Growth	2020F	Q1 as % of 2020F
Net revenue	2,943	2,452	-16.7%	12,020	20%
Gross profit	-1	212	NM	438	48%
SG&A expenses	-56	-81	44.3%	-280	29%
EBIT	-57	131	NM	159	83%
Financial income	9	8	-8.6%	108	7%
Financial expense	-54	-92	71.8%	-209	44%
Interest expense	-49	-57	16.1%	-209	27%
Other gain/loss	0	0	2.7%	0	NM
PBT	-102	47	NM	58	82%
NPAT-MI	-102	41	NM	49	84%
Gross margin %	NM	8.6%		3.6%	
SG&A as % sales	1.9%	3.3%		2.3%	
EBIT margin %	NM	5.3%		1.3%	
Effective tax rate %	NM	12.2%		15.0%	
NPAT-MI margin %	NM	1.7%		0.4%	

Source: NKG's financial statements, VCSC forecasts

VCSC Rating System

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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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