



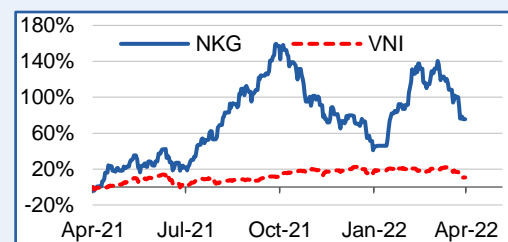
Nam Kim Steel (NKG)

Earnings Flash

Industry	Steel		2021	Q1/22	2022
Report Date	April 26, 2022	Rev y/y	143.7%	+47.4%	-5.5%
Current Price	VND35,200	EPS y/y	614.0%	+59.0%	-28.2%
Target Price*	VND44,900	GPM	15.2%	13.4%	13.1%
Upside	+27.6%	NPM	7.9%	7.1%	6.0%
Dividend Yield	2.8%	EV/EBITDA	3.3x	N.M.	4.2x
TSR	+30.4%	P/B	1.3x	N.M.	1.1x
Rating*	MARKET PERFORM	P/E	3.6x	N.M.	5.0x

			NKG	Peers**	VNI
Market Cap	USD335.8mn	P/E (ttm)	3.3x	8.3x	14.7x
Foreign Room	USD133.1mn	P/B (curr)	1.2x	0.6x	2.3x
ADTV30D	USD6.0mn	Net D/E	0.5x	0.4x	N/A
State Ownership	0.0%	ROE	40.4%	11.6%	15.7%
Outstanding Shares	219.4 mn	ROA	15.2%	6.3%	2.6%
Fully Diluted Shares	219.4 mn				

Note: * TP and rating last updated March 3, 2022; ** foreign peers



Company Overview

Founded in 2002, Nam Kim Steel is one of Vietnam's largest manufacturers of galvanized steel sheets and steel pipes (combined market share of 13% in 2021) for use in residential, industrial and civil construction.

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Strong Q1 2022 earnings amid reverted provision

NKG announced Q1 2022 official results that are consistent with the preliminary results announced at the company's AGM on April 22. NKG posted Q1 2022 revenue of VND7.2tn (USD310.9mn; +47% YoY and -19% QoQ) and NPAT-MI of VND507bn (USD22.0mn; +59% YoY and +12% QoQ).

The strong NPAT-MI growth was mainly due to NKG reverting approximately VND300bn (USD13.0mn) of provision expenses in Q1 2022, which resulted in the company's Q1 2022 gross margin being higher compared to 12.6% in Q1 2021 and 12.0% in Q4 2021 despite a lower spread between input hot rolled coil (HRC) prices and finished galvanized steel selling prices in Q1 2022. If excluding this reverted provision from gross profit, NKG's Q1 2022 gross margin would be 9.2%. NKG booked a total of VND420bn (USD18.2mn) for inventory provision in Q4 2021.

In Q1 2022, prices of HRC and finished galvanized steel, among other commodities, experienced a recovery following a strong correction in late 2021 amid 1) a supply squeeze — especially in Europe — caused by the Russia-Ukraine conflict, and 2) China's escalating zero-COVID measurements that lead to lockdowns in many parts of that country. These price movements created an opportunity for galvanized steel companies to buy up input HRC when prices were deemed low and expected to recover. In Q2 2022, we expect this situation will relieve margin pressure for galvanized steel companies caused by high input HRC prices.

As NKG's Q1 2022 results are better than our expectation, we anticipate upside to our forecast as stated in our last [Update Report](#), dated March 3, 2023, pending a fuller review.

Figure: NKG's Q1 2022 results

VND bn	Q1 2021	Q4 2021	Q1 2022	QoQ Growth	YoY Growth	2022F	Q1 as % of 2022F
Net revenue	4,853	8,780	7,151	-19%	47%	26,610	27%
Gross profit	610	1,058	957	-10%	57%	3,480	27%
SG&A expenses	-200	-537	-316	-41%	58%	-1,453	22%
EBIT	410	521	641	23%	56%	2,026	32%
Financial income	17	106	73	-31%	321%	195	37%
Financial expense	-72	-132	-123	-6%	72%	-342	36%
Interest expense	-47	-71	-74	4%	55%	-197	37%
Other gain/loss	10	18	0	N.M.	N.M.	0	N.M.
PBT	366	514	591	15%	61%	1,879	31%
NPAT-MI	319	452	507	12%	59%	1,597	32%
Gross margin %	12.6%	12.0%	13.4%			13.1%	
SG&A as % sales	4.1%	6.1%	4.4%			5.5%	
EBIT margin %	8.4%	5.9%	9.0%			7.6%	
NPAT-MI margin %	6.6%	5.2%	7.1%			6.0%	

Source: NKG's Q1 2022 financial statements, VCSC forecasts (last updated March 3, 2022)

VCSC Rating System

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

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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%
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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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