

Industry	Steel		FY21	H1/FY22	FY22
Report Date	April 29, 2022	Rev y/y	77.0%	48.4%	10.8%
Current Price	VND28,300	EPS y/y	270.6%	-47.8%	-37.2%
Target Price*	VND40,800	GPM	18.2%	12.0%	14.8%
Upside	+44.2%	NPM	8.9%	2.9%	5.0%
Dividend Yield	0.0%	EV/EBITDA	3.3x	N.M.	4.4x
TSR	+44.2%	P/B	1.3x	N.M.	1.0x
Rating*	MARKET PERFORM	P/E	3.3x	N.M.	5.3x



		HSG	Peers**	VNI
Market Cap	USD607.2mn	3.9x	8.3x	15.2x
Foreign Room	USD256.6mn	1.2x	0.6x	2.4x
ADTV30D	USD12.2mn	0.6x	0.4x	N/A
State Ownership	0.0%	31.5%	11.6%	15.8%
Outstanding Shares	493.5 mn	14.4%	6.3%	2.6%
Fully Diluted Shares	493.5 mn			

Note: HSG's financial year (FY) end is September 30;
 * TP and rating last updated March 1, 2022; ** foreign peers

Company Overview

Founded in 2001, HSG is a leading manufacturer of galvanized steel sheets (capacity of 2.7 million tonnes/year, 2021 market share of 36%) in Vietnam. Other products include steel pipes (capacity of 990,000 tonnes/year) and plastic pipes. HSG also has its own retail distribution network with 536 branches.

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GPM collapses to three-year low as input costs surge

HSG reported weak Q2 FY2022 (January 1 to March 31, 2022) results with revenue of VND12.7tn (USD550.5mn; +17% YoY and -25% QoQ) and NPAT-MI of VND234bn (USD10.2mn; -79% YoY and -63% QoQ). We attribute the decline in Q2 FY2022 earnings to a lower spread between input hot rolled coil (HRC) prices and finished galvanized steel selling prices in Q2 FY2022 compared to FY2021. This situation resulted in HSG's gross margin shrinking to 11.3% in Q2 FY2022 vs 18.0% in Q2 FY2021 and 12.5% in Q1 FY2022.

For H1 FY2022, HSG reported revenue of VND29.6tn (USD1.3bn; +48% YoY) and NPAT-MI of VND872bn (USD37.9mn; -48% YoY). As HSG's H1 FY2022 results are lower than our expectation — especially on margin — we anticipate downside to our forecast as stated in our last [Update Report](#), dated March 3, 2022, pending a fuller review.

In Q2 FY2022, prices of HRC and finished galvanized steel, among other commodities, recovered 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 measures that led 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. Hence, in Q3 FY2022 (April 1 to June 30, 2022), we expect this situation will relieve margin pressure for galvanized steel companies caused by high input HRC prices.

Figure 1: HSG's Q2 FY2022 results

VND bn	Q2 FY2021	Q1 FY2022	Q2 FY2022	YoY growth	QoQ growth	H1 FY2021	H1 FY2022	Growth	2022FY old	H1 as % of FY2022
Net revenue	10,846	16,934	12,661	17%	-25%	19,946	29,595	48%	54,005	55%
Gross profit	1,954	2,123	1,430	-27%	-33%	3,453	3,553	3%	7,983	45%
SG&A expenses	-717	-1,361	-1,096	53%	-19%	-1,418	-2,457	73%	-4,463	55%
EBIT	1,237	762	334	-73%	-56%	2,035	1,096	-46%	3,520	31%
Interest expenses	-77	-75	-52	-32%	-31%	-169	-127	-25%	-271	47%
FX gain/loss	23	58	-4	N.M.	N.M.	6	54	834%	56	96%
Other gain/loss	6	5	13	105%	142%	9	19	98%	0	N.M.
PBT	1,190	750	291	-76%	-61%	1,881	1,041	-45%	3,305	31%
NPAT-MI	1,099	638	234	-79%	-63%	1,671	872	-48%	2,710	32%
Gross margin	18.0%	12.5%	11.3%			17.3%	12.0%		14.8%	
SG&A exp./Sales	6.6%	8.0%	8.7%			7.1%	8.3%		8.3%	
EBIT margin	11.4%	4.5%	2.6%			10.2%	3.7%		6.5%	
NPAT-MI margin	10.1%	3.8%	1.8%			8.4%	2.9%		5.0%	

Note: HSG's financial year (FY) runs from October 1 to September 30

Source: HSG's Q2 FY2022 financial statements, VCSC forecast (last updated March 1, 2022)

VCSC Rating System

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