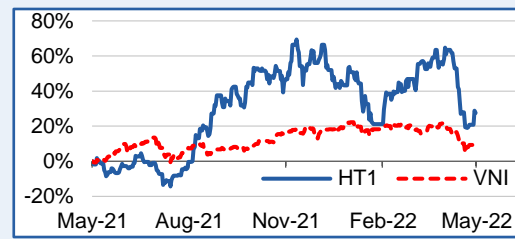



VICEM Ha Tien (HT1) [MARKET PERFORM +7.5%]
Update Report

Industry	Cement		2021	2022F	2023F	2024F
Report Date	May 9, 2022					
Current Price	VND17,300	Rev y/y	-11.3%	18.5%	-1.0%	0.9%
Target Price	VND18,000	EPS y/y	-39.3%	18.9%	50.1%	3.0%
Last Target Price	VND19,500	GPM	12.3%	12.3%	15.7%	15.6%
Upside to TP	+4.0%	NPM	5.2%	5.2%	7.9%	8.1%
Dividend Yield	3.5%	EV/EBITDA	6.8x	6.3x	5.1x	5.0x
TSR	+7.5%	P/B	1.3x	1.2x	1.2x	1.2x
		P/E	21.0x	17.7x	11.8x	11.4x

Market Cap	USD287.0mn		HT1	Peers*	VNI
Foreign Room	USD135.0mn	EV/EBITDA	7.4x	6.2x	N/A
ADTV30D	USD2.6mn	P/B (curr)	1.3x	1.1x	2.1x
State Ownership	79.7%	Net D/E	24.7%	26.0%	N/A
Outstanding Shares	381.5 mn	ROE	5.8%	12.1%	15.8%
Fully Diluted Shares	381.5 mn	ROA	3.4%	6.3%	2.6%

* Regional peers


Company Overview

HT1 is one of the largest domestic cement companies in Vietnam. The company is the leader in the South with around 30% market share and has 10% market share throughout Vietnam. It is 80% owned by the State-owned Vietnam Cement Industry Corporation (VICEM).

Vy Nguyen
 Manager

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High coal costs to weigh on earnings recovery

- We cut our target price for HT1 by 8% to VND18,000/share while maintaining our MARKET PERFORM rating.
- The 8% drop in our target price is mainly because we cut our 2022F NPAT-MI forecast by 24% due to higher-than-expected input coal prices, which are partially offset by a high cash balance at end-Q1 2022 and a rollover of our target price horizon to mid-2023.
- HT1 had weak Q1 2022 NPAT-MI of VND25bn (USD1.1mn; -74% YoY and -54% QoQ) despite revenue increasing 12% YoY to VND2.0tn (USD85.1mn), which was due to a strong compression in gross margin amid surging coal prices.
- We revise down our 2022F NPAT-MI forecast by 24% to VND439bn (USD19.1mn; +19% YoY) as we 1) maintain our 2022F sales volume forecast at 6.7 million tonnes (+12% YoY) and 2) lower our 2022F gross margin to 12.3% in 2022F (vs 14.7% in 2021) — lower compared to our previous assumption of 14.7% due to elevated input coal prices.
- HT1's valuation looks fair at a 2022F EV/EBITDA 6.3x (based on our forecasts) compared to a regional peer median TTM EV/EBITDA of 6.2x.
- Upside risks: Stronger-than-expected sales volume recovery; production cost optimization.
- Downside risk: Higher-than-expected input costs (i.e., coal and electricity).

We expect a sales volume recovery in 2022F will allow HT1 to partially pass on higher input cost.

In Q1 2022, HT1's cement sales volume was 1.51 million tonnes (+3% YoY and; -9% QoQ — we note that Q4 is typically a high season for HT1) as domestic construction activities gradually recovered following COVID-19-related disruptions in Q3 2021. As Q1 2022 sales volume was in line with our expectation, we maintain our 2022F forecast for sales volume of 6.7 million tonnes, increasing 12% from a low base of 6.0 million tonnes in 2021. We also forecast 2022F ASPs to increase 7.0% YoY vs previously 3.0% as we believe HT1 will increase its selling prices to partially pass on surging coal costs.

We expect ongoing competition and high coal prices to weigh on margins in 2022F. Despite the recovery in sales volume, HT1's gross margin in Q1 2022 shrank to 8.4% vs 13.8% in Q1 2021, which was primarily due to surging coal prices since late 2021. Thermal coal prices, which currently account for more than 35% of HT1 cement's total production cost, have rallied since 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 have led to lockdowns in many parts of that country. Per management, HT1's average input coal cost increased 46% YoY (or 3% QoQ) in Q1 2022; however, the company was only able to partially pass on these rising coal prices by increasing ASPs 8% YoY (or 2% QoQ) in Q1 2022. We expect the high coal price environment will continue to weigh on HT1's 2022F gross margin; as such, we lower our assumption for HT1's 2022F gross margin to 12.3% from 14.7%. We believe the fragmented domestic cement industry as well as HT1's limited ability to consolidate market share will curb the company's ability to pass on higher coal prices.

Q1 2022 Recap: Weak earnings as high coal prices pressure margins

Figure 1: HT1's Q1 2022 results

VND bn	Q1 2021	Q1 2022	% YoY Growth	2022F old	Q1 as % of 2022F old	VCSC comments
Net revenue	1,741	1,957	12%	8,076	24%	<p>* In Q1 2022, HT1's cement sales volume was 1.51 million tonnes (+3% YoY and -9% QoQ — we note that Q4 is typically a high season for HT1) as domestic construction activities gradually recovered following COVID-19-related disruptions in Q3 2021.</p> <p>* Due to higher input coal prices, the company increased ASPs by 8% YoY (or 2% QoQ) in Q1 2022.</p>
Gross profit	240	164	-32%	1,187	14%	* High input coal prices caused gross margin to compress YoY despite recovering sales volume in Q1 2022.
SG&A expenses	-84	-93	12%	-355	26%	
EBIT	156	70	-55%	832	8%	
FX gain/loss	4	0	N.M.	0	N.M.	
Non-operating gain/loss	-2	-17	981%	-18	95%	
Interest expense	-31	-17	-47%	-92	18%	* Decreased YoY as HT1 did not incur new long-term debt in Q1 2022. HT1's total debt balance at end-Q1 2022 was VND1.8tn (USD76.5mn — all short-term debt) — 9% higher vs end-2021 and 22% lower vs end-Q1 2021.
PBT	127	36	-72%	722	5%	
NPAT-MI	95	25	-74%	577	4%	* Weak Q1 2022 NPAT-MI was due to a strong compression in gross margin amid surging coal prices
EBITDA	298	214	-28%	1,430	15%	
Gross margin %	13.8%	8.4%		14.7%		<p>HT1's gross margin in Q1 2022 increased to 8.4% from 7.1% in Q4 2021 but remained low compared to 13.8% in Q1 2021 due to surging coal prices from late-2021 to early-2022.</p> <p>Selling price and input cost: Per management, HT1's average input coal cost increased 46% YoY (or 3% QoQ) in Q1 2022, but the company was only able to partially pass on these rising coal prices by increasing ASPs 8% YoY (or 2% QoQ) in Q1 2022.</p> <p>Product mix: Bulk cement's share of total sales volume was ~28% in 2021 vs ~30/32%/31% in 2021/2020/2019. Bulk cement typically carries a lower margin than bag cement.</p>
SG&A as % sales	4.8%	4.8%		4.4%		
EBIT margin %	9.0%	3.6%		10.3%		
NPAT-MI margin %	5.4%	1.3%		7.1%		
EBITDA margin %	17.1%	10.9%		17.7%		

Source: Company's financial statements, VCSC forecasts.

2022 Outlook: High coal costs to weigh on earnings recovery

Figure 2: 2022 forecasts

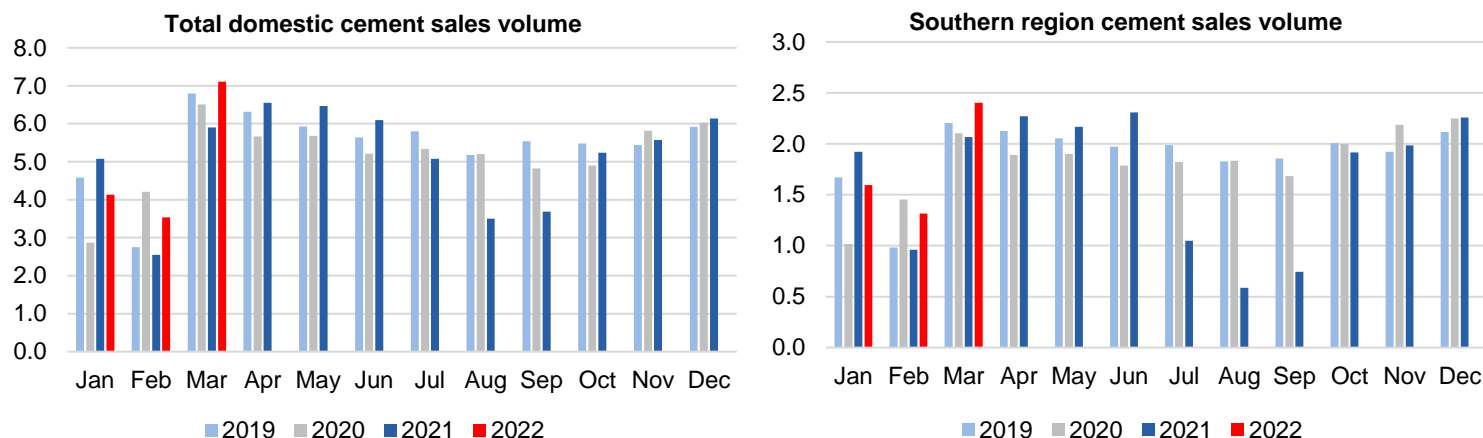
VND bn	2021	2022F Old	2022F Revised	2022F Revised vs Old	2022F Revised vs 2021	VCSC assumptions for 2022F
Net revenue	7,064	8,076	8,371	4%	18%	<p>* We maintain our 2022F sales volume forecast of 6.7 million tonnes, increasing 12% from a low base of 6.0 million tonnes in 2021. We expect recovering demand for construction materials amid increasing infrastructure investments and residential construction activities as COVID-19 fades will support HT1's sales volume recovery. Nevertheless, we note that ongoing competition and a fragmented domestic cement industry will continue to pose challenges for HT1.</p> <p>* We expect 2022F ASPs to increase 7.0% YoY vs previously 3.0% as we believe HT1 will increase its selling prices to partially pass on surging coal costs.</p>
Gross profit	869	1,187	1,029	-13%	18%	
SG&A expenses	-299	-355	-368	4%	23%	* We expect 2022F SG&A to increase from 2021 due to higher forecast sales volume YoY and a tough competition landscape.
EBIT	570	832	661	-21%	16%	
FX gain/loss	6	0	0	N.M.	N.M.	
Non-operating gain/loss	-15	-18	-18	-3%	18%	
Interest exp.	-100	-92	-95	3%	-5%	* We continue to expect HT1 will not incur new long-term debt in 2022F.
PBT	462	722	548	-24%	19%	
NPAT-MI	369	577	439	-24%	19%	* Sales recovery from COVID-19 disruption in 2021.
EBITDA	1,154	1,430	1,260	-12%	9%	
Gross margin %	12.3%	14.7%	12.3%			<p>We revise down our 2022F gross margin to 12.3% in 2022F vs 14.7% in our previous forecast, which is mainly due to surging input coal prices.</p> <p>Input cost and selling price: While we expect coal prices to remain high in 2022F, we also expect 2022F ASPs to inch up 7.0% YoY as recovering domestic demand will allow HT1 to partially pass on higher coal prices.</p> <p>Ha Long outsourcing: We maintain our assumption for outsourced volume of 600,000 tonnes (flat vs 2021; equivalent to 9% of 2022F's total forecast cement sales volume).</p> <p>Product mix: We expect a bulk cement contribution to total sales volume in 2022F at ~30%.</p>
SG&A as % sales	4.2%	4.4%	4.4%			
EBIT margin %	8.1%	10.3%	7.9%			
NPAT-MI margin %	5.2%	7.1%	5.2%			
EBITDA margin %	16.3%	17.7%	15.0%			

Source: Company's financial statements, VCSC forecasts.

Industry Update

Vietnam's domestic cement sales maintained recovery momentum. According to the Vietnam National Cement Association (VNCA), the total domestic cement sales volume of VNCA members grew 9% YoY. Monthly cement sales nationwide — especially in southern region — have recovered since October 2021 following a deep plunge in Q3 2021 (July - September 2021) amid COVID-related disruptions.

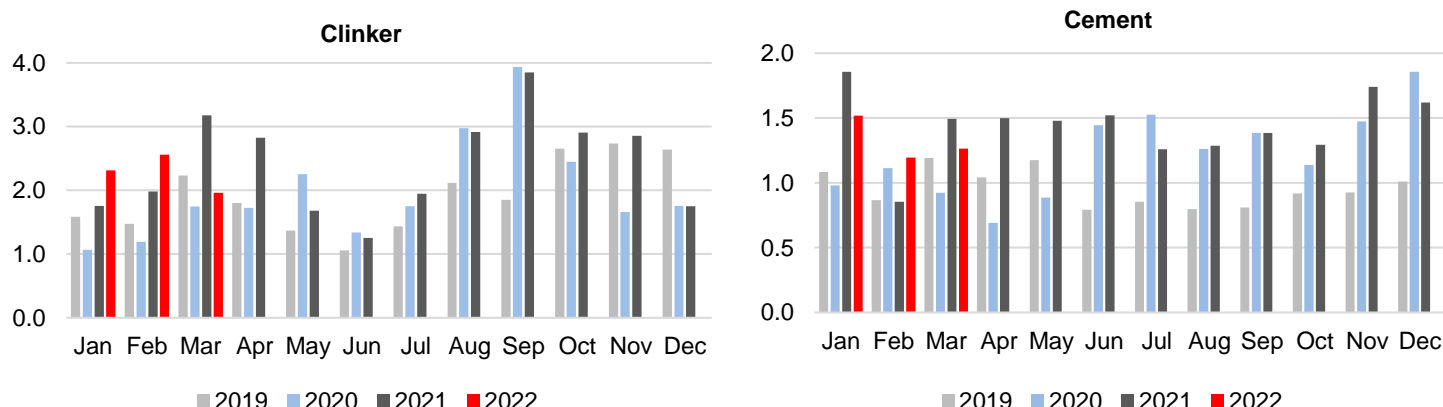
Figure 3: Vietnam's domestic cement sales (million tonnes)



Source: VNCA, VCSC compilation.

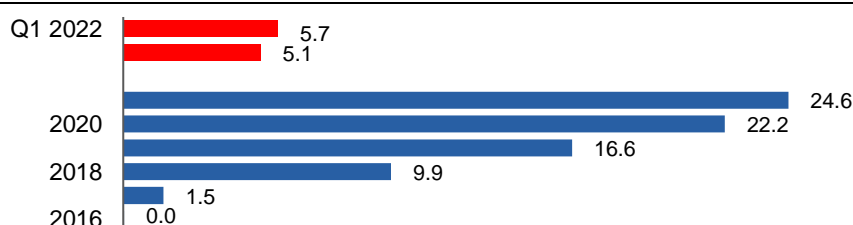
Cement and clinker exports to China maintained upbeat growth in Q1 2022 but face headwinds in Q2 2022 due to China's zero-COVID policy. Vietnamese clinker and cement exports edged down in Q1 2022 by 1% YoY and 5% YoY, respectively. Cement and clinker exports to China still recorded 13% growth YoY in Q1 2022, which continued to support total cement and clinker sales on top of the recovery of the domestic market. However, we believe China's escalating zero-COVID measurements that have led to lockdowns in many parts of that country since late March 2022 could negatively impact China's demand for construction materials in Q2 2022.

Figure 4: Vietnam's clinker and cement export volume (million tonnes)



Source: VNCA, VCSC compilation.

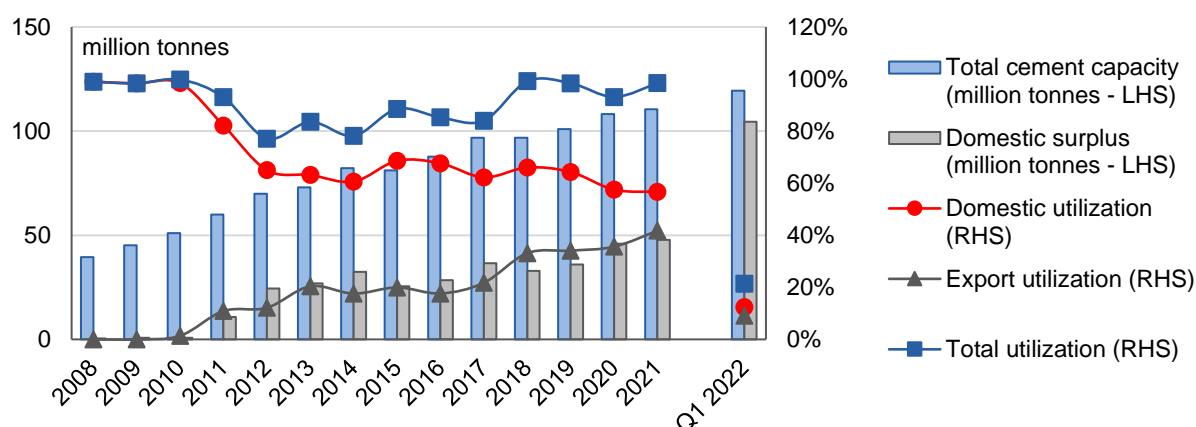
Figure 5: Vietnam's total cement and clinker exports to China (million tonnes)



Source: Vietnam Customs, VCSC compilation.

Recovering domestic demand and resilient export sales are expected to keep Vietnam's cement industry running at a high utilization rate despite new capacity being added. In 2021, Vietnam's cement industry added one new production line with 2.3 million tonnes of cement capacity p.a., bringing the industry's total capacity to approximately 110.6 million tonnes p.a. With a total cement and clinker sales volume (both export and domestic consumption) of 108.9 million tonnes in 2021, Vietnam's cement industry utilization rate was 98% in 2021 — up from 93% in 2020. In 2022, the VNCA expects three new production lines to enter operation with total capacity of 8.8 million tonnes p.a., which translates to Vietnam's expected end-2022 cement capacity amounting 119.4 million tonnes p.a. If we assume Vietnam's total cement and clinker sales volume will grow 5% in 2022 (translating to 114.3 million tonnes), this would put Vietnam's cement industry utilization rate at 96%. For the cement to reach full utilization, Vietnam's total cement and clinker sales volume needs to grow 10% in 2022 (translating to 119.8 million tonnes).

Figure 6: Cement surplus and export proportion in Vietnam's total cement capacity

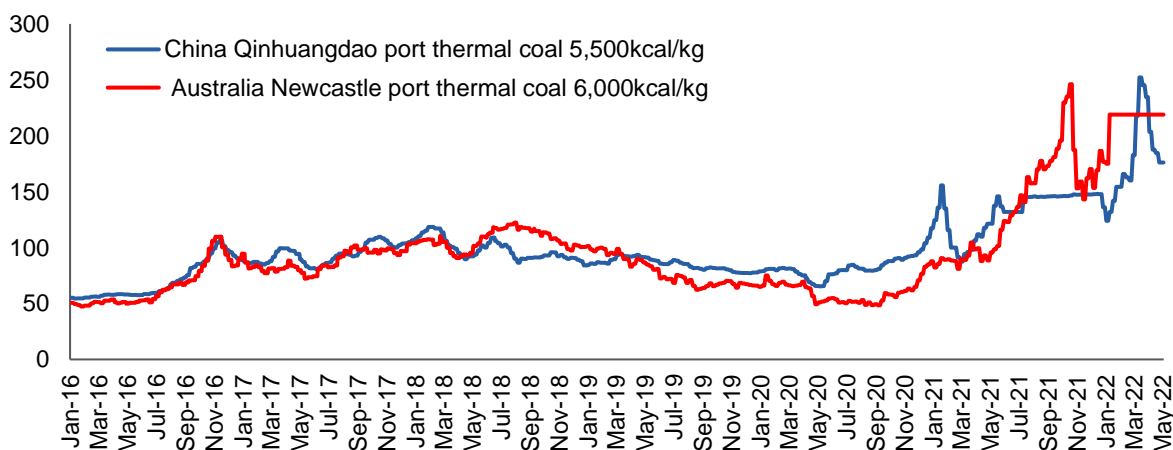


Note: Export utilization is calculated based on total cement and clinker exported in the period.

Source: Vietnam Customs, VCSC compilation.

Surging thermal coal prices will weigh on 2022 earnings growth. Thermal coal prices, which currently account for more than 35% of total cement production cost, have rallied since 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 have led to lockdowns in many parts of that country. Average benchmark thermal coal prices increased nearly 50% from end-December 2021 to end-March 2022 and more were than double in Q1 2022 compared to Q1 2021. Per our discussion with HT1, the company is sourcing coal from both domestic and offshore sources with the average price increasing 46% YoY (or 3% QoQ) in Q1 2022. Management expects the high coal price environment will persist throughout 2022, hence being the key risk for 2022 earnings.

Figure 7: Reference thermal coal prices (USD/tonne)



Source: Bloomberg, VCSC compilation.

Valuation

We continue to use a pure DCF valuation and derive a one-year target price for HT1 of VND18,500/share. We view the DCF valuation approach as the most suitable methodology for HT1 due to the company's strong and stable cash generation, hence we do not use peer multiples as a direct input to our target price. However, we show selected regional peer valuations in **Figure 11** below.

Our DCF-derived fair value is 8% lower vs our last report mainly because we cut our 2022-2026F NPAT-MI forecast by 8% due to higher-than-expected input coal prices, which are partially offset by 1) a higher cash balance at end-Q1 2022 (VND475bn/USD20.7mn) compared to end-2021 (VND311bn/USD13.5mn) and 2) a rollover of our target price horizon to mid-2023. We project HT1's 2021-2026F NPAT-MI CAGR at 11% compared to 15% previously.

Figure 8: Valuation summary

Valuation method	Fair value	Weight	(VND/share)
DCF	18,000	100%	18,000
Target price			18,000

Source: VCSC.

Figure 9: Five-year DCF assumptions

Assumptions	2022F	2023F	2024F	2025F	2026F
EBIT (VND bn)	661	923	924	926	928
- Tax	-132	-185	-185	-185	-186
+ Depreciation	598	617	639	668	702
- Capex	-142	-182	-226	-287	-341
- Working cap increase	-380	-219	-202	-206	-210
Free Cash Flow	605	953	951	916	893
Present value of FCF	574	815	733	636	559
Cumulative total PV of FCF	574	1,389	2,122	2,758	3,317

Cost of Capital	Previous report	Revised	DCF valuation	VND bn
Beta	0.95	0.95	PV of Free Cash Flow	3,317
Market Risk Premium %	7.0	7.0	PV of Terminal Val (0% growth)	4,835
Risk Free Rate %	5.5	5.5	PV of FCF and TV	8,152
Cost of Equity %	12.2	12.2	Plus: Cash	475
Cost of Debt %	9.0	9.0	Less: Debt	1,759
Corporate Tax Rate %	20.0	20.0	Value of Equity	6,868
WACC %	11.0	11.0	Current O/S (million)	381.5
Debt-to-capital ratio %	23.7	23.7	DCF value per share (VND)	18,000

Source: VCSC.

Figure 10: Sensitivity analysis of our target price for HT1 in relation to DCF's WACC and terminal growth rate, ceteris paribus

Terminal growth rate %	WACC						
	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%
0.0%	21,300	20,100	19,000	18,000	17,100	16,200	15,500
0.5%	22,200	20,900	19,700	18,600	17,600	16,700	15,900
1.0%	23,200	21,700	20,400	19,300	18,200	17,300	16,400
1.5%	24,300	22,700	21,300	20,000	18,900	17,800	16,900
2.0%	25,500	23,800	22,200	20,800	19,600	18,500	17,500
2.5%	27,000	25,000	23,300	21,700	20,400	19,200	18,100
3.0%	28,600	26,400	24,500	22,800	21,300	20,000	18,800

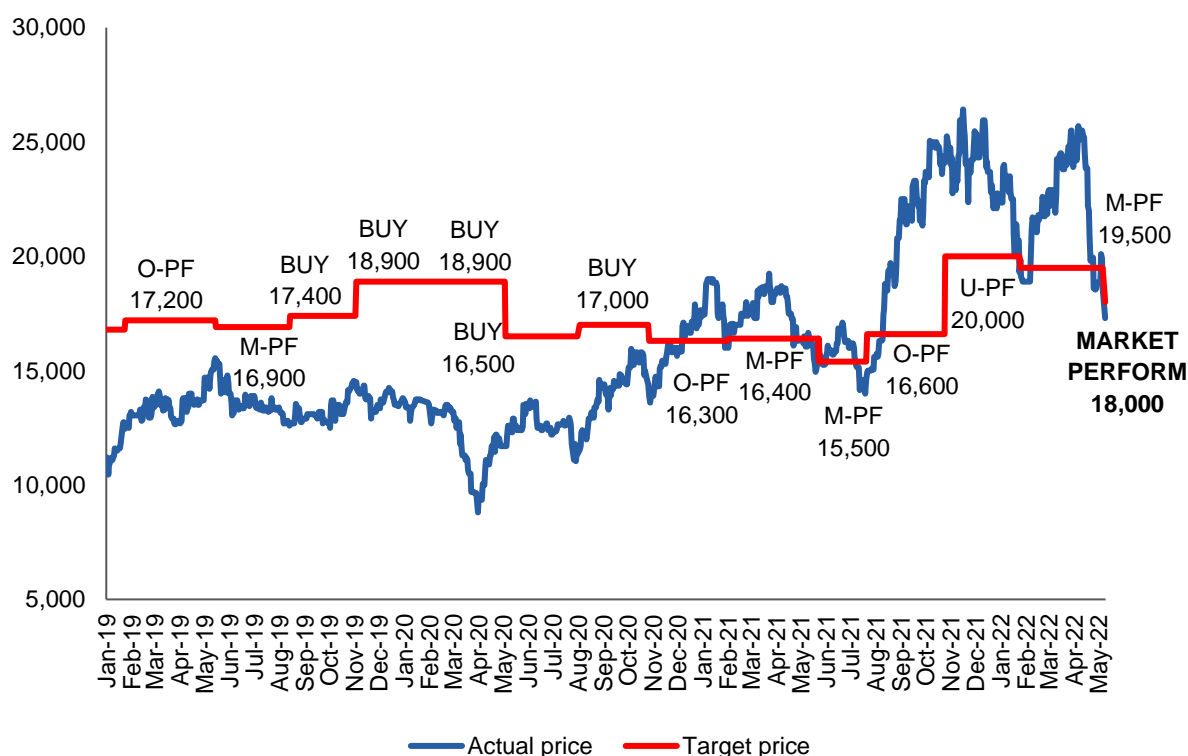
Source: VCSC.

Figure 11: Regional peers

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y %	TTM NPAT (USD mn)	Y-o-Y %	Net debt/Equity %	ROE %	ROA %	TTM P/E	LQ P/B	EV/EBITDA
Siam Cement	Thailand	12,855	17,165	34.7	1,259	-2.3	52.3	11.8	4.9	10.7	1.2	10.6
Lucky Cement	Pakistan	971	1,598	43.4	152	28.6	45.5	17.5	6.3	7.1	1.1	8.3
West China Cement	China	831	1,241	12.2	246	1.6	42.5	14.6	7.0	3.5	0.5	3.7
Ruentex Engineer	Taiwan	779	764	47.5	66	82.4	34.9	33.7	12.5	12.5	3.5	10.4
Holcim Philippines	Philippines	646	547	3.6	52	24.3	3.8	8.6	6.3	13.2	1.1	6.5
Bestway Cement	Pakistan	454	377	50.5	80	728.5	18.1	21.3	13.1	6.6	1.3	5.1
Asia Cement	South Korea	435	780	13.9	83	296.7	68.2	11.0	4.8	7.2	0.6	5.9
Chc Resources	Taiwan	400	392	8.2	25	-13.1	72.7	12.0	5.3	17.0	2.0	9.3
Cahaya Mata Sarawak	Malaysia	273	196	6.7	49	4.4	-0.8	7.0	4.4	5.8	0.4	11.5
Asia Holdings	South Korea	273	1,613	20.9	92	149.9	33.9	12.2	3.5	3.1	0.3	5.0
Hsing Ta Cement	Taiwan	232	264	-2.8	31	-14.1	-37.7	11.3	7.3	8.0	0.9	2.5
Kohat Cement	Pakistan	179	178	45.1	33	136.0	8.3	23.3	14.5	6.0	1.2	3.0
Fauji Cement	Pakistan	124	172	44.7	29	343.6	-11.7	18.3	12.8	4.9	0.9	2.4
Korea Cement	South Korea	115	57	-6.4	4	4.4	-18.4	4.4	3.5	31.3	1.2	21.3
Average		1,326	1,810	23.0	157	126.5	22.3	14.8	7.6	9.8	1.2	7.5
Median		417	469	17.4	59	26.5	26.0	12.1	6.3	7.2	1.1	6.2
VICEM Ha Tien	Vietnam	287	317	-8.7	13.0	-63.5	24.7	5.8	3.4	26.0	1.3	7.4

Source: Bloomberg, VCSC Note: Data as of May 9, 2022.

Recommendation History

Figure 12: Historical VCSC target prices vs HT1's share price (VND/share)


Source: Bloomberg, VCSC. Note: Historical target prices adjusted for changes in shares outstanding.

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Revenue	7,064	8,371	8,291	8,369
COGS	-6,195	-7,342	-6,986	-7,059
Gross Profit	869	1,029	1,304	1,309
Sales & Marketing exp	-131	-159	-166	-167
General & Admin exp	-168	-209	-216	-218
Operating Profit	570	661	923	924
Financial income	18	0	0	0
Financial expenses	-125	-95	-82	-59
- o/w interest expense	-100	-95	-82	-59
Associates	0	0	0	0
Net other income/(loss)	16	-18	-17	-18
Profit before Tax	462	548	823	848
Income Tax	-93	-110	-165	-170
NPAT before MI	369	439	658	678
Minority Interest	0	0	0	0
NPAT less MI, reported	369	439	658	678
NPAT less MI, adjusted	369	439	658	678

EBITDA	1,154	1,260	1,540	1,564
EPS reported, VND	822	977	1,467	1,511
EPS adjusted, VND	822	977	1,467	1,511
EPS fully diluted, VND	822	977	1,467	1,511
DPS, VND	600	1,000	1,000	1,000
DPS/EPS (%)	73%	102%	68%	66%

RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue growth	-11.3%	18.5%	-1.0%	0.9%
Op profit (EBIT) growth	-43.2%	15.9%	39.6%	0.2%
PBT growth	-39.8%	18.8%	50.1%	3.0%
EPS growth, adjusted	-39.3%	18.9%	50.1%	3.0%

Profitability				
Gross Profit Margin	12.3%	12.3%	15.7%	15.6%
Op Profit, (EBIT) Margin	8.1%	7.9%	11.1%	11.0%
EBITDA Margin	16.3%	15.0%	18.6%	18.7%
NPAT-MI Margin, adj,	5.2%	5.2%	7.9%	8.1%
ROE	7.0%	8.4%	12.2%	12.1%
ROA	3.9%	5.0%	7.7%	8.2%

Efficiency				
Days Inventory On Hand	40.7	36.0	42.0	44.8
Days Accts, Receivable	26.2	24.0	26.6	29.4
Days Accts, Payable	75.9	58.0	55.8	51.1
Cash Conversion Days	-9.0	2.0	12.8	23.0

Liquidity				
Current Ratio x	0.4	0.6	0.7	0.9
Quick Ratio x	0.2	0.3	0.4	0.5
Cash Ratio x	0.1	0.1	0.2	0.2
Debt / Assets	18.3%	17.9%	14.2%	9.6%
Debt / Capital	23.7%	22.6%	17.8%	12.0%
Net Debt / Equity	25.4%	20.6%	12.8%	5.2%
Interest Coverage x	5.7	7.0	11.2	15.7

Source: Company's financial statements, VCSC forecasts

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	296	461	486	481
ST investment	15	15	15	15
Accounts receivables	527	573	636	711
Inventories	664	784	823	909
Other current assets	22	22	22	22
Total Current assets	1,524	1,856	1,982	2,138
Fix assets, gross	14,763	14,905	15,088	15,314
- Depreciation	-7,953	-8,551	-9,168	-9,808
Fix assets, net	6,810	6,354	5,919	5,506
LT investment	44	44	44	44
LT assets other	431	431	431	431
Total LT assets	7,285	6,829	6,395	5,981
Total Assets	8,809	8,685	8,376	8,119

Accounts payable	1,208	1,124	1,012	965
Short-term debt	1,611	1,556	1,188	777
Other ST liabilities	799	670	663	670
Total current liabilities	3,618	3,350	2,863	2,411
Long term debt	0	0	0	0
Other LT liabilities	16	16	16	16
Total Liabilities	3,634	3,366	2,879	2,426

Preferred Equity	0	0	0	0
Paid in capital	3,816	3,816	3,816	3,816
Share premium	71	71	71	71
Retained earnings	488	592	729	880
Other equity	792	832	873	917
Minority interest	9	9	9	9
Total equity	5,175	5,319	5,498	5,693
Liabilities & equity	8,809	8,685	8,376	8,119
Y/E shares out, mn	382	382	382	382

CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Beginning Cash Balance	1,079	296	461	486
Net Income	369	439	658	678
Dep, & amortization	584	598	617	639
Chge in Working Cap	-217	-380	-219	-202
Other adjustments	-1,079	-66	-99	-102
Cash from Operations	735	591	957	1,014

Capital Expenditures, net	-125	-142	-182	-226
Investments, net	12	0	0	0
Cash from Investments	-114	-142	-182	-226
Dividends Paid	-637	-229	-382	-382
Δ in Share Capital	0	0	0	0
Δ in ST debt	-766	-55	-369	-411
Δ in LT debt	0	0	0	0
Other financing C/F	-1	0	0	0
Cash from Financing	-1,404	-284	-750	-793

Net Change in Cash	-782	165	24	-5
Ending Cash Balance	296	461	486	481

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.

Equity rating key	Definition
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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