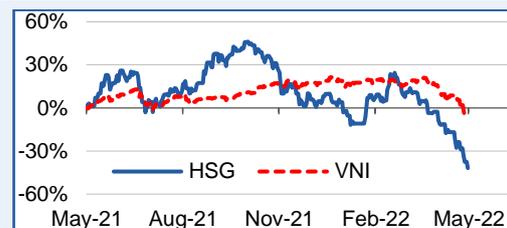


| Industry | Steel | | FY21 | FY22F | FY23F | FY24F |
|----------------------|--------------|-----------|--------|--------|-------|-------|
| Report Date | May 23, 2022 | Rev y/y | 77.0% | 6.1% | 2.4% | 2.4% |
| Current Price | VND21,500 | EPS y/y | 270.6% | -54.1% | 7.6% | 7.5% |
| Current Target Price | VND25,300 | GPM | 18.2% | 13.4% | 13.6% | 13.8% |
| Last Target Price | VND40,800 | NPM | 8.9% | 3.8% | 4.0% | 4.2% |
| Upside to TP | +17.7% | EV/EBITDA | 2.8x | 4.5x | 4.3x | 4.2x |
| Dividend Yield | 0.0% | P/B | 1.0x | 0.8x | 0.8x | 0.7x |
| TSR | +17.7% | P/E | 2.5x | 5.5x | 5.1x | 4.7x |



| | | HSG | Peers* | VNI | |
|----------------------|------------|------------|--------|-------|-------|
| Market Cap | USD461.3mn | P/E (ttm) | 3.1x | 7.5x | 12.8x |
| Foreign Room | USD193.2mn | P/B (curr) | 0.9x | 0.6x | 2.0x |
| ADTV30D | USD9.5mn | Net D/E | 0.6x | 0.4x | N/A |
| State Ownership | 0.0% | ROE | 31.5% | 11.1% | 15.8% |
| Outstanding Shares | 493.5 mn | ROA | 14.4% | 6.0% | 2.6% |
| Fully Diluted Shares | 493.5 mn | | | | |

Note: HSG's financial year (FY) end is September 30; * regional peers

Company Overview

Founded in 2001, HSG is a leading manufacturer of galvanized steel sheets (2.7-million-tonne capacity, H1 FY2022 market share of 32%) in Vietnam. Other products include steel pipes (990,000-tonne capacity) and plastic pipes. HSG also has its own retail distribution network with 536 branches.

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High HRC prices weigh on FY2022 profit; stock oversold

- We upgrade HSG to OUTPERFORM from MARKET PERFORM despite cutting our target price by 38% to VND25,300/share. HSG's share price has plunged 50% over the last three months.
- The 38% downward revision in our target price is driven by 1) our 23% decrease of aggregate FY2022-2026F NPAT-MI as we forecast a lower spread between input hot rolled coil (HRC) prices and finished steel prices to weigh on margins, 2) a lower cash balance at end-H1 FY2022 compared to end-Q1 FY2022 and 3) lower target P/E.
- HSG reported weak H1 FY2022 NPAT-MI of VND872bn (USD37.9mn; -48% YoY) due to a lower-than-expected spread between HRC prices and finished galvanized steel selling prices.
- For FY2022, we cut our NPAT-MI forecast by 27% to VND2.0tn (USD86.1mn; -54% YoY) vs VND2.7tn (USD117.8mn; -37% YoY) as previously. We lower our total galvanized steel sheet and steel pipe sales volume growth forecast to 6% YoY from previously 11% YoY due to lower-than-expected H1 FY2022 results and our expectation that high input HRC prices will weigh on margins.
- HSG's share price has plunged 50% over the last three months as its weak Q2 FY2022 results and softening steel prices have dampened market sentiment toward steel stocks. The deep correction in its share price has rendered HSG's valuation attractive at a FY2022 P/E of 5.5x compared to regional peers' TTM P/E of 7.5x.
- Upside catalyst: Stronger-than-expected sales volume growth; higher-than-expected steel prices.
- Downside risk: Thinner margins due to higher input HRC costs may not be passed on to ASPs.

We continue to expect domestic sales volume to recover in FY2022F while export sales growth slides from a high base. HSG recorded modest galvanized steel sheet volume growth in H1 FY2022 of 4% YoY (equivalent to 861,500 tonnes) — lower than that of the industry (+16% YoY) and other producers NKG (38% YoY) and TDA (19% YoY). Meanwhile, HSG's steel pipe sales volume (195,900 tonnes) dropped 20% YoY in H1 FY2022. As HSG's H1 FY2022 sales volume was lower than we expected, we trim our FY2022F 1) steel sheet sales volume to 1.9 million tonnes (+7% YoY) from 2.0 million tonnes (+12 YoY) and 2) steel pipes sales volume to 398,300 tonnes (+3% YoY) from 492,500 tonnes (+7% YoY). We reiterate our view that galvanized export sales growth will decelerate in FY2022 while the domestic market will continue its recovery momentum on the back of the resumption of domestic construction activities. The total industry's galvanized steel sheet and steel pipe sales volume grew 12% YoY in H1 FY2022 — with exports jumping 24% YoY and accounting for 40% of the industry's total sales vs 43% in full-year FY2021.

We expect gross margin to pick up in H2 FY2022 thanks the HRC price swing in November 2021 – February 2022. We lower our FY2022F gross margin to 13.4% from 14.8% as the negative impact of HRC and galvanized steel sheet prices correcting from November 2021 – February 2022 was stronger than our expectation. However, the correction created an opportunity to accumulate HRC before the recovery in March 2022, which should support margins in March – June 2022. Therefore, our forecast implies H2 FY2022 gross margin of 15.2% compared to 12.0% in H1 FY2022.

H1 FY2022 Recap: Gross margin compression weighs on profit growth

Figure 1: H1 FY2022 results

| VND bn | H1 FY2021 | H1 FY2022 | % YoY Growth | FY2022F old | H1 as % of FY2022F old | VCSC comments |
|-------------------------|---------------|---------------|--------------|---------------|------------------------|---|
| | | | | | | <p>* Steel sheets: Sales volume grew 4% YoY (equivalent to 861,500 tonnes) in H1 FY2022. HSG's sales volume is lower than that of the industry (+16% YoY) and other producers NKG and TDA (the second and third largest domestic galvanized steel producer by market share, respectively) that grew 38% YoY (465,600 tonnes) and 19% YoY (421,500 tonnes) in the quarter, respectively.</p> <p>* Steel pipes: H1 FY2022 sales volume was 195,900 tonnes (-20% YoY).</p> <p>* On the industry level, we believe a recovery of domestic demand as COVID-19-related disruptions faded in 2022 and healthy export volume were the key drivers behind the sector's robust volume growth. The total industry's galvanized steel sheet and steel pipe sales volume grew 12% YoY in H1 FY2022 — with exports jumping 24% YoY and accounting for 40% of the industry's total sales vs 43% in full-year FY2021.</p> <p>* Despite slower sales growth compared to peers, HSG continued to maintain its leading position in H1 FY2022 with 25% market share in the combined galvanized steel sheet and steel pipe industry.</p> |
| Net revenue | 19,946 | 29,595 | 48% | 54,005 | 55% | |
| Gross profit | 3,453 | 3,553 | 3% | 7,983 | 45% | |
| SG&A expenses | -1,418 | -2,457 | 73% | -4,463 | 55% | * SG&A increased in conjunction with sales growth. |
| Operating profit | 2,035 | 1,096 | -46% | 3,520 | 31% | |
| Interest expenses | -169 | -127 | -25% | -271 | 47% | |
| FX gain/loss | 6 | 54 | 834% | 56 | 96% | |
| Other gains/losses | 9 | 19 | 98% | 0 | N.M. | |
| PBT | 1,881 | 1,041 | -45% | 3,305 | 31% | |
| NPAT-MI | 1,671 | 872 | -48% | 2,710 | 32% | * Slow sale growth and gross margin compression weighed on H1 FY2022 earnings. |
| | | | | | | * HSG's gross margin shrank to 11.3% in Q2 FY2022 vs 18.0% in Q2 FY2021 and 12.5% in Q1 FY2022, which we attribute to a lower spread between input HRC prices and finished galvanized steel selling prices as prices both of these materials corrected in November 2021 – February 2022 (details in Figures 3 & 4) |
| Gross margin | 17.3% | 12.0% | | 14.8% | | * The strong HRC price rally in FY2021 allowed HSG accumulate low-cost HRC inventory while benefiting from high finished product selling prices. However, our view is that the opportunities for steelmakers like HSG to earn abnormally high margins from accumulating low-cost input material inventory will cease to exist in 2022 compared to what happened in 2021, resulting in pressure from higher input material costs on margins. |
| SG&A exp./Sales | 7.1% | 8.3% | | 8.3% | | |
| Operating margin | 10.2% | 3.7% | | 6.5% | | |
| Effective tax rate | 11.2% | 16.2% | | 18.0% | | |
| NPAT margin | 8.4% | 2.9% | | 5.0% | | |

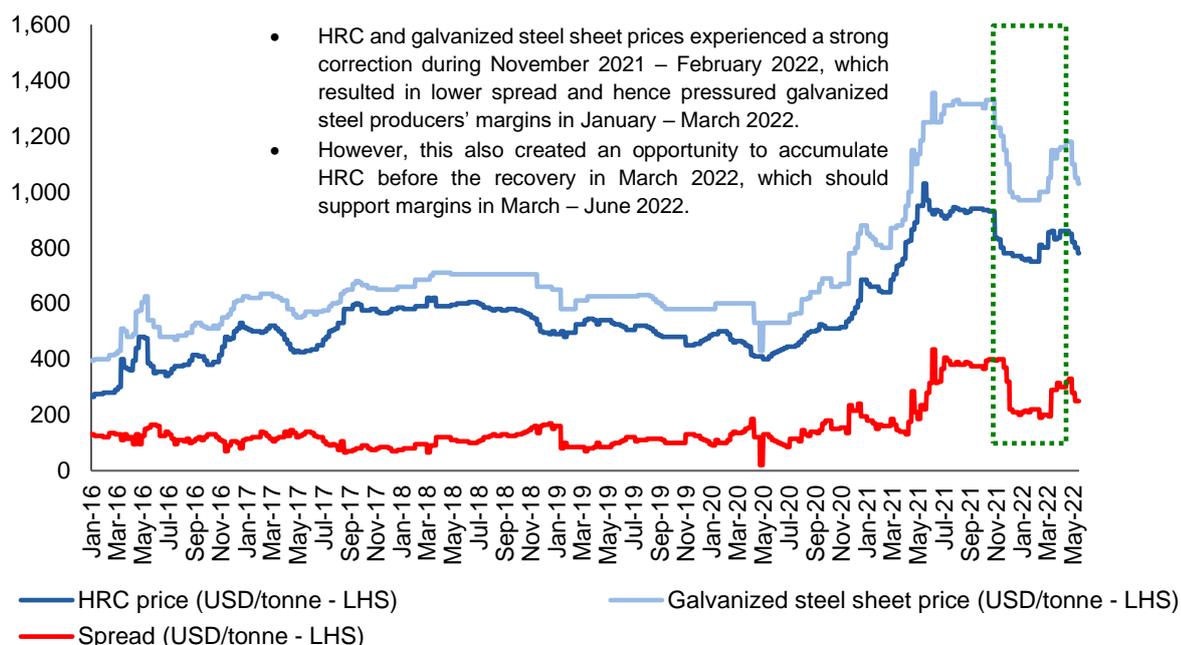
Source: HSG, VCSC forecast. Note: HSG's financial year (FY) end is September 30.

Figure 2: Total sales volume of galvanized steel sheet and steel pipe products

| | | Market share | Total sales (tonnes) |
|----------|------------------|--------------|----------------------|
| Industry | H1 FY2021 | | 3,729,650 |
| | H1 FY2022 | | 4,160,821 |
| | Growth | | 12% |
| HSG | H1 FY2021 | 29% | 1,075,094 |
| | H1 FY2022 | 25% | 1,057,411 |
| | Growth | | -2% |
| NKG | H1 FY2021 | 12% | 436,346 |
| | H1 FY2022 | 13% | 551,449 |
| | Growth | | 26% |

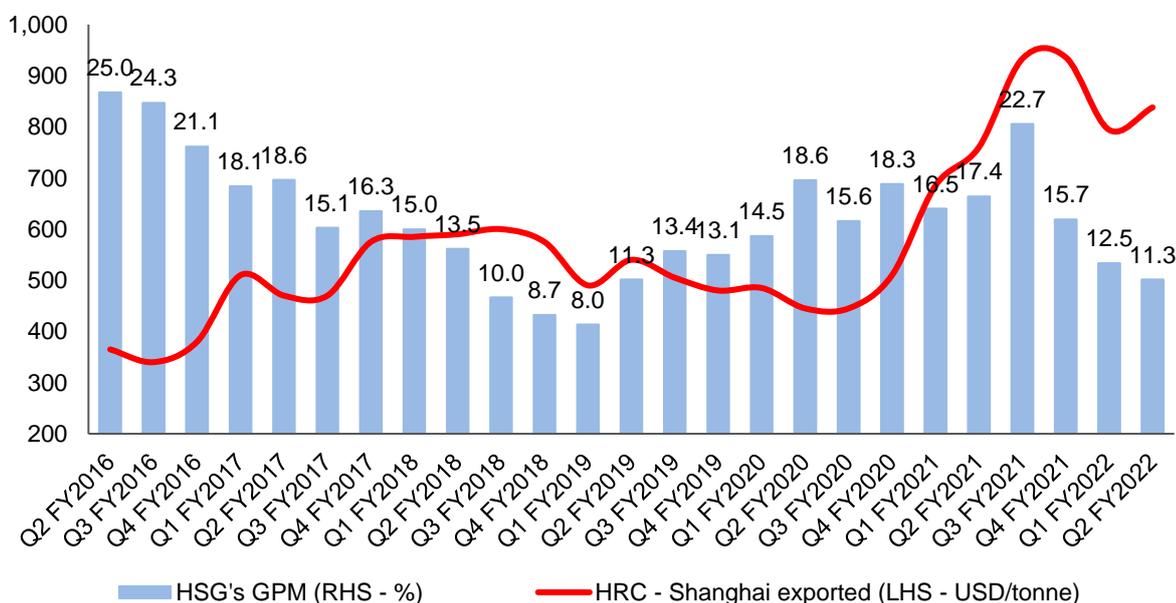
Source: Vietnam Steel Association (VSA), VCSC compilation. Note: FY shown is October 1 to September 30.

Figure 3: Shanghai exported HRC and imported galvanized steel sheet prices (USD/tonne)



Source: Bloomberg, VCSC compilation

Figure 4: HRC price trend in comparison with HSG's quarterly gross margin



Source: Bloomberg, VCSC compilation. Note: HSG's financial year (FY) end is September 30.

FY2022 Outlook: Lower margins to depress earnings in 2022F despite sales volume growth and high ASP continuing

Figure 5: FY2022 forecast

| VND bn | FY2021 | FY2022F old | FY2022F new | FY2022F vs FY2021 | FY2022F new vs old | VCSC assumptions/forecasts for FY2022 |
|-------------------------|---------------|---------------|---------------|-------------------|--------------------|---|
| | | | | | | <p>* We continue to expect export sales growth to cool in FY2022 from a hot market in FY2021 while the domestic market recovers on the back of the resumption of domestic construction activities as COVID-19-related disruptions subside in Vietnam.</p> <p><u>Steel sheets</u>: As H1 FY2022 sales volume was lower than we expected, we trim our forecast for FY2022F steel sheet sales volume to 1.9 million tonnes (+7% YoY) vs 2.0 million tonnes (+12 YoY), which is comprised of:</p> <ul style="list-style-type: none"> - Domestic sales volume: +9% YoY - Export sales volume: +6% YoY <p><u>Steel pipes</u>: We revise down our FY2022F steel pipes sales volume to 398,300 tonnes (+3% YoY) from 492,500 tonnes (+7% YoY) as H1 FY2022 results were lower than expected.</p> <p>* We continue to expect selling prices across steel products to soften throughout FY2022 from a high base in late FY2021 (details in Figures 3 & 4). On average, we expect FY2022F ASPs to remain broadly flat vs FY2021 ASPs.</p> |
| Net revenue | 48,727 | 54,005 | 51,702 | 6% | -4% | |
| Gross profit | 8,881 | 7,983 | 6,909 | -22% | -13% | * We lower our gross margin assumption due to lower-than-expected H1 FY2022 results. |
| SG&A expenses | -3,770 | -4,463 | -4,273 | 13% | -4% | |
| Operating profit | 5,110 | 3,520 | 2,637 | -48% | -25% | |
| Interest expenses | -355 | -271 | -276 | -22% | 2% | |
| FX gain/loss | 53 | 56 | 55 | 3% | -2% | |
| Other gains/losses | 114 | 0 | 0 | -100% | N.M. | * We expect HSG to not have divestment in FY2022F. |
| PBT | 4,922 | 3,305 | 2,415 | -51% | -27% | |
| NPAT-MI | 4,313 | 2,710 | 1,980 | -54% | -27% | * Single-digit sales volume and flat ASPs while gross margin declines from FY2021's high base. |
| Gross margin | 18.2% | 14.8% | 13.4% | | | <p>* We lower our 2022F gross margin as the negative impact of HRC and galvanized steel sheet prices correcting in November 2021 – February 2022 was stronger than our expectation.</p> <p>* However, the correction also created an opportunity to accumulate HRC before the recovery in March 2022, which should support margins in March – June 2022.</p> <p>* We again note our view that prices of both input materials and finished steel should stabilize in FY2022F. Hence, the benefit from input materials accumulated at lower costs vs spot prices in the rising price environment should subside in FY2022 vs FY2021.</p> |
| SG&A exp./Sales | 7.7% | 8.3% | 8.3% | | | |
| Operating margin | 10.5% | 6.5% | 5.1% | | | |
| Effective tax rate | 12.4% | 18.0% | 18.0% | | | |
| NPAT margin | 8.9% | 5.0% | 3.8% | | | |

Source: HSG, VCSC forecast. Note: HSG's financial year-end is September 30.

Longer-term outlook

Figure 6: Summary of five-year forecasts for HSG

| New forecast (VND bn) | FY20 | FY21 | FY22F | FY23F | FY24F | FY25F | FY26F | |
|-------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|---|
| Revenue | 27,531 | 48,727 | 51,702 | 52,958 | 54,246 | 55,566 | 56,920 | |
| Gross profit | 4,627 | 8,881 | 6,909 | 7,210 | 7,498 | 7,781 | 8,056 | |
| SG&A | -2,681 | -3,770 | -4,273 | -4,408 | -4,548 | -4,692 | -4,840 | |
| EBIT | 1,946 | 5,110 | 2,637 | 2,801 | 2,950 | 3,089 | 3,216 | |
| Interest expense | -560 | -355 | -276 | -194 | -142 | -93 | -62 | |
| Net other items | -10 | 166 | 55 | 55 | 55 | 55 | 55 | |
| PBT | 1,376 | 4,922 | 2,415 | 2,662 | 2,863 | 3,050 | 3,208 | |
| NPAT-MI | 1,153 | 4,313 | 1,980 | 2,130 | 2,291 | 2,440 | 2,567 | |
| New forecast vs Old forecast | | | FY22F | FY23F | FY24F | FY25F | FY26F | VCSC's comment |
| Revenue | | | -4% | -4% | -4% | -4% | -4% | |
| Gross profit | | | -13% | -13% | -12% | -11% | -10% | |
| SG&A | | | -4% | -4% | -4% | -4% | -4% | |
| EBIT | | | -25% | -24% | -22% | -20% | -18% | Input HRC prices remain high, lower spread between HRC prices and finished galvanized steel sheets. |
| Interest expense | | | 2% | 15% | 65% | 66% | 67% | Higher forecast short-term debt to fund working capital. |
| Net other items | | | -2% | -2% | -3% | -3% | -3% | |
| PBT | | | -27% | -25% | -23% | -21% | -19% | |
| NPAT-MI | | | -27% | -25% | -23% | -21% | -19% | |

Source: Company data, VCSC forecasts

Valuation

We continue to use a combination of the DCF (70% weighting) and P/E (30% weighting) methodologies to derive a target price of VND25,300/share, which is 38% lower than our previous target price of VND40,800/share. We believe the target P/E methodology is useful to incorporate positive market sentiment toward the expected strong earnings of the galvanized steel industry on the back of sustained HRC prices.

1. Our DCF-derived fair price is 20% lower than our previous report due to 1) our 22% downward revision of aggregate FY2022-2026F NPAT-MI as we forecast a lower spread between HRC prices and finished steel prices to weigh on margins and 2) a lower cash balance of VND364bn (USD15.8mn) at end-H1 FY2022 compared to VND1.0tn (USD44.3mn) at end-Q1 FY2022. We also roll over our target price horizon to mid-2023.
2. Our P/E-derived fair price is 55% lower than in our previous report as we use lower average FY2022-2023F EPS of VND3,892/share compared to FY2022 forecast EPS of VND5,381/share as previously and 2) lower our target P/E to 5.1x from 7.9x.

Figure 7: Valuation summary

| Valuation method | Fair value (VND/share) | Weight (%) | Contribution (VND/share) |
|----------------------------------|------------------------|------------|--------------------------|
| Five-year DCF | 27,600 | 70% | 19,300 |
| P/E multiple @ 5.1x targeted P/E | 19,900 | 30% | 5,600 |
| Target price (TP) | | | 25,300 |
| FY2022 P/E @ TP | | | 6.4x |
| FY2023 P/E @ TP | | | 6.6x |

Source: VCSC

Discounted cash flow (DCF)

Figure 8: Discounted cash flow

| Assumptions | FY2022F | FY2023F | FY2024F | FY2025F | FY2026F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| EBIT (VND bn) | 2,637 | 2,801 | 2,950 | 3,089 | 3,216 |
| - Tax | -475 | -560 | -590 | -618 | -643 |
| + Depreciation | 1,215 | 1,215 | 1,215 | 1,215 | 1,215 |
| - Capex | -500 | -500 | -500 | -500 | -500 |
| - Working cap increase | -1,263 | 117 | -506 | -787 | -1,217 |
| Free Cash Flow | 1,615 | 3,073 | 2,569 | 2,400 | 2,071 |
| Present value of FCF | 1,530 | 2,617 | 1,966 | 1,649 | 1,279 |
| Total PV of FCF | 1,530 | 4,148 | 6,113 | 7,763 | 9,042 |

| Cost of Capital | Previous report | Revised | DCF valuation | VND bn |
|-------------------------|-----------------|-------------|----------------------------------|---------------|
| Beta | 1.2 | 1.2 | PV of Free Cash Flow | 9,042 |
| Market Risk Premium % | 7.0 | 7.0 | PV of Terminal Val (1.5% growth) | 11,271 |
| Risk Free Rate % | 5.5 | 5.5 | PV of FCF and TV | 20,313 |
| Cost of Equity % | 13.9 | 13.9 | Plus: Cash | 364 |
| Cost of Debt % | 9.0 | 9.0 | Less: Debt | 7,071 |
| Corporate Tax Rate % | 20.0 | 20.0 | Value of Equity | 13,606 |
| WACC % | 11.3 | 11.3 | Current O/S (million) | 493 |
| Debt-to-capital ratio % | 38.7 | 38.7 | DCF value per share (VND) | 27,571 |

Source: VCSC

Figure 9: Sensitivity analysis of our target price (VND/share) to assumptions for WACC and terminal growth rate in our DCF valuation, ceteris paribus

| Terminal growth rate % | WACC | | | | | | |
|------------------------|--------|--------|--------|---------------|--------|--------|--------|
| | 9.8% | 10.3% | 10.8% | 11.3% | 11.8% | 12.3% | 12.8% |
| 0.0% | 26,800 | 25,400 | 24,100 | 22,900 | 21,900 | 20,900 | 20,000 |
| 0.5% | 27,800 | 26,300 | 24,900 | 23,600 | 22,500 | 21,500 | 20,500 |
| 1.0% | 28,900 | 27,200 | 25,700 | 24,400 | 23,200 | 22,100 | 21,100 |
| 1.5% | 30,200 | 28,300 | 26,700 | 25,300 | 23,900 | 22,800 | 21,700 |
| 2.0% | 31,600 | 29,600 | 27,800 | 26,200 | 24,800 | 23,500 | 22,300 |
| 2.5% | 33,200 | 31,000 | 29,000 | 27,200 | 25,700 | 24,300 | 23,100 |
| 3.0% | 35,000 | 32,500 | 30,300 | 28,400 | 26,700 | 25,200 | 23,800 |

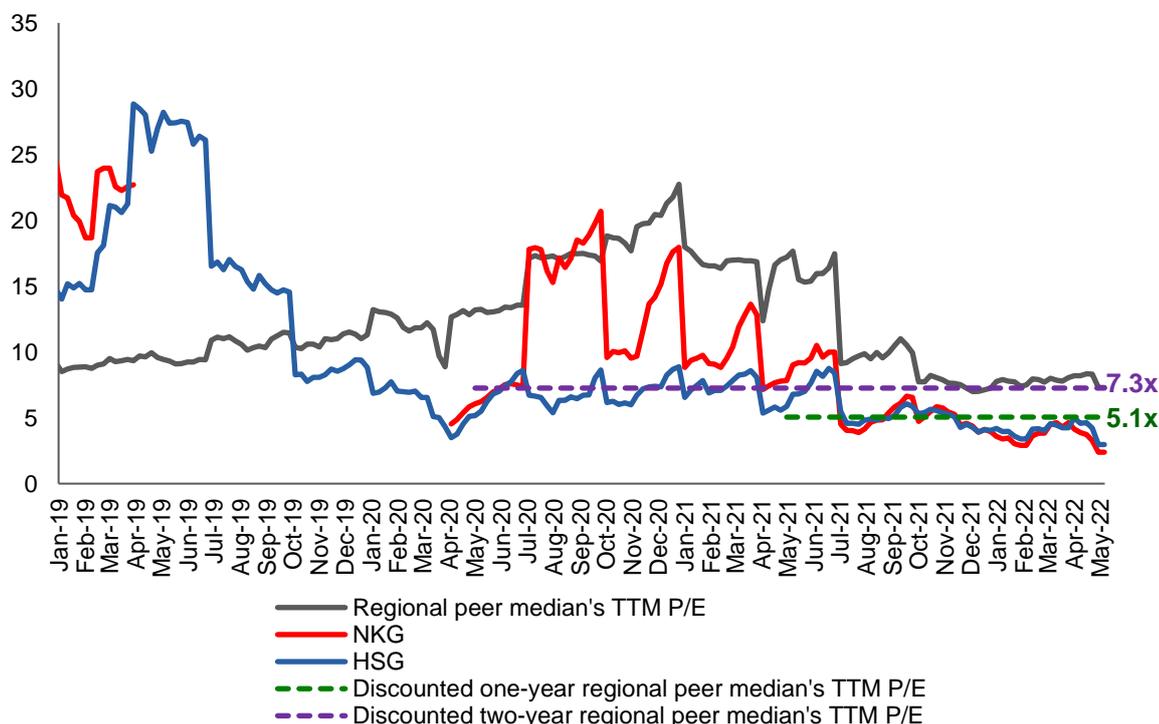
Source: VCSC

Peer P/E multiple

We select galvanized steel producers in Asian countries, including Japan, South Korea, China, Taiwan, Pakistan and Malaysia, to form a comparable universe for HSG. Vietnam’s galvanized steel players (including HSG and NKG) traded at a ~50% discount to this regional peer group in 2018-2019. The P/E of the peer group fell beginning in January 2021 when Q4 2020 results of the peer group started to reflect the positive impact of high HRC prices. Throughout H1 2021 as both the global steel market and sentiment toward the share prices of steelmakers remained strong, the P/E of peers remained high. In the H2 2021, strong earnings reported by steel companies on the back of high steel prices helped to push down P/E ratios. In H1 2022, as steel prices have softened and investors have become more aware of a risk of margin compression from 2021’s high base, the P/E of the peer group has continued to slide.

Previously, we applied a 45% discount to the two-year average peer P/E median to derive a target P/E, which is currently 7.3x. However, to reflect 1) the earnings normalization of galvanized steel producers in 2022-2023F from 2021’s high base and 2) weaker market sentiment toward steel stocks amid expected this earnings normalization, we apply a one-year average peer P/E median to derive a target P/E, which is currently 5.1x.

Figure 10: Historical price-to-earnings ratio (PER) of HSG vs peers



* Note: NKG’s TTM P/E is not meaningful from April 2019 to December 2019 due to negative TTM earnings.

Source: Bloomberg, VCSC compilation

Figure 11: Local peer

| Company name | Ticker | Market cap (USD mn) | TTM Net Sales (USD mn) | Y-o-Y % | TTM NPAT (USD mn) | Y-o-Y % | Gross margin (%) | Net margin (%) | Net debt/Equity (%) | ROE (%) | ROA (%) | TTM P/E | LQ P/B |
|----------------------|------------|---------------------|------------------------|-------------|-------------------|-------------|------------------|----------------|---------------------|-------------|-------------|------------|------------|
| Nam Kim Steel | NKG | 283 | 1,325 | 118.3 | 105 | 321.4 | 15.2 | 7.9 | 71.1 | 40.4 | 15.2 | 2.8 | 1.0 |
| Hoa Sen Group | HSG | 461 | 2,538 | 66.2 | 153 | 44.0 | 15.4 | 6.0 | 58.3 | 31.5 | 14.4 | 3.1 | 0.9 |

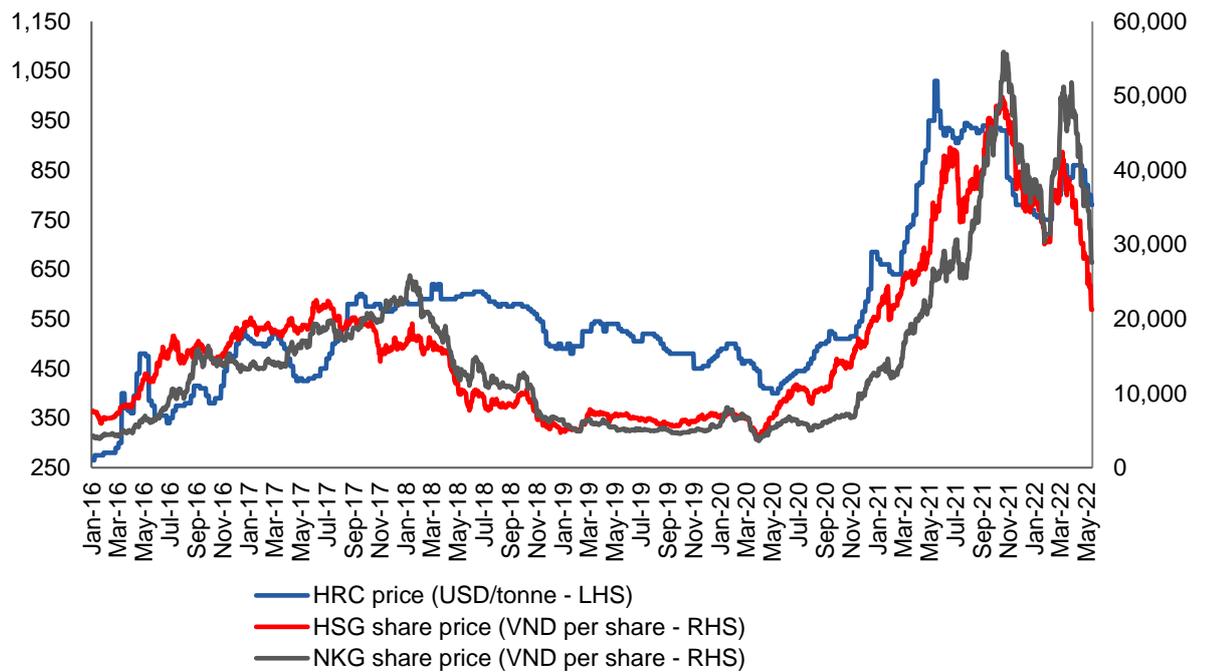
Source: Bloomberg, VCSC. Note: Data as of May 19, 2022.

Figure 12: Regional peers

| Company name | Country | Market cap (USD mn) | TTM Net Sales (USD mn) | Y-o-Y % | TTM NPAT (USD mn) | Y-o-Y % | Gross margin (%) | Net margin (%) | Net debt/Equity (%) | ROE (%) | ROA (%) | TTM P/E | LQ P/B |
|--------------------------|----------------|---------------------|------------------------|-------------|-------------------|----------------|------------------|----------------|---------------------|-------------|-------------|------------|------------|
| Baoshan Iron & Steel | China | 20,351 | 57,319 | 20.5 | 3,429 | 33.2 | 12.2 | 6.0 | 22.8 | 11.4 | 5.7 | 6.2 | 0.7 |
| China Steel Corporation | Taiwan | 17,532 | 17,402 | 45.1 | 2,286 | 424.3 | 19.8 | 13.1 | 38.7 | 19.1 | 9.4 | 8.0 | 1.4 |
| Hyundai Steel | South Korea | 4,168 | 21,346 | 36.2 | 1,481 | N/A | 15.4 | 6.9 | 49.4 | 8.5 | 4.1 | 3.1 | 0.3 |
| Hesteel | China | 3,641 | 23,018 | 26.1 | 392 | 29.3 | 11.0 | 1.7 | 175.0 | 5.3 | 1.1 | 9.6 | 0.5 |
| Jiangsu Azure | China | 2,960 | 1,100 | 40.4 | 111 | 66.2 | 19.7 | 10.1 | 81.2 | 20.7 | 7.9 | 28.3 | 5.3 |
| YC INOX | Taiwan | 455 | 662 | 49.6 | 53 | 210.6 | 17.6 | 8.0 | 59.4 | 16.4 | 9.4 | 9.1 | 1.4 |
| Kyoei Steel | Japan | 426 | 2,607 | 29.3 | 56 | -28.1 | 8.8 | 2.2 | 24.0 | 4.0 | 2.1 | 8.4 | 0.3 |
| Chun Yuan Steel Industry | Taiwan | 413 | 974 | 32.3 | 41 | 60.7 | 8.2 | 4.2 | 55.9 | 10.7 | 5.3 | 10.7 | 1.1 |
| KISCO Holdings | South Korea | 218 | 1,508 | 63.8 | 108 | 271.0 | 16.8 | 7.2 | -63.2 | 12.7 | 7.0 | 1.9 | 0.3 |
| Kumkang Kind | South Korea | 214 | 524 | 21.9 | 23 | N/A | 16.9 | 4.4 | 65.8 | 6.7 | 2.4 | 9.1 | 0.8 |
| Dongkuk Industries | South Korea | 144 | 668 | 31.2 | 14 | 134.4 | 13.5 | 2.1 | -1.9 | 5.0 | 2.5 | 10.9 | 0.4 |
| CSC Steel Holdings | Malaysia | 137 | 356 | 36.5 | 21 | 132.7 | 9.0 | 5.8 | -18.0 | 9.9 | 8.7 | 7.0 | 0.7 |
| International Steels | Pakistan | 130 | 535 | 47.8 | 46 | 53.7 | 15.6 | 8.6 | 62.1 | 41.6 | 17.7 | 3.3 | 1.2 |
| Itec | Japan | 102 | 753 | 24.8 | 38 | 269.3 | 17.3 | 5.1 | 32.2 | 13.2 | 6.2 | 2.8 | 0.3 |
| YooSung T&S | South Korea | 78 | 243 | 0.4 | 25 | -43.7 | 4.1 | 10.5 | 29.9 | 11.9 | 6.7 | 3.3 | 0.3 |
| Xiwang Special Steel | China | 75 | 3,088 | 105.4 | 73 | N/A | 5.2 | 2.4 | 58.5 | 8.5 | 3.1 | 1.1 | 0.1 |
| Average | | 3,190 | 8,256 | 38.2 | 512 | 5,689.2 | 13.2 | 6.1 | 42.0 | 12.9 | 6.2 | 7.7 | 1.0 |
| Median | | 315 | 1,037 | 34.3 | 55 | 99.4 | 14.5 | 5.9 | 44.1 | 11.1 | 6.0 | 7.5 | 0.6 |
| Hoa Sen Group | Vietnam | 461 | 2,538 | 66.2 | 153 | 44.0 | 15.4 | 6.0 | 58.3 | 31.5 | 14.4 | 3.1 | 0.9 |

Source: Bloomberg, VCSC. Note: Data as of May 19, 2022.

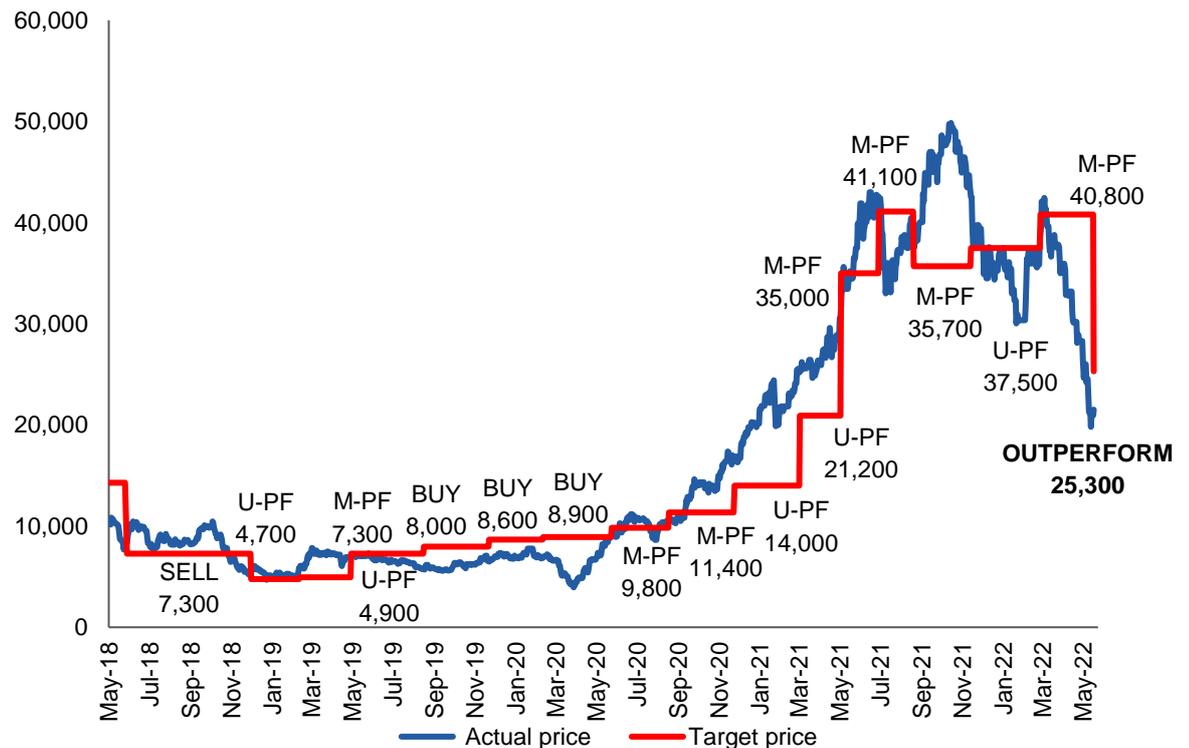
Figure 13: HRC prices and share prices of domestic galvanized steel sheet manufacturers (HSG and NKG)



Source: Bloomberg, VCSC compilation

Recommendation History

Figure 14: Historical VCSC target price vs share price (VND/share)



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

Financial Statements

| P&L (VND bn) | FY2021 | FY2022F | FY2023F | FY2024F |
|-------------------------------|---------------|---------------|---------------|---------------|
| Revenue | 48,727 | 51,702 | 52,958 | 54,246 |
| COGS | -39,846 | -44,793 | -45,749 | -46,748 |
| Gross Profit | 8,881 | 6,909 | 7,210 | 7,498 |
| Sales & Marketing exp | -3,344 | -3,600 | -3,720 | -3,843 |
| General & Admin exp | -426 | -672 | -688 | -705 |
| Operating Profit | 5,110 | 2,637 | 2,801 | 2,950 |
| Financial income | 365 | 378 | 384 | 390 |
| Financial expenses | -552 | -484 | -408 | -362 |
| - o/w interest expense | -355 | -276 | -194 | -142 |
| Associates | 0 | 0 | 0 | 0 |
| Net other income/(loss) | -1 | 0 | 0 | 0 |
| Profit before Tax | 4,922 | 2,415 | 2,662 | 2,863 |
| Income Tax | -609 | -435 | -532 | -573 |
| NPAT before MI | 4,313 | 1,980 | 2,130 | 2,291 |
| Minority Interest | 0 | 0 | 0 | 0 |
| NPAT less MI, reported | 4,313 | 1,980 | 2,130 | 2,291 |
| NPAT less MI, adjusted | 4,313 | 1,980 | 2,130 | 2,291 |

| | | | | |
|------------------------|-------|-------|-------|-------|
| EBITDA | 6,296 | 3,852 | 4,017 | 4,165 |
| EPS reported, VND | 8,565 | 3,933 | 4,230 | 4,549 |
| EPS adjusted, VND | 8,565 | 3,933 | 4,230 | 4,549 |
| EPS fully diluted, VND | 8,565 | 3,933 | 4,230 | 4,549 |
| DPS, VND | 0 | 0 | 2,500 | 3,000 |
| DPS/EPS (%) | 0% | 0% | 59% | 66% |

| RATIOS | FY2021 | FY2022F | FY2023F | FY2024F |
|-------------------------|--------|---------|---------|---------|
| Growth | | | | |
| Revenue growth | 77.0% | 6.1% | 2.4% | 2.4% |
| Op profit (EBIT) growth | 162.6% | -48.4% | 6.3% | 5.3% |
| PBT growth | 257.8% | -50.9% | 10.2% | 7.5% |
| EPS growth, adjusted | 270.6% | -54.1% | 7.6% | 7.5% |

| Profitability | FY2021 | FY2022F | FY2023F | FY2024F |
|--------------------------|--------|---------|---------|---------|
| Gross Profit Margin | 18.2% | 13.4% | 13.6% | 13.8% |
| Op Profit, (EBIT) Margin | 10.5% | 5.1% | 5.3% | 5.4% |
| EBITDA Margin | 12.9% | 7.4% | 7.6% | 7.7% |
| NPAT-MI Margin, adj, | 8.9% | 3.8% | 4.0% | 4.2% |
| ROE | 49.5% | 16.8% | 16.1% | 16.4% |
| ROA | 19.4% | 7.8% | 8.9% | 9.8% |

| Efficiency | FY2021 | FY2022F | FY2023F | FY2024F |
|------------------------|--------|---------|---------|---------|
| Days Inventory On Hand | 81.9 | 97.6 | 90.8 | 88.1 |
| Days Accts, Receivable | 22.9 | 27.4 | 24.7 | 25.9 |
| Days Accts, Payable | 26.3 | 34.0 | 32.2 | 31.2 |
| Cash Conversion Days | 78.4 | 91.0 | 83.3 | 82.8 |

| Liquidity | FY2021 | FY2022F | FY2023F | FY2024F |
|---------------------|--------|---------|---------|---------|
| Current Ratio x | 1.3 | 1.6 | 1.9 | 2.1 |
| Quick Ratio x | 0.4 | 0.5 | 0.6 | 0.7 |
| Cash Ratio x | 0.0 | 0.0 | 0.0 | 0.1 |
| Debt / Assets | 25.7% | 21.8% | 15.7% | 11.7% |
| Debt / Capital | 38.7% | 29.2% | 21.3% | 15.9% |
| Net Debt / Equity | 58.6% | 38.6% | 23.8% | 15.7% |
| Interest Coverage x | 14.9 | 9.8 | 14.7 | 21.2 |

| B/S (VND bn) | FY2021 | FY2022F | FY2023F | FY2024F |
|-----------------------------|---------------|---------------|---------------|---------------|
| Cash & equivalents | 493 | 351 | 447 | 453 |
| ST investment | 24 | 0 | 0 | 0 |
| Accounts receivables | 4,324 | 3,439 | 3,728 | 3,965 |
| Inventories | 12,356 | 11,594 | 11,163 | 11,404 |
| Other current assets | 1,461 | 1,551 | 1,588 | 1,627 |
| Total Current assets | 18,658 | 16,935 | 16,926 | 17,449 |
| Fix assets, gross | 14,627 | 15,127 | 15,627 | 16,127 |
| - Depreciation | -7,304 | -8,520 | -9,735 | -10,950 |
| Fix assets, net | 7,322 | 6,607 | 5,892 | 5,177 |
| LT investment | 21 | 21 | 21 | 21 |
| LT assets other | 619 | 619 | 619 | 619 |
| Total LT assets | 7,963 | 7,247 | 6,532 | 5,817 |
| Total Assets | 26,620 | 24,183 | 23,458 | 23,265 |
| Accounts payable | 4,294 | 4,050 | 4,011 | 3,970 |
| Short-term debt | 5,437 | 4,238 | 2,975 | 2,296 |
| Other ST liabilities | 4,644 | 2,068 | 2,118 | 2,170 |
| Total current liabilities | 14,374 | 10,355 | 9,104 | 8,436 |
| Long term debt | 1,399 | 1,040 | 712 | 424 |
| Other LT liabilities | 15 | 15 | 15 | 15 |
| Total Liabilities | 15,788 | 11,410 | 9,831 | 8,874 |

| | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| Preferred Equity | 0 | 0 | 0 | 0 |
| Paid in capital | 4,935 | 4,935 | 4,935 | 4,935 |
| Share premium | 157 | 157 | 157 | 157 |
| Retained earnings | 5,633 | 7,573 | 8,427 | 9,192 |
| Other equity | 91 | 91 | 91 | 91 |
| Minority interest | 17 | 17 | 17 | 17 |
| Total equity | 10,832 | 12,773 | 13,627 | 14,391 |
| Liabilities & equity | 26,620 | 24,183 | 23,458 | 23,265 |
| Y/E shares out, mn | 493 | 493 | 493 | 493 |

| CASH FLOW (VND bn) | FY2021 | FY2022F | FY2023F | FY2024F |
|-------------------------------|---------------|---------------|---------------|---------------|
| Beginning Cash Balance | 575 | 493 | 351 | 447 |
| Net Income | 4,313 | 1,980 | 2,130 | 2,291 |
| Dep, & amortization | 1,186 | 1,215 | 1,215 | 1,215 |
| Chge in Working Cap | -3,725 | -1,263 | 117 | -506 |
| Other adjustments | -409 | -40 | -43 | -46 |
| Cash from Operations | 1,364 | 1,894 | 3,420 | 2,954 |
| Capital Expenditures, net | -345 | -500 | -500 | -500 |
| Investments, net | 175 | 24 | 0 | 0 |
| Cash from Investments | -170 | -476 | -500 | -500 |
| Dividends Paid | 0 | 0 | -1,234 | -1,480 |
| Δ in Share Capital | 53 | 0 | 0 | 0 |
| Δ in ST debt | -587 | -1,199 | -1,263 | -679 |
| Δ in LT debt | -764 | -360 | -327 | -289 |
| Other financing C/F | 10 | 0 | 0 | 0 |
| Cash from Financing | -1,276 | -1,559 | -2,823 | -2,448 |
| Net Change in Cash | -82 | -142 | 96 | 6 |
| Ending Cash Balance | 493 | 351 | 447 | 453 |

Source: Company's financial statements, VCSC forecasts. Note: HSG's financial year (FY) end is September 30.

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + 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% |
| SELL | If the projected TSR is -20% or lower |
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