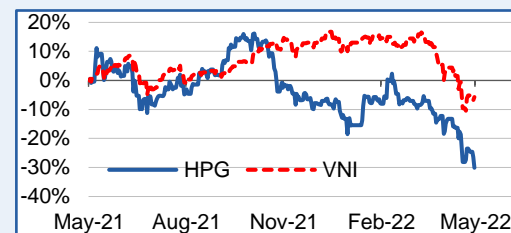




# Hoa Phat Group (HPG) [BUY +78.5%]

# Update Report

Industry Report Date	Steel May 26, 2022		2021	2022F	2023F	2024F
Current Price	VND34,450	Rev y/y	66.1%	3.0%	4.0%	21.2%
Target Price	VND61,000	EPS y/y	157.3%	-12.1%	0.1%	12.8%
Last Target Price	VND63,000	GPM	27.5%	24.1%	24.0%	22.2%
Upside to TP	+77.1%	NPM	23.0%	19.4%	18.6%	17.3%
Dividend Yield	1.5%	EV/EBITDA	3.8x	4.0x	3.9x	3.2x
TSR	+78.5%	P/B	1.7x	1.3x	1.1x	0.9x
		P/E	4.7x	5.4x	5.3x	4.7x



			HPG	Peers*	VNI
Market Cap	USD6.7bn	P/E (ttm)	4.6x	5.8x	13.5x
Foreign Room	USD1.9bn	P/B (curr)	1.6x	0.7x	2.1x
ADTV30D	USD34.3mn	Net D/E	14.0%	41.6%	N/A
State Ownership	0.0%	ROE	37.6%	15.4%	15.8%
Outstanding Shares	4.5 bn	ROA	19.6%	5.7%	2.6%
Fully Diluted Shares	4.5 bn				

\* Regional peers

## Company Overview

HPG is Vietnam's largest private steel producer. Its main products include construction steel (capacity of 5.2 million tonnes/year; 2021 market share of 33%), HRC (capacity 2.8 of million tonnes/year; 2021E market share of 20%) and steel pipes (end-2021 capacity of 1.3 million tonnes/year; 2021 market share of 25%).

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Manager

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## New capex propels new growth cycle; stock oversold

- We maintain our BUY rating for HPG while trimming our target price by 3% to VND61,000/share mainly because we apply a lower target P/E of 8.0x compared to 10.0x as previously.
- HPG achieved strong Q1 2022 results with NPAT-MI of VND8.2tn (USD357.3mn; +18% YoY and +11% QoQ) on the back of 1) robust sales volume across product segments and 2) high steel selling prices throughout the quarter that partially offset rising input (i.e., coal) prices. This earnings result was in line with our expectations as it fulfilled 28% of our full-year forecast.
- We keep our 2022F NPAT-MI unchanged at VND29.8tn (USD1.3bn; -13% YoY) as we maintain our steel sales volume forecast for 2022F and expect that elevated input prices (i.e., iron ore and coal) will be partially passed on through higher ASPs.
- We reiterate HPG as our top stock pick to gain exposure to Vietnam's construction sector. HPG's leading position, established scale and proven operational efficiency — along with its capacity expansion and product diversification through the ramp-up of Dung Quat Steel Complex 1 (DQSC 1) and investment in DQSC 2 — should allow it to capture future domestic construction growth. We forecast a 9% 2022-2026F NPAT-MI CAGR.
- We view HPG's current valuation of a 2022F P/E of 5.4x (based on our forecasts) vs 1) the one-year average of the regional peer TTM P/E median of 6.5x and 2) the five-year average TTM P/E of HPG of 8.0x as compelling against HPG's growth outlook and superior profitability vs regional peers. HPG's share price has corrected 25% over the last three months as softening steel prices dampened market sentiment toward steel stocks.
- Risks to our positive view: Stronger-than-expected margin compression due to steel price correction.

**We expect steel demand to remain strong in 2022 as COVID-19 disruptions fade.** For 2022F, we maintain our forecast for HPG's construction steel sales volume to rise 10% YoY to 4.3 million tonnes with hot rolled coil (HRC) sales volume of 2.6 million tonnes (more details in **Figures 2 & 7**). We continue to believe that HPG's dominant position and growing demand for construction materials — especially for infrastructure projects — will support the company's steel sales volume growth in 2022.

**We continue to expect 2022F margins to decline from a high base in 2021.** We expect input (i.e., iron ore and coking coal) material prices to remain high throughout 2022, thus putting pressure on HPG's margin. However, we expect demand for construction materials to recover in 2022 from 2021's low base and maintain finished steel prices high compared to pre-COVID-19 prices, in turn allowing steelmakers to maintain relatively high margins. We maintain our 2022F gross margin at 24.1% vs 27.5% in 2021.

**DQSC 2 is expected to operate by 2024.** We continue to model DQSC 2's capex and projected future earnings contribution using a 10-year multistage DCF approach. DQSC 2 will have a total capacity of 5.6 million tonnes per annum (4.6 million tonnes of flat steel products and one million tonnes of other steel products). Capex for this project is proposed at VND70tn (USD3.0bn). At HPG's AGM held on May 25, 2022, management shared that DQSC 2 completed all necessary contracts to start construction that month, which will allow the project to launch commercial products by 2024.

## Q1 2022 Recap: Upbeat profit amid high sales volume, steel prices

Figure 1: HPG's Q1 2022 results

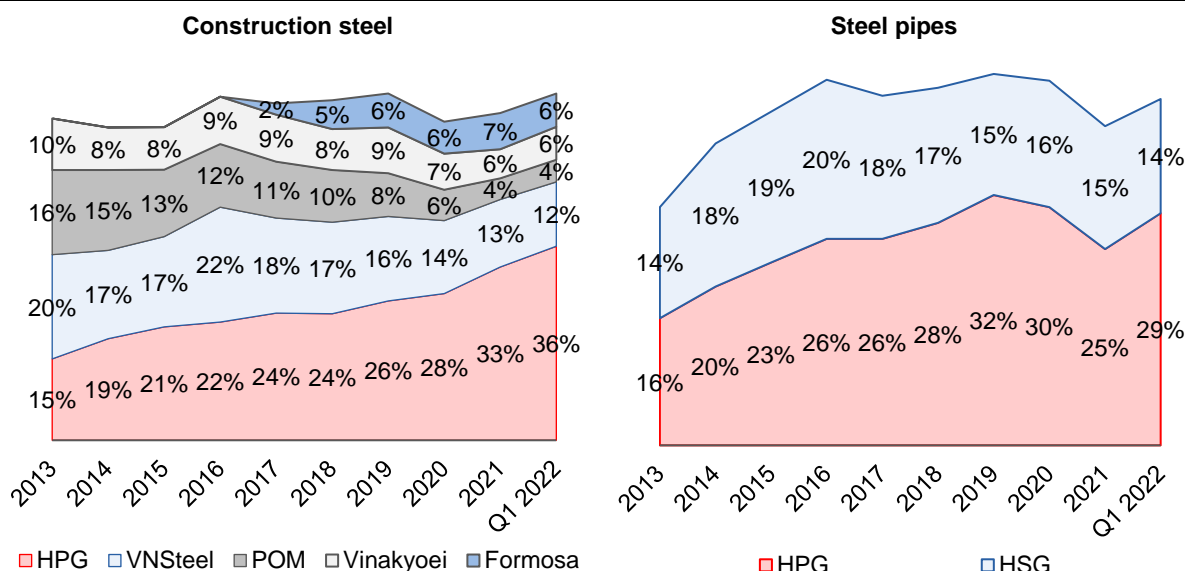
VND bn	Q1 2021	Q1 2022	YoY Growth	2022F	Q1 as % of 2022F	VCSC comments
<b>Net revenue</b>	<b>31,177</b>	<b>44,058</b>	<b>41%</b>	<b>154,115</b>	<b>29%</b>	* HPG's delivered robust Q1 2022 steel volume sales as domestic demand recovered from COVID-19 disruptions (sales volume details in <b>Figure 2</b> ). * We attribute the strong sales volume performance in Q1 2021 mainly to 1) robust export sales of flat steel products — especially galvanized steel (for which HRC is a key input material) — and 2) additional HRC capacity from the DQSC Phase 1. * HPG's construction steel ASP was approximately VND17.1mn/tonne (USD743/tonne) — 21% YoY higher compared to VND14.2mn/tonne (USD615mn/tonne) in Q1 2021 and 4% QoQ higher compared to VND16.5mn/tonne in Q4 2021. Meanwhile, Shanghai exported HRC prices increased 14% on average in Q1 2022 compared to Q1 2021. * HPG continued to solidify its position as Vietnam's largest steel producer with market shares of 36% in construction steel and 29% in steel pipes for Q1 2022.
- Steel	28,804	42,381	47%	142,640	30%	
- Real estate	126	49	-61%	1,345	4%	
- Agriculture	2,248	1,628	-28%	10,129	16%	
<b>Gross profit</b>	<b>8,183</b>	<b>10,108</b>	<b>24%</b>	<b>37,155</b>	<b>27%</b>	
SG&A expenses	-621	-841	35%	-3,373	25%	
<b>EBIT</b>	<b>7,562</b>	<b>9,268</b>	<b>23%</b>	<b>33,782</b>	<b>27%</b>	
Financial income	898	769	-14%	2,671	29%	
Financial expense	-768	-1,111	45%	-4,030	28%	
Net other gain/loss	-3	-3	22%	50	-7%	
PBT	7,690	8,922	16%	32,477	27%	
NPAT	7,006	8,206	17%	29,879	27%	
<b>NPAT-MI</b>	<b>6,978</b>	<b>8,217</b>	<b>18%</b>	<b>29,842</b>	<b>28%</b>	
- Steel	6,545	8,240	26%	28,172	29%	
- Real estate	40	33	-19%	299	11%	
- Agriculture	392	-56	-114%	1,370	-4%	
<b>Gross margin</b>	<b>26.2%</b>	<b>22.9%</b>		<b>24.1%</b>		* Strong global demand kept steel prices across product categories high during Q1 2022. * Nevertheless, HPG's gross margin dropped to 22.9% from 26.2% in Q1 2021, which we mainly attribute to surging input coal prices. Benchmark hard coking coal prices increased 2.6x in Q1 2022 compared to Q1 2021 and have jumped more than 40% YTD.
SG&A exp./Sales	2.0%	1.9%		2.2%		
EBIT margin	24.3%	21.0%		21.9%		
<b>NPAT-MI margin</b>	<b>22.4%</b>	<b>18.7%</b>		<b>19.4%</b>		

Source: Company's Q1 2022 financial statements, VCSC forecast

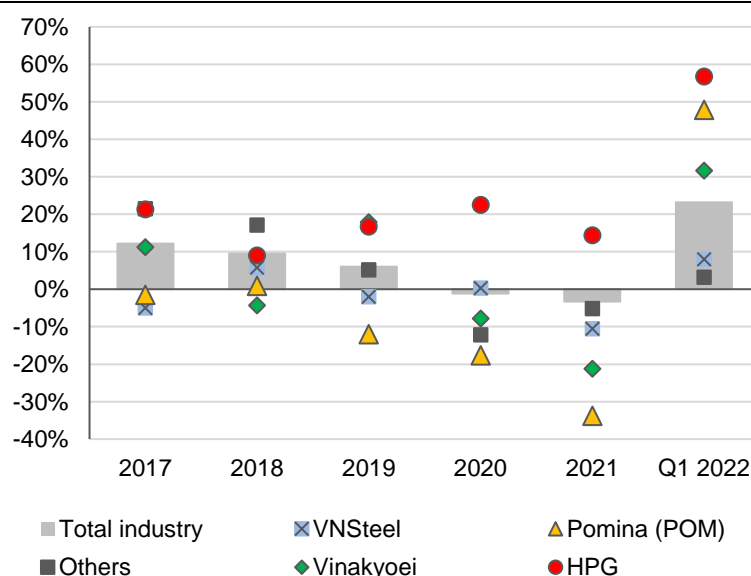

**Figure 2: HPG's steel sales volume summary and forecast**

(Thousand tonnes)	2020	2021	VCSC 2022F	4M 2021	4M 2022	% YoY growth	4M 2022 as of 2022F
<b>Construction steel</b>	3,400 (+23% YoY)	3,889 (+14% YoY)	4,279 (+10% YoY)	1,284	~1,600	+28%	37%
<b>HRC</b>	N/A (new production in late 2020)	~2,600	2,600	665	1,000	+16%	38%
<b>Steel pipes</b>	822 (+10% YoY)	676 (-18% YoY)	729 (+8% YoY)	271	261	-8%	34%
<b>Galvanized steel sheets</b>	~150 (VCSC's estimate)	428 (+185% YoY)	430	74	136	+47%	32%

Source: HPG, VCSC forecast

**Figure 3: Construction steel and steel pipe market share of major producers**


Source: Vietnam Steel Association (VSA), VCSC compilation. Note: (1) Data for Formosa is not available for 2013-2016; Formosa's construction steel sales are solely wire rod (i.e., no rebar sales); (2) VSA restated 2020 and 2021 data by adding sales from new members, thus the market shares of the top players in these two years are restated in this report.

**Figure 4: Construction steel sales volume growth of the total industry and key producers**


In 2021, steelmakers whose targeted markets are concentrated in southern Vietnam like Pomina and Vinakyoei were hit more severely by the fourth wave of COVID-19 in Vietnam.

On the other hand, HPG was able to mitigate the negative impact from the fourth wave and maintain healthy sales volume growth due to its nationwide market coverage and diversified product portfolio (i.e., both long steel and flat steel).

Sales volume across the steel industry posted recovery in Q1 2022 with HPG taking the lead with the highest growth.

Note: HPG's 2018 steel sales volume growth was close to the total industry's growth due to HPG running at full capacity.

Source: VSA, VCSC compilation

## 2022 Outlook: Sales volume, prices to remain strong while margins soften

Figure 5: 2022 forecast

VND bn	2021	2022F Old	2022F Revised	2022F Revised vs Old	2022F Revised vs 2021	VCSC assumptions for 2022F
<b>Net revenue</b>	<b>149,680</b>	<b>154,115</b>	<b>154,115</b>	<b>0%</b>	<b>3%</b>	
- Construction steel	61,263	66,325	66,325	0%	8%	* We maintain our 2022F sales volume forecast of 4.3 million tonnes (+10% YoY). We expect HPG's dominant position and growing demand for construction materials — especially for infrastructure projects — will continue to support the company's construction steel sales growth. * We maintain our assumed 2022F ASP of VND15.5mn/tonne (USD674/tonne; -2% YoY). We expect steel prices across product categories to soften from 2021 but remain elevated due to strong demand and high input material prices.
- Other steel products	79,062	76,316	76,316	0%	-3%	
- Real estate	1,319	1,345	1,345	0%	2%	* HRC: We maintain 2022F sales volume at 2.6 million tonnes (flat YoY). Additionally, we maintain 2022F average HRC price at ~USD740. * Steel pipes: We maintain 2022F sales volume at 729,000 tonnes (+8% YoY). * Galvanized steel sheets: We maintain 2022F sales volume at 430,000 tonnes (flat YoY).
- Agriculture	7,965	10,129	10,129	0%	27%	
<b>Gross profit</b>	<b>41,108</b>	<b>37,155</b>	<b>37,155</b>	<b>0%</b>	<b>-10%</b>	* We expect 1) selling prices across steel product categories to correct slightly from 2021's high base and 2) the boost in gross margins from accumulating low-cost inventory in the rising price environment to fade in the remainder of 2022.
SG&A expenses	-3,444	-3,373	-3,373	0%	-2%	
<b>EBIT</b>	<b>37,664</b>	<b>33,782</b>	<b>33,782</b>	<b>0%</b>	<b>-10%</b>	
Financial income	3,071	2,671	2,672	0%	-13%	
Financial expense	-3,732	-4,030	-4,030	0%	8%	
Net other gain/loss	53	50	50	0%	-5%	
PBT	37,057	32,477	32,479	0%	-12%	
NPAT	34,521	29,879	29,880	0%	-13%	
<b>NPAT-MI</b>	<b>34,478</b>	<b>29,842</b>	<b>29,843</b>	<b>0%</b>	<b>-13%</b>	
- Steel	33,296	28,172	28,173	0%	-15%	
- Real estate	464	299	299	0%	-36%	
- Agriculture	718	1,370	1,370	0%	91%	
<b>Gross margin</b>	<b>27.5%</b>	<b>24.1%</b>	<b>24.1%</b>			* We expect iron ore costs to remain high in 2022F, while hard coking coal costs will surge (details in <b>Figure 6</b> ). * We expect elevated input (iron ore and coal) prices to put pressure on margin despite strong demand helping steelmakers to partially pass on higher costs through higher ASPs. As such, we forecast HPG's 2022F margins will slide from their high base in 2021. * We continue to expect robust demand will keep finished steel prices high compared to pre-COVID-19 levels.
SG&A as % sales	2.3%	2.2%	2.2%			
EBIT margin	25.2%	21.9%	21.9%			
<b>NPAT-MI margin</b>	<b>23.0%</b>	<b>19.4%</b>	<b>19.4%</b>			

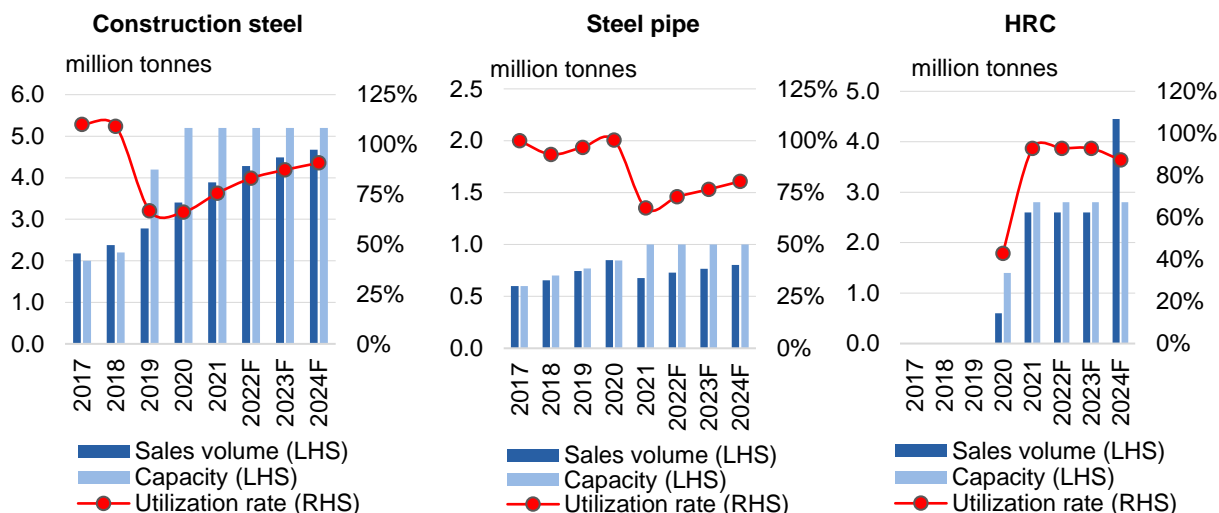
Source: Company's financial statements, VCSC forecast

**Figure 6: VCSC's assumptions on HPG's construction steel and HRC**

VCSC assumptions	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
<b>Current forecast</b>								
Construction steel sales volume (million tonnes)	2.8	3.4	3.9	4.3	4.5	4.7	4.9	5.1
% utilization rate	67%	66%	76%	83%	87%	91%	94%	98%
HRC sales volume (million tonnes)	N/A	0.6	2.6	2.6	2.6	4.5	4.4	4.4
% utilization rate	N/A	43%	93%	93%	93%	87%	87%	86%
Construction steel ASP (VND mn/tonne)	12.1	11.2	15.8	15.5	15.7	15.8	16.0	16.1
Construction steel ASP (USD/tonne)	524	486	685	674	681	687	694	701
HRC ASP (USD/tonne)	N/A	555	783	739	739	739	739	739
Estimated average iron ore costs (USD/tonne)	80	70	90	85	85	85	85	85
Estimated average coal costs (USD/tonne)	189	120	180	220	218	218	222	227
Estimated construction steel/iron ore spread (USD/tonne)	444	416	595	589	596	602	609	616
Estimated HRC/iron ore spread (USD/tonne)	N/A	485	693	654	654	654	654	654
HPG's blended gross margin	17.6%	21.0%	27.5%	24.1%	24.0%	22.2%	21.2%	24.7%
HPG's NPAT-MI (VND bn)	7,527	13,450	34,478	29,842	29,875	33,701	33,748	42,408
<b>Previous forecast</b>								
Construction steel sales volume (million tonnes)			3.9	4.3	4.5	4.7	4.9	5.1
% utilization rate			76%	83%	87%	91%	94%	98%
HRC sales volume (million tonnes)			2.6	2.6	2.6	4.5	4.4	4.4
% utilization rate			93%	93%	93%	87%	87%	86%
Construction steel ASP (VND mn/tonne)			15.8	15.5	15.7	15.8	16.0	16.1
Construction steel ASP (USD/tonne)			685	674	681	687	694	701
HRC ASP (USD/tonne)			783	739	739	739	739	739
Estimated average iron ore costs (USD/tonne)			90	85	85	85	85	85
Estimated average coal costs (USD/tonne)			180	220	218	218	222	227
Estimated construction steel/iron ore spread (USD/tonne)			595	589	596	602	609	616
Estimated HRC/iron ore spread (USD/tonne)			693	654	654	654	654	654
HPG's blended gross margin			27.5%	24.1%	24.0%	22.2%	21.2%	24.7%
HPG's NPAT-MI (VND bn)			34,478	29,842	29,875	33,701	33,748	42,408
<b>Change in forecast</b>								
Construction steel sales volume				0%	0%	0%	0%	0%
HRC sales volume				0%	0%	0%	0%	0%
Construction steel ASP				0%	0%	0%	0%	0%
HRC ASP				0%	0%	0%	0%	0%
Estimated average iron ore costs				0%	0%	0%	0%	0%
Estimated average coal costs				0%	0%	0%	0%	0%
Estimated construction steel/iron ore spread				0%	0%	0%	0%	0%
Estimated HRC/iron ore spread				0%	0%	0%	0%	0%
HPG's blended gross margin (ppt)				0.0	0.0	0.0	0.0	0.0
HPG's NPAT-MI				0%	0%	0%	0%	0%

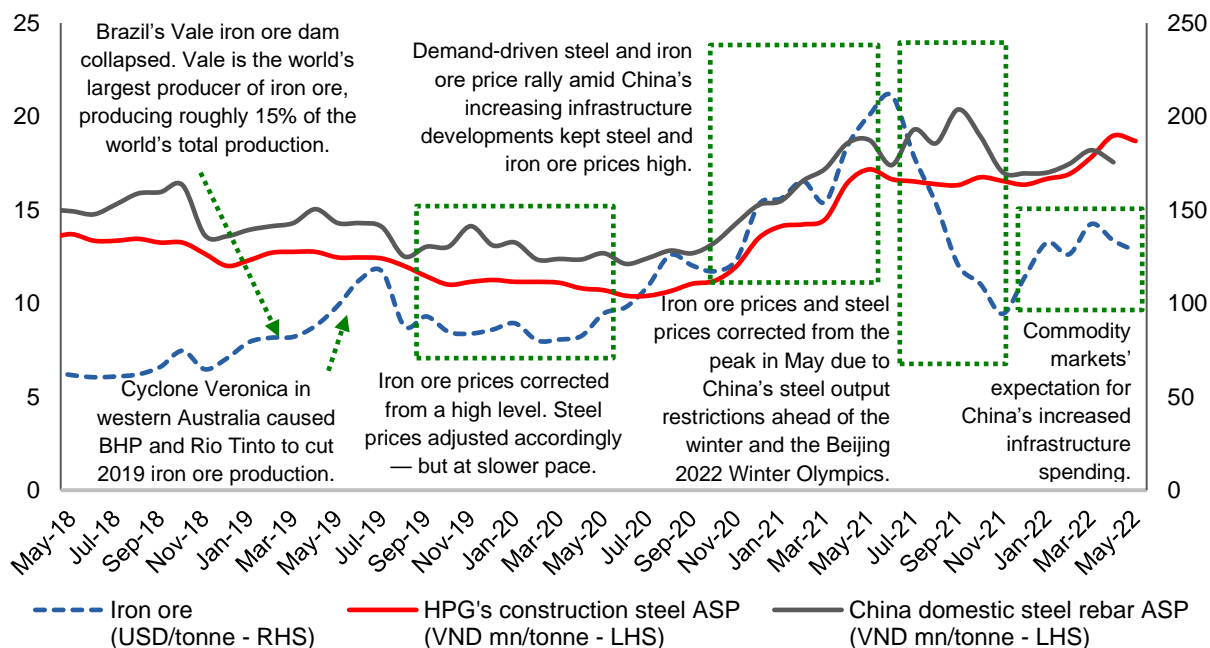
Source: HPG, VCSC assumptions

**Figure 7: HPG's designed capacity and sales volume by product**



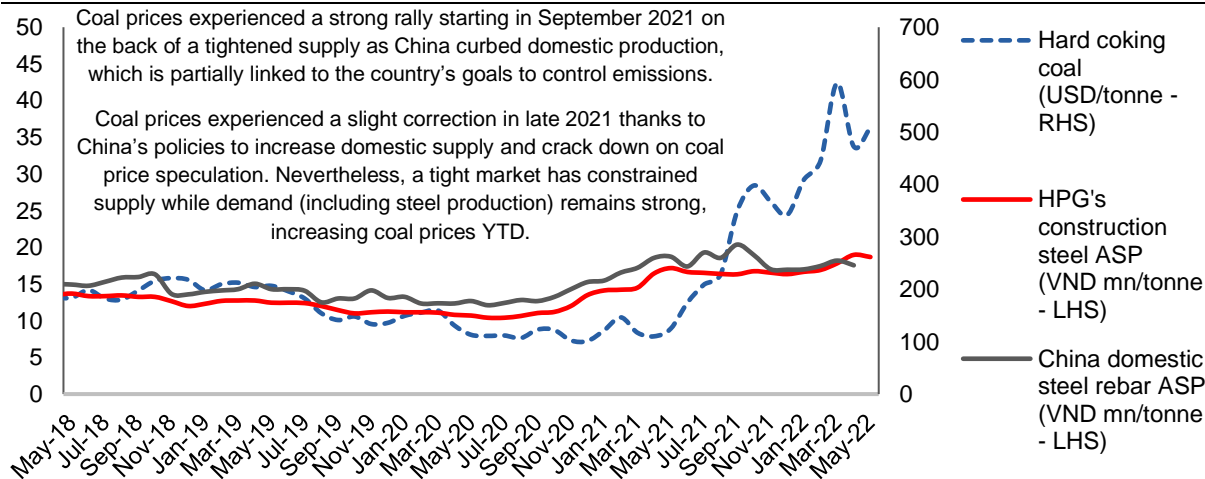
Source: HPG, VCSC forecast for 2022-2024. Note: 1) Utilization rate of construction steel is sales volume over year-end designed capacity; additional construction steel capacity in 2013, 2016 and 2019.

**Figure 8: HPG's average construction steel selling prices vs iron ore prices**



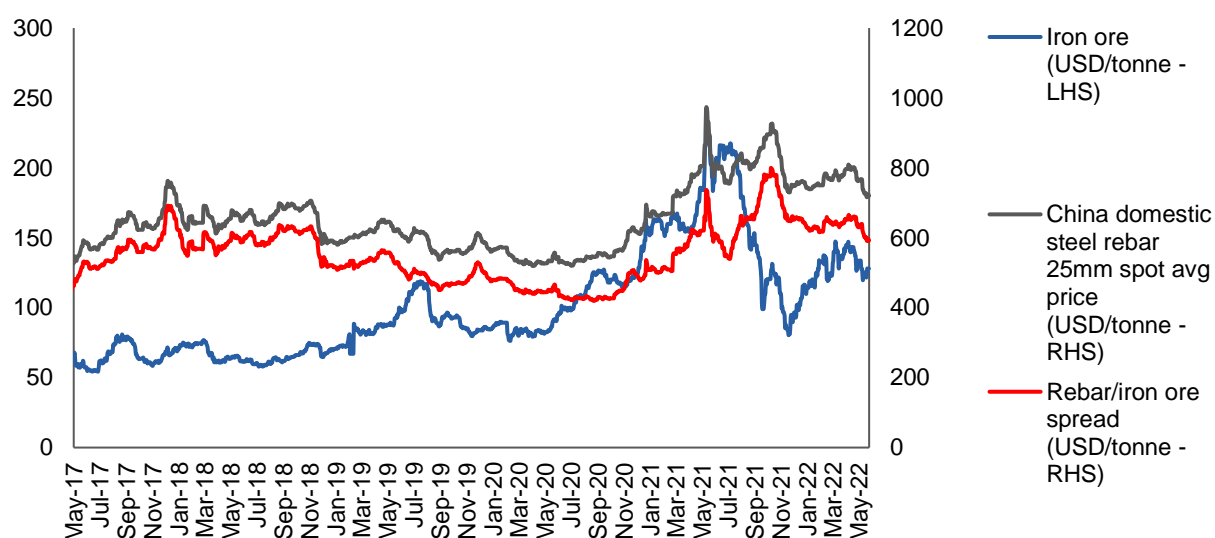
Source: Bloomberg, VSA, VCSC

**Figure 9: HPG's average construction steel selling prices vs coking coal prices**



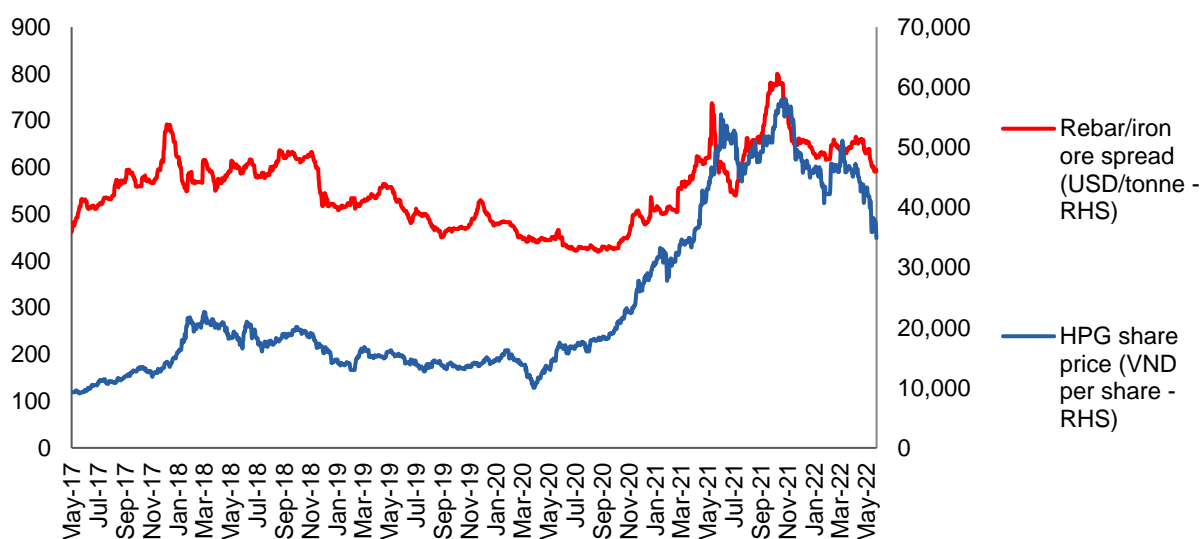
Source: Bloomberg, VSA, VCSC

**Figure 10: Spread between benchmark iron ore (63% Fe – delivered to Qingdao) price and Chinese rebar price**



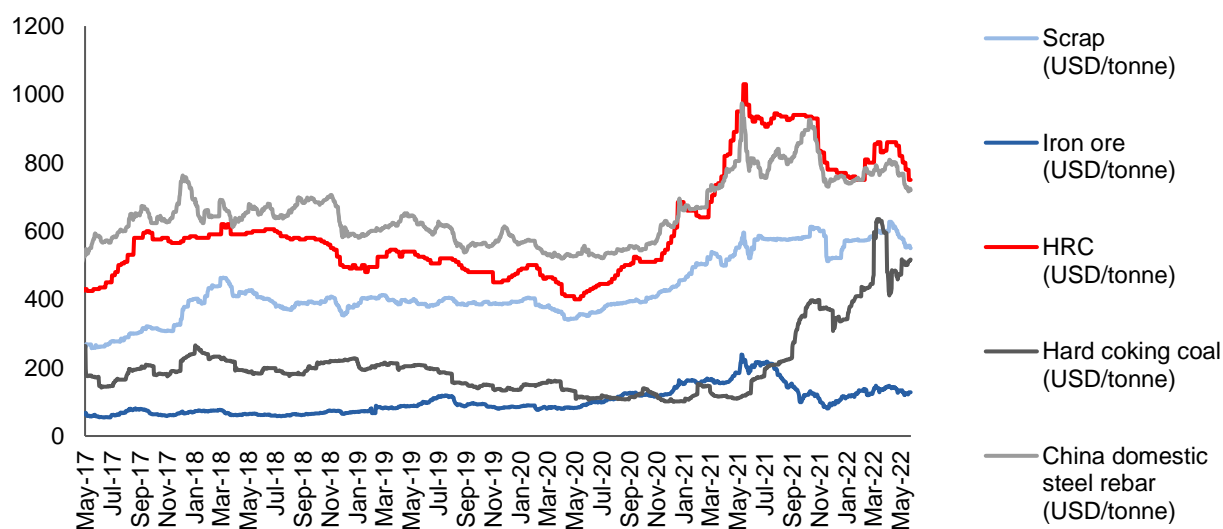
Source: Bloomberg, VCSC compilation

**Figure 11: Rebar/iron ore spread and HPG's share price**



Source: Bloomberg, VCSC compilation

**Figure 12: Benchmark steel-related commodity prices**



Source: Bloomberg, VCSC compilation



## Recap on Dung Quat Integrated Steel Complex (DQSC)

**DQSC 1:** Phase 1 has operated at full capacity since December 2019; Phase 2 started commercial operations in November 2020.

The two blast furnaces of **Phase 1** (construction steel with annual designed capacity of two million tonnes) effectively increased HPG's total designed construction steel capacity to 4.2 million tonnes per annum. HPG launched commercial products of **Phase 2** (HRC with an annual designed capacity of two million tonnes) in November 2020. We note that for each phase DQSC, the actual capacity can expand up to 2.8 million tonnes — equivalent to a total capacity of 5.6 million tonnes per year for the whole complex. In addition to the main steel production facilities, HPG has invested in DQSC's deep-water seaport (consisting of 11 berths that can accommodate up to 200,000 DWT vessels), electrical plant (able to supply up to 70% of DQSC's electricity demand) and waste processing facilities.

**DQSC 2:** HPG expects to start construction in May 2022.

DQSC 2 will have a total capacity of 5.6 million tonnes per annum, consisting of 4.6 million tonnes of flat steel products and one million tonnes of high-quality construction steel & other steel products. The total investment for this project is proposed at VND85tn (USD3.7bn) with VND70tn (USD3.0bn) for capex and VND15tn (USD652.2mn) for working capital. The new facility will span a 284-ha area near the existing DQSC (430 ha).

At HPG's AGM held on May 25, 2022, HPG shared that the DQSC 2 has completed all necessary contracts to start construction that month, which will allow the project to launch commercial products by 2024. We currently model DQSC 2's capex and projected future earnings contribution using a 10-year multistage DCF approach, assuming that 1) VND70tn (USD3.0bn) of capex will be disbursed over the three years from 2022 (i.e., VND28tn/USD1.2bn in 2022, VND28tn/USD1.2bn in 2023 and the rest in 2024) and 2) HPG will use debt to finance 40% of the total capex (i.e., VND28tn/USD1.2bn). More details are noted in the valuation section.

**Figure 13: HPG's steel capacity**

Designed capacity per year (million tonnes)	Construction steel	Steel pipe	HRC	Specialized steel	Galvanized steel sheet	Capex plan	Status
Existing capacity (excluding DQSC)	2.2	1.3 (end-2021)			0.4		Commercially running
DQSC 1 - Phase 1	2.2-2.8					VND50tn (USD2.2bn)	Commercially running since December 2019
DQSC 1 - Phase 2			2.2-2.8				Commercially running since November 2020
DQSC 2			4.6	1.0		VND70tn (USD3.0bn)	To break ground in May 2022

Source: VCSC compilation



## Valuation

We continue to apply a combination of 10-year multistage DCF (70% weighting) and P/E (30% weighting) methodologies to derive a target price for HPG of VND61,000/share — 3% lower compared to our previous target price VND63,000/share.

1. Our DCF-derived valuation is 4% higher compared our last Update Report as 1) we roll over our target price horizon to mid-2023 and 2) use a higher cash balance of VND46.3tn (USD2.0bn) at end-Q1 2022 vs VND40.7tn (USD1.8bn) at end-2021 while maintaining our aggregate 2022-2026F NPAT-MI.
2. Our P/E-derived valuation is 20% lower compared to our last Update Report. We apply a slightly higher 2022-2023F EPS forecast of VND6,442 compared to our previous 2022F EPS forecast of VND6,430 while lowering our target P/E of to 8.0x from 10.0x as previously.

**Figure 14: Valuation summary**

Valuation method	Fair price	Weight	(VND/share)
DCF	64,800	70%	45,500
Target P/E of 8.0x	51,500	30%	15,500
<b>Target price</b>			<b>61,000</b>
2022F P/E at target price			9.5x
2023F P/E at target price			9.5x

Source: VCSC

### Discounted cash flow (DCF)

We continue to include DQSC 2's capex and projected future earnings contribution, assuming that 1) VND70tn (USD3.0bn) of capex will be disbursed proportionally in three years from 2022 and 2) HPG will use debt to finance 40% of the total capex (i.e., VND28tn/USD1.2bn). Therefore, we use a 10-year multistage DCF model to capture HPG's long-term growth coming from investments in DQSC 2. We apply an intermediate growth rate of 4% for the transitional period of 2027-2031 and then apply 2% in the terminal years.

**Figure 15: Discounted cash flow forecasts**

VND bn	2022F	2023F	2024F	2025F	2026F
<b>EBIT</b>	33,782	34,934	38,939	38,015	45,981
- Tax	-2,703	-3,493	-3,894	-3,802	-4,598
+ Depreciation	8,095	8,595	13,322	14,788	15,688
- Capex	-35,000	-33,104	-12,018	-9,220	-9,220
- Working cap increase	801	-4,346	-18,233	-6,100	-2,405
<b>Free Cash Flow</b>	<b>4,976</b>	<b>2,587</b>	<b>18,117</b>	<b>33,682</b>	<b>33,682</b>
<b>Present value of FCF</b>	<b>4,708</b>	<b>2,191</b>	<b>13,739</b>	<b>22,868</b>	<b>20,473</b>
<b>Total PV of FCF</b>	<b>4,708</b>	<b>6,900</b>	<b>20,639</b>	<b>43,508</b>	<b>63,981</b>

Cost of Capital	Previous report	Revised	DCF	VND bn
Beta	1.1	1.1	PV of Free Cash Flow **	147,030
Market Risk Premium %	7.0	7.0	PV of Terminal Val **	159,239
Risk Free Rate %	5.5	5.5	<b>PV of FCF and TV</b>	<b>306,268</b>
Cost of Equity %	13.2	13.2	Plus: Cash + Short term deposit	46,309
Cost of Debt %	10.0	10.0	Less: Debt	60,183
Corporate Tax Rate %	20.0	20.0	<b>Value of Equity</b>	<b>292,395</b>
Debt-to-capital ratio %	38.7	38.7	Fully diluted shares (million)	4,473
<b>WACC %</b>	<b>11.7</b>	<b>11.7</b>	<b>DCF value per share (VND)</b>	<b>64,828</b>
Terminal Growth Rate* %	2.0	2.0		

Source: VCSC. Note: (\*) For terminal years after 2031; (\*\*) 10-year multistage DCF model.

**Figure 16: Sensitivity analysis of our target price for HPG (VND/share) in relation to DCF's WACC and terminal growth rate, ceteris paribus**

Terminal growth rate	WACC							
		10.2%	10.7%	11.2%	11.7%	12.2%	12.7%	13.2%
	0.5%	65,500	62,500	59,800	57,300	55,000	53,000	51,100
	1.0%	67,100	63,900	61,000	58,400	56,000	53,800	51,800
	1.5%	69,000	65,500	62,400	59,600	57,000	54,700	52,600
	2.0%	71,000	67,200	63,900	61,000	58,200	55,700	53,500
	2.5%	73,300	69,200	65,600	62,400	59,500	56,900	54,500
	3.0%	75,900	71,400	67,500	64,000	60,900	58,100	55,600
	3.5%	79,000	74,000	69,600	65,800	62,500	59,500	56,800

Source: VCSC

**Figure 17: Sensitivity analysis of our target price for HPG (VND/share) in relation to DCF's WACC and intermediate growth rate of 10-year multistage DCF modeling, ceteris paribus**

Intermediate growth rate	WACC							
		10.2%	10.7%	11.2%	11.7%	12.2%	12.7%	13.2%
	2.5%	68,100	64,600	61,400	58,600	56,100	53,800	51,700
	3.0%	69,000	65,400	62,200	59,400	56,800	54,400	52,300
	3.5%	70,000	66,300	63,100	60,100	57,500	55,100	52,900
	4.0%	71,000	67,200	63,900	61,000	58,200	55,700	53,500
	4.5%	72,000	68,200	64,700	61,700	58,900	56,400	54,200
	5.0%	73,000	69,100	65,600	62,500	59,700	57,100	54,800
	5.5%	74,100	70,100	66,500	63,300	60,400	57,800	55,400

Source: VCSC

### Peer P/E multiple

We select leading construction steel producers in Asian countries such as South Korea, China, India and Taiwan to form a comparable universe for HPG.

Our selected peer group reported solid earnings recoveries in Q4 2019 and Q1 2020; therefore, the peer group median P/E dove to the 9.0x range in January-April 2020. However, COVID-19 and the surge in iron ore prices caused these companies to report weak earnings in Q2 2020, thus pushing the peer group median P/E to spike to around 12.0x. In Q3 2020, rising global demand for steel — especially from China — drove a strong Q3 2020 earnings recovery for steel manufacturers as well as market expectations for the steel sector's earnings outlook in future years. This situation caused the peer group median P/E to spike to over 20.0x in Q2-Q3 2020. Nevertheless, the earnings of the peer group have not caught up with these expectations, causing share prices and thus P/E to correct in Q4 2020.

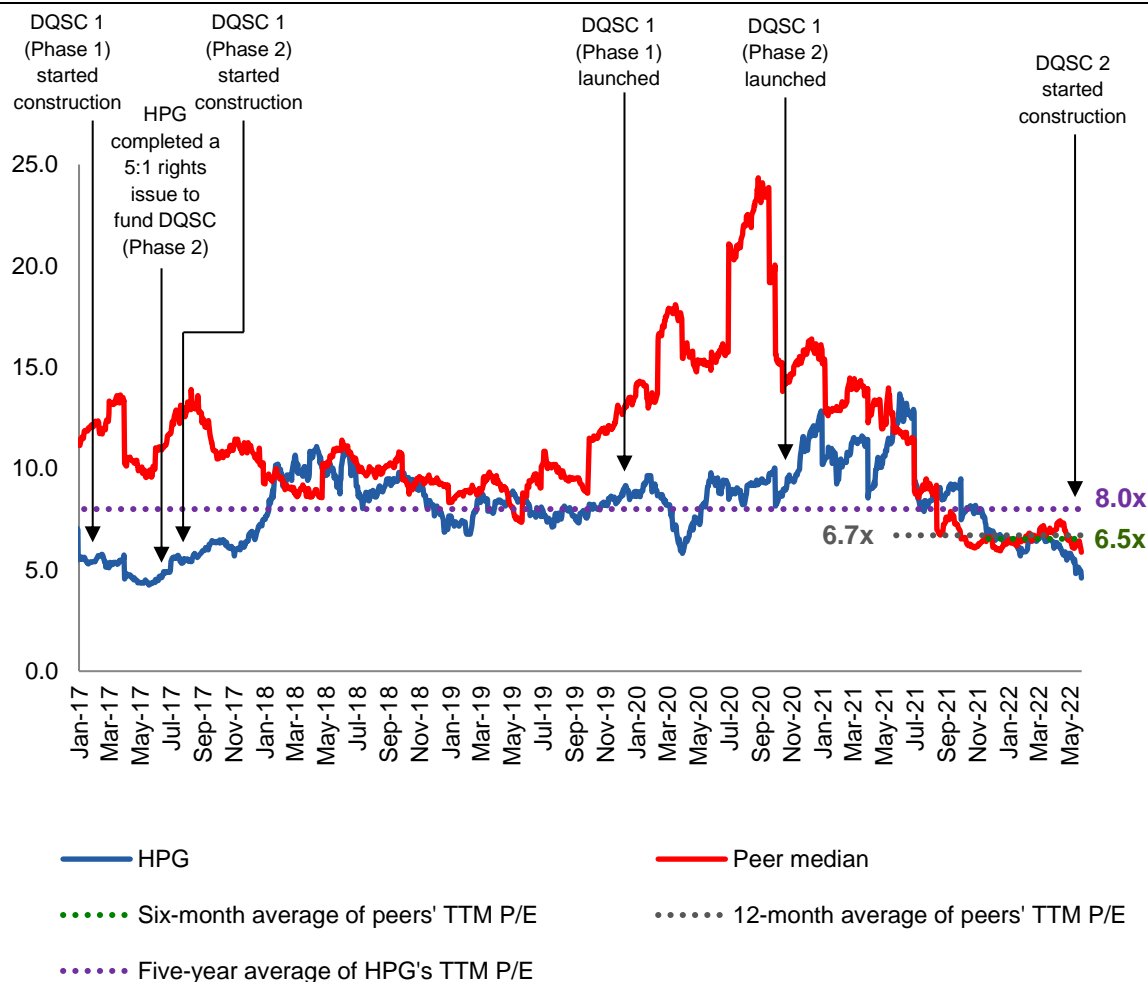
In 2021, a strong global steel market and record-breaking rally in steel prices continued to raise market sentiment for the steel industry, pushing share prices and P/E of the peer group to over 15.0x in H1 2021. As global steelmakers started to report strong earnings in H2 2021 on the back of robust demand and high steel prices, the P/E of the peer group corrected to below 10.0x. In our previous Update Report, we also used 10.0x as our target P/E for HPG thanks to the company superior profitability compared to peers (TTM ROE of 37.6% vs a peer median of 15.4%) and solid growth prospects with an NPAT-MI CAGR of 9% in 2022-2026F (based on our forecast).

Although we are positive on the steel sector's overall outlook, we want to be more conservative on the target P/E applied for HPG in this Update Report given 1) the expected higher volatility of steel-related commodities in 2022 that results in a greater risk for 2022F earnings growth, 2) weaker market sentiment toward steel stocks amid an expected decline in 2022F earnings from 2021's high base, and 3) HPG being in the first year of another significant capex cycle (i.e., DQSC 2). In this Update Report, we therefore use HPG's five-year average historical P/E of 8.0x as target P/E. We take the average historical P/E from 2017-2022 as HPG started the construction of DQSC 1 in February 2017, hence this period can represent one complete capex and earnings cycle for the company.

**Figure 18: Regional peers**

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y (%)	TTM NPAT (USD mn)	Y-o-Y (%)	TTM EBIT margin	TTM EBITDA margin	Net debt/Equity (%)	ROE (%)	ROA (%)	P/E (x)	LQ P/B (x)
POSCO	South Korea	20,038	69,948	37.6	6261	227.3	12.2	16.5	8.0	15.0	8.1	3.0	0.4
China Steel Corporation	Taiwan	18,050	17,402	45.1	2286	424.3	16.6	23.5	38.7	19.1	9.4	8.2	1.4
JSW Steel	India	16,437	10,756	10.0	1066	96.3	19.2	25.1	107.4	19.0	5.6	16.0	2.7
Fosun International	China	8,217	25,009	18.0	1564	17.5	14.2	19.1	35.8	7.8	1.3	5.5	0.4
NMDC	India	4,554	2,071	31.4	846	75.7	55.7	57.2	-12.9	21.8	18.4	5.6	1.2
Hyundai Steel	South Korea	4,281	21,346	36.2	1481	N/A	11.4	17.8	49.4	9.9	4.7	3.1	0.3
Maanshan Iron & Steel	China	4,158	18,164	30.5	791	62.9	5.9	N/A	44.6	15.9	5.7	5.9	0.9
Hesteel	China	3,803	23,018	26.1	392	29.1	5.7	N/A	175.0	5.3	1.1	9.8	0.5
<b>Average</b>		9,942	23,464	29.4	1836	133.3	17.6	26.5	55.7	14.2	6.8	7.1	1.0
<b>Median</b>		6,386	19,755	30.9	1273	75.7	13.2	21.3	41.6	15.4	5.7	5.8	0.7
<b>Hoa Phat Group</b>	<b>Vietnam</b>	<b>6,700</b>	<b>7,068</b>	<b>59.3</b>	<b>1,553</b>	<b>97.0</b>	<b>24.2</b>	<b>29.0</b>	<b>14.0</b>	<b>37.6</b>	<b>19.6</b>	<b>4.6</b>	<b>1.6</b>

Source: Bloomberg, VCSC

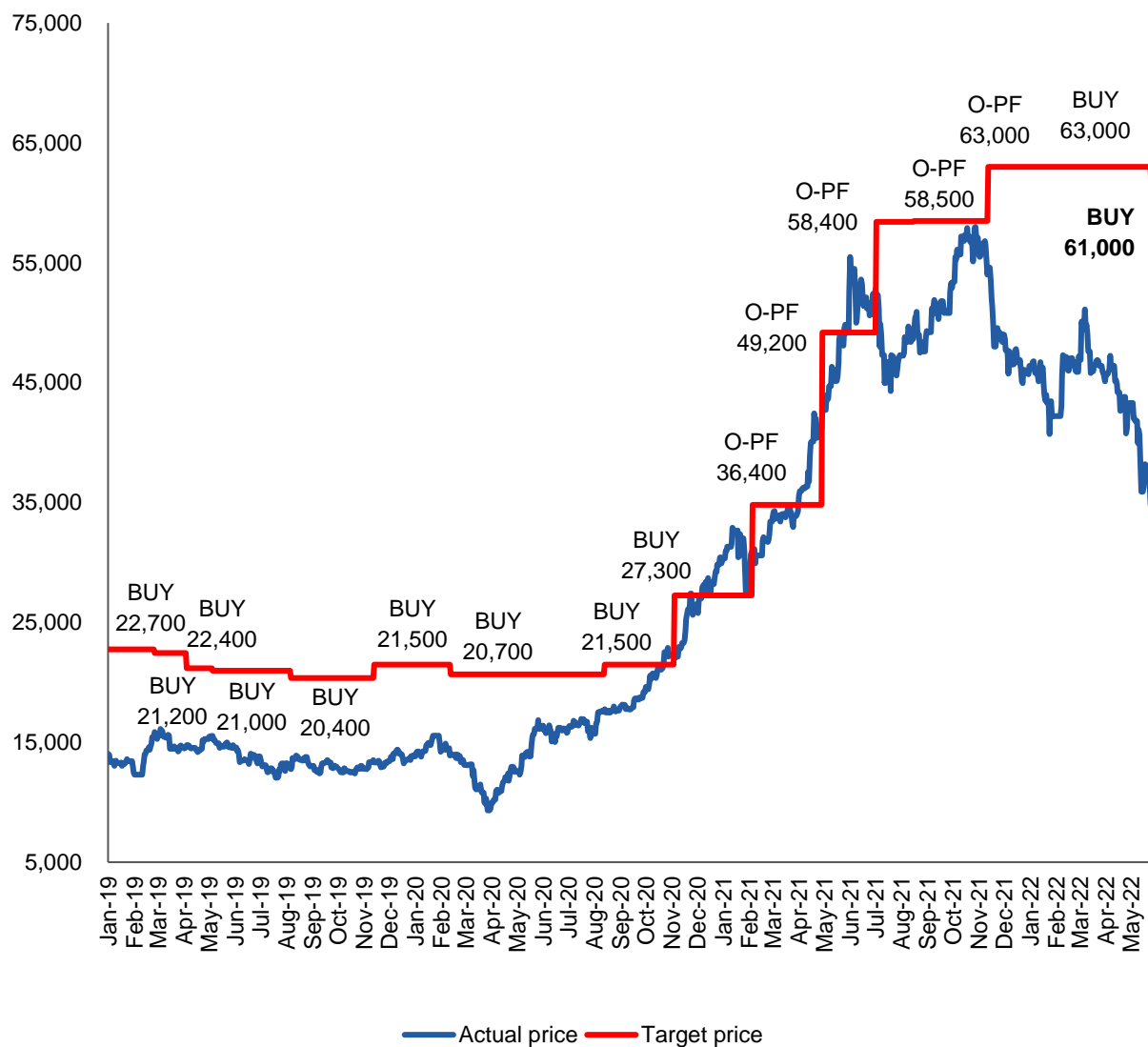
**Figure 19: Historical price-to-earnings ratio (P/E) of HPG vs peers**


Source: Bloomberg, VCSC



## Recommendation History

Figure 20: Historical VCSC target price vs share price (VND/share)



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

## Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
<b>Revenue</b>	<b>149,680</b>	<b>154,115</b>	<b>160,287</b>	<b>194,277</b>
COGS	-108,571	-116,960	-121,843	-151,170
<b>Gross Profit</b>	<b>41,108</b>	<b>37,155</b>	<b>38,444</b>	<b>43,106</b>
Sales & Marketing exp	-2,120	-2,140	-2,227	-2,613
General & Admin exp	-1,324	-1,233	-1,282	-1,554
<b>Operating Profit</b>	<b>37,664</b>	<b>33,782</b>	<b>34,934</b>	<b>38,939</b>
Financial income	3,071	2,672	2,734	3,186
Financial expenses	-3,732	-4,030	-4,483	-4,682
- o/w interest expense	-2,526	-2,966	-3,575	-3,780
Associates	4	4	4	4
Net other income/(loss)	48	50	50	50
<b>Profit before Tax</b>	<b>37,057</b>	<b>32,479</b>	<b>33,239</b>	<b>37,497</b>
Income Tax	-2,536	-2,598	-3,324	-3,750
<b>NPAT before MI</b>	<b>34,521</b>	<b>29,880</b>	<b>29,915</b>	<b>33,747</b>
Minority Interest	-43	-38	-38	-43
<b>NPAT less MI, reported</b>	<b>34,478</b>	<b>29,843</b>	<b>29,877</b>	<b>33,704</b>
<b>NPAT less MI, adjusted</b>	<b>34,478</b>	<b>29,843</b>	<b>29,877</b>	<b>33,704</b>

EBITDA	43,733	41,877	43,530	52,261
EPS reported, VND	7,327	6,438	6,446	7,271
EPS adjusted, VND	7,327	6,438	6,446	7,271
EPS fully diluted, VND	7,327	6,438	6,446	7,271
DPS, VND	500	500	1,000	1,500
DPS/EPS (%)	7%	8%	8%	14%

<b>RATIOS</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Growth</b>				
Revenue growth	66.1%	3.0%	4.0%	21.2%
Op profit (EBIT) growth	120.0%	-10.3%	3.4%	11.5%
PBT growth	141.3%	-12.4%	2.3%	12.8%
EPS growth, adjusted	157.3%	-12.1%	0.1%	12.8%

<b>Profitability</b>				
Gross Profit Margin	27.5%	24.1%	24.0%	22.2%
Op Profit, (EBIT) Margin	25.2%	21.9%	21.8%	20.0%
EBITDA Margin	29.2%	27.2%	27.2%	26.9%
NPAT-MI Margin, adj,	23.0%	19.4%	18.6%	17.3%
ROE	46.0%	28.7%	22.8%	21.3%
ROA	22.3%	15.4%	13.3%	13.4%

<b>Efficiency</b>				
Days Inventory On Hand	115.0	129.3	127.0	129.2
Days Accts, Receivable	10.9	12.2	13.3	14.1
Days Accts, Payable	58.2	74.4	72.2	63.8
Cash Conversion Days	67.7	67.1	68.1	79.5

<b>Liquidity</b>				
Current Ratio x	1.3	1.4	1.6	2.0
Quick Ratio x	0.7	0.8	0.9	1.0
Cash Ratio x	0.3	0.4	0.5	0.5
Debt / Assets	32.1%	29.4%	26.9%	21.5%
Debt / Capital	38.7%	34.4%	30.9%	24.8%
Net Debt / Equity	18.2%	13.6%	12.6%	4.0%
Interest Coverage x	15.9	12.4	10.8	11.3

<b>B/S (VND bn)</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Cash & equivalents	22,471	30,565	31,135	34,997
ST investment	18,236	15,000	15,000	15,000
Accounts receivables	4,973	5,353	6,358	8,665
Inventories	42,134	40,699	44,067	62,958
Other current assets	6,339	6,819	7,093	8,474
<b>Total Current assets</b>	<b>94,154</b>	<b>98,437</b>	<b>103,653</b>	<b>130,094</b>
Fix assets, gross	102,361	137,361	170,465	182,482
- Depreciation	-22,514	-30,610	-39,205	-52,527
Fix assets, net	79,847	106,752	131,260	129,956
LT investment	7	7	7	7
LT assets other	4,228	4,228	4,228	4,228
<b>Total LT assets</b>	<b>84,082</b>	<b>110,986</b>	<b>135,495</b>	<b>134,190</b>
<b>Total Assets</b>	<b>178,236</b>	<b>209,423</b>	<b>239,147</b>	<b>264,284</b>

Accounts payable	23,729	23,955	24,256	28,601
Short-term debt	43,748	40,936	36,553	30,234
Other ST liabilities	5,983	5,983	5,983	5,983
Total current liabilities	73,459	70,874	66,792	64,818
Long term debt	13,465	20,601	27,736	26,707
Other LT liabilities	532	532	532	532
<b>Total Liabilities</b>	<b>87,456</b>	<b>92,006</b>	<b>95,059</b>	<b>92,057</b>

Preferred Equity	0	0	0	0
Paid in capital	44,729	44,729	44,729	44,729
Share premium	3,212	3,212	3,212	3,212
Retained earnings	41,763	68,362	94,995	123,090
Other equity	922	922	922	922
Minority interest	155	192	231	274
<b>Total equity</b>	<b>90,780</b>	<b>117,417</b>	<b>144,089</b>	<b>172,227</b>
<b>Liabilities &amp; equity</b>	<b>178,236</b>	<b>209,423</b>	<b>239,147</b>	<b>264,284</b>
Y/E shares out, mn	4,473	4,473	4,473	4,473

<b>CASH FLOW (VND bn)</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Beginning Cash Balance</b>	<b>13,696</b>	<b>22,471</b>	<b>30,565</b>	<b>31,135</b>
Net Income	34,521	29,880	29,915	33,747
Dep, & amortization	6,069	8,095	8,595	13,322
Chge in Working Cap	-3,988	801	-4,346	-18,233
Other adjustments	-9,136	-1,044	-1,046	-1,180
<b>Cash from Operations</b>	<b>27,466</b>	<b>37,732</b>	<b>33,119</b>	<b>27,657</b>

Capital Expenditures, net	-12,116	-35,000	-33,104	-12,018
Investments, net	-8,354	3,236	0	0
<b>Cash from Investments</b>	<b>-20,404</b>	<b>-31,764</b>	<b>-33,104</b>	<b>-12,018</b>

Dividends Paid	-1,704	-2,236	-2,236	-4,473
Δ in Share Capital	0	0	0	0
Δ in ST debt	6,949	-2,812	-4,383	-6,319
Δ in LT debt	-3,878	7,136	7,135	-1,028
Other financing C/F	346	38	38	43
<b>Cash from Financing</b>	<b>1,713</b>	<b>2,125</b>	<b>554</b>	<b>-11,777</b>

<b>Net Change in Cash</b>	<b>8,775</b>	<b>8,093</b>	<b>570</b>	<b>3,863</b>
<b>Ending Cash Balance</b>	<b>22,471</b>	<b>30,565</b>	<b>31,135</b>	<b>34,997</b>

Source: Company's financial statements, VCSC forecasts

## 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%
SELL	If the projected TSR is -20% or lower
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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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