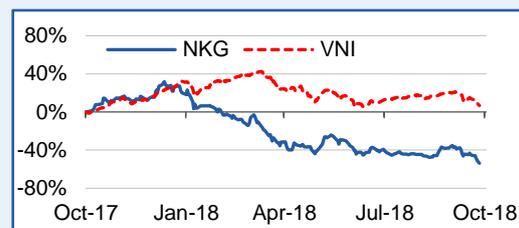


Industry	Steel		2017	9M/18	2018F
Report Date	October 30, 2018	Rev y/y	41.2%	22.1%	24.8%
Current Price	VND10,700	EPS y/y	10.5%	-76.9%	-51.9%
Last Target Price	VND14,000*	GPM	10.8%	6.8%	7.8%
		NPM	5.6%	2.0%	2.8%
		EV/EBITDA	5.7x	N/A	5.9x
		P/Op CF	N/M	N/A	1.6x
		P/E	2.2x	N/A	4.5x



			NKG	Peers**	VNI
Market Cap	\$84.7mn		14.8x	9.0x	15.7x
Foreign Room	\$48.8mn	P/E (ttm)	0.6x	1.2x	2.4x
ADTV30D	\$0.0mn	P/B (curr)	1.6x	0.4x	N/A
State Ownership	0.0%	Net D/E	12.4%	6.9%	15.2%
Outstanding Shares	182.0 mn	ROE	4.0%	3.1%	2.4%
Fully Diluted Shares	182.0 mn	ROA			

Company Overview

Founded in 2002, Nam Kim Steel is Vietnam's second largest manufacturer of galvanized steel sheets (15% market share) and steel pipes (7% market share) used in residential, industrial and civil construction.

* Downward revision is probable
** includes foreign peers using adjusted market multiples

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Intense margin contraction deteriorates 9M earnings growth

NKG reported surprisingly weak Q3 result with revenue slid by 9% and nearly no profit due to heavy gross margin contraction and rising interest expenses. In 9M 2018, NPAT-MI plummeted by 59% YoY despite a 22% revenue growth. As 9M 2018 NPAT-MI achieved only 53% of our full-year projection, we see downside risk to our current forecasts in our upcoming update report.

Gross margin compression due to elevated Hot Rolled Coil (HRC) input cost continued to drag earnings. Gross margin collapse to only 4.8% in Q3 2018 as HRC prices recovered (average HRC prices in 9M 2018 increased by 18% YoY) and depreciation expense increased due to new capacity coming online. 9M 2018 gross and net margins stood at 6.8% and 2.0% vs 11.2% and 6.0% in 9M 2017, respectively.

Figure 1: NKG's 9M 2018 results

VND bn	Q3 2017	Q3 2018	Growth	9M 2017	9M 2018	Growth	VCSC's 2018F	9M 2018 vs 2018F
Net revenue	3,810	3,472	-8.9%	9,297	11,349	22.1%	15,743	72%
Gross profit	395	168	-57.4%	1,039	773	-25.6%	1,221	63%
SG&A expenses	-99	-95	-4.7%	-254	-293	15.1%	-409	72%
EBIT	295	74	-75.1%	785	480	-38.9%	811	59%
Financial income	25	41	60.3%	94	80	-15.5%	79	101%
Financial expense	-94	-116	23.7%	-280	-315	12.4%	-418	75%
Interest expense	-71	-85	19.6%	-191	-248	29.6%	-308	80%
Other gain/loss	0	3	-715.9%	20	4	-78.3%	0	
PBT	226	1	-99.5%	619	249	-59.8%	472	53%
NPAT-MI	206	1	-99.6%	557	231	-58.6%	434	53%
Gross margin %	10.4%	4.8%		11.2%	6.8%		7.8%	
SG&A as % sales	2.6%	2.7%		2.7%	2.6%		2.6%	
EBIT margin %	7.8%	2.1%		8.4%	4.2%		5.2%	
Effective tax rate %	9.1%	NM		10.0%	7.3%		8.0%	
NPAT-MI margin %	5.4%	0.0%		6.0%	2.0%		2.8%	

Source: NKG financial statements, VCSC forecasts

Rising concern over NKG's ability to secure domestic sales. NKG recorded the first quarter of YoY declining sales volume in years with only 138,600 tons of steel sheet sold in Q3 2018, down 23% vs Q3 2017. For 9M 2018, NKG recorded only 5% sale volume growth vs 10% growth of the industry (more details are in Figure 2). Intensifying competition between local galvanized steel producers on the local market was the major hit to NKG, causing its domestic sales volume to drop 12% YoY in 9M 2018 vs the industry growth of 8% YoY. Enduring export volume helped to offset the loss from domestic

market, but in our view the fact that NKG not being able to secure domestic market is a major concern given the current global trade disturbances. Export sales volume contribution to NKG's total sales jumped from 57% in 9M 2017 to 64% in 9M 2018. Given falling sales volume, NKG has lost its second-placed position by volume sold to Ton Dong A, who has gained healthy growth on both domestic market and export markets year to date.

Figure 2: Summary of top-3 local galvanised steel producers' sales volume

		Total	Domestic	Export	% Export / Total
Industry	9M 2017	2,620,194	1,444,861	1,175,333	45%
	9M 2018	2,872,412	1,559,407	1,313,005	46%
	Growth	10%	8%	12%	
HSG	9M 2017	884,185	419,270	464,915	53%
	9M 2018	977,762	517,213	460,549	47%
	Growth	11%	23%	-1%	
NKG	9M 2017	420,888	179,113	241,775	57%
	9M 2018	440,658	156,741	283,917	64%
	Growth	5%	-12%	17%	
Ton Dong A	9M 2017	347,585	184,866	162,719	47%
	9M 2018	468,082	198,131	269,951	58%
	Growth	35%	7%	66%	

Source: VSA, VCSC compilation

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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