

HOA PHAT GROUP JSC (HOSE: HPG)

Industry

RECOMMENDATION

Closing price on
20th November 2024

One-year target price

Upside

21st November 2024

STEEL

BUY

25,600

29,900

16.9%

BUSINESS ACTIVITIES RECOVER AFTER THE CRISIS

Production and consumption volumes show strong growth compared to the same period last year. In 3Q, HPG's production volume increased by 6.4% YoY, with a cumulative growth of 34% YoY in the first nine months of the year. Consumption of construction steel and hot-rolled coil (HRC) also grew by 29.2% and 19.2% YoY, respectively, driven by positive recovery signals from the market.

Profit margins remain stable. Despite synchronized movements in steel selling prices and input material costs, HPG maintained profitability levels within the range of 12.5%–14% over the past five quarters. This demonstrates the company's ability to leverage its leading industry position to flexibly adjust selling prices and mitigate market risks.

Nine-month cumulative results: Revenue: VND 104,364 billion (+23.4% YoY), net profit after tax: VND 9,210 billion (+140.4% YoY), EBITDA: VND 16,918 billion (+38.2% YoY), EBITDA margin: 16.21% (compared to 14.48% in the same period of 2022).

Business Outlook for 2024:

- **Exports face challenges, focus shifts to domestic market.** We anticipate that HPG's export activities will encounter significant barriers due to the global wave of trade protectionism. The domestic market is expected to become the main growth driver, supported by: (1) recovering domestic consumption, (2) a warming real estate sector bolstered by policy support, (3) opportunities to increase sales through participation in key public investment projects, and (4) the potential implementation of anti-dumping duties by the Ministry of Industry and Trade on hot-rolled coil (HRC) products originating from China and India.
- **HRC production to continue growing as Phase 1 of the Dung Quat 2 project enters production.** Phase 1 of the Dung Quat 2 project will commence trial operations at the end of 2024 and is expected to be fully operational by late 2025. This development is projected to drive HRC production growth for HPG in the coming year.
- **Expectations for anti-dumping investigation results.** Preliminary results of the ongoing investigation are anticipated to be announced by the end of November. If trade protection measures are enacted, we expect increased market transparency in the domestic steel industry and stabilization of steel selling prices in the near future.
- **We recommend a BUY for HPG stock with a 12-month target price of VND 29,900 per share (Upside 16.9%).**

Key metrics (VND billion)

	2023	T12M
Revenue	120,624	138,748
Gross profit	12,938	18,604
EBITDA	18,192	22,685
Net profit	6,800	12,179
EBITDA margin	15.3%	16.4%
EPS (VND)	511	1,905
BVPS (VND)	16,981	17,476
ROE (%)	3.0%	11.5%
ROA (%)	1.6%	6.3%

Share price



Key Shareholders (update: 20 November 2024)

Tran Dinh Long	25.8%
Vu Thi Hien	6.9%

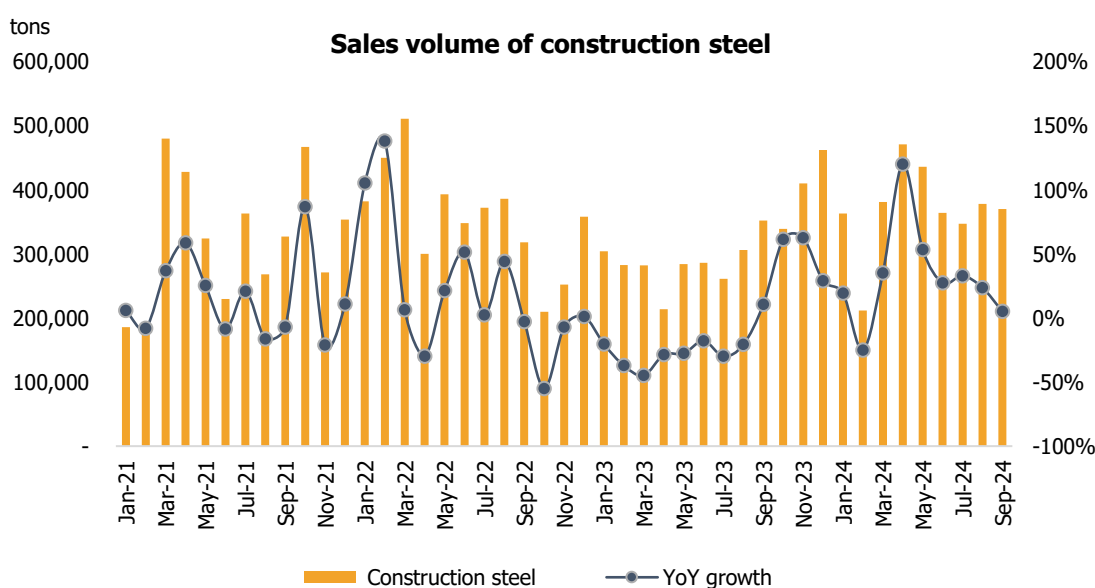
ANALYST

Nguyen Thao Nguyen

1. Production performance and sales overview of 3Q/2024

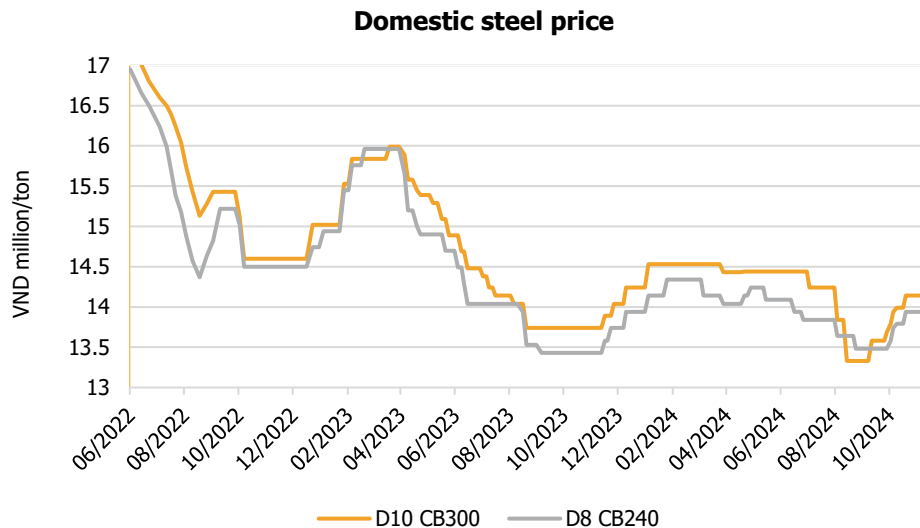
- **Crude steel production volume:** In 4Q, crude steel production reached 2.08 million tons (+6.4% YoY). For the first nine months of 2024, cumulative production totaled 6.45 million tons (+34% YoY).
- **Sales volume has grown compared to the same period last year.**
 - **Construction steel:** HPG sold 3.3 million tons of construction steel in the first 9 months of 2024 (+29.2% YoY), with 1.1 million tons (+19.2% YoY) in the 3rd quarter. The domestic market's recovery is the key factor driving sales activities, with domestic sales reaching 2.35 million tons (+12.7% YoY).
 - **Hot-rolled coil (HRC):** HPG sold a total of 2.27 million tons of HRC (+13.0% YoY) in the first 9 months. However, exports were affected by trade defense measures in many countries, with export volume declined to 746,459 tons (-7.3% YoY). In contrast, domestic sales volume grew strongly (+29.2% YoY), reaching 1.52 million tons.

However, we expect that the recovery remains relatively limited, and the trading activities are still rather sluggish.



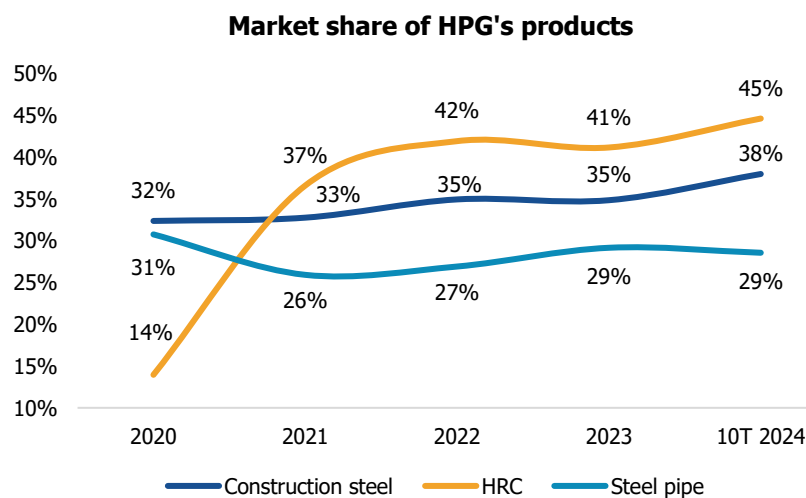
Source: HPG, VSA

- **Steel prices increased toward the end of 3Q after a prolonged decline.** The improving domestic market since early September prompted price adjustments by companies like HPG. Additionally, China Government's economic stimulus measures have contributed to a positive sentiment in domestic steel distribution, which boost the price level. However, the price rally was short-lived due to modest demand and relatively quiet trading activity. We believe that steel prices have hit the bottom over the past year, and we expect higher price levels in 2025, supported by domestic real estate market recovery and anti-dumping duties on low-cost steel imports from China.



Source: Steelonline, giathepton

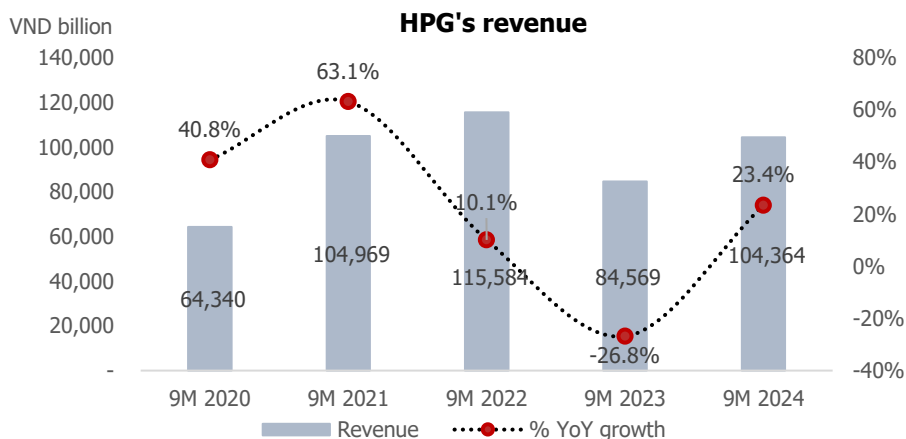
- **Market shares witnessed improvements.** The difficult period for the steel market in 2023 and the first half of 2024 is an opportunity for HPG to improve its market share, especially with key products. With domestic momentum, HPG's construction steel consolidated its leading position in the industry and increased its market share to 45%. Despite some hardships in exporting, HPG's market share of HRC products also increased to 38%. Meanwhile, HPG's steel pipe products also maintain their leading position in the market and maintain a stable market share of around 29%.



Source: HPG, VSA

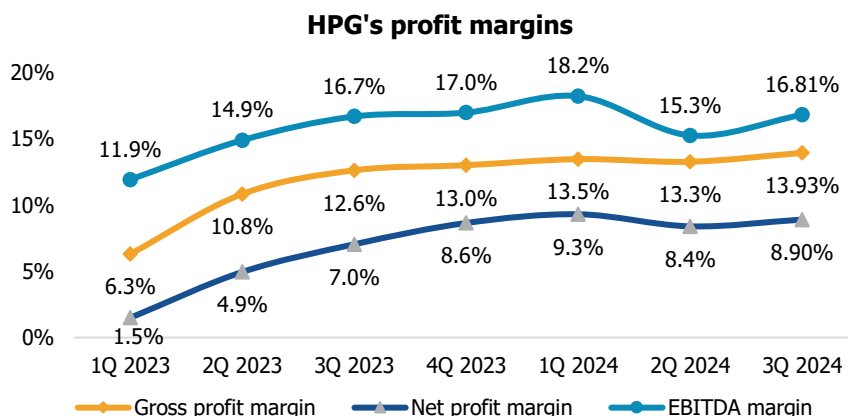
2. Business performance of 3Q 2024

- **Third quarter revenue increased sharply.** HPG recorded net revenue in the third quarter of 2024 reaching VND 33,956.3 billion, up 19.2% YoY, of which steel segment revenue reached VND 31,355 billion, up 16.6% YoY when consumption output improved well over the same period. Accumulated in the first 9 months of the year, HPG has total net revenue of VND 104,364 billion (+23.4% YoY), of which steel segment revenue reached VND 99,055 billion (+24.9% YoY), showing the market's steel consumption. has recovered markedly this year, especially in the domestic market.

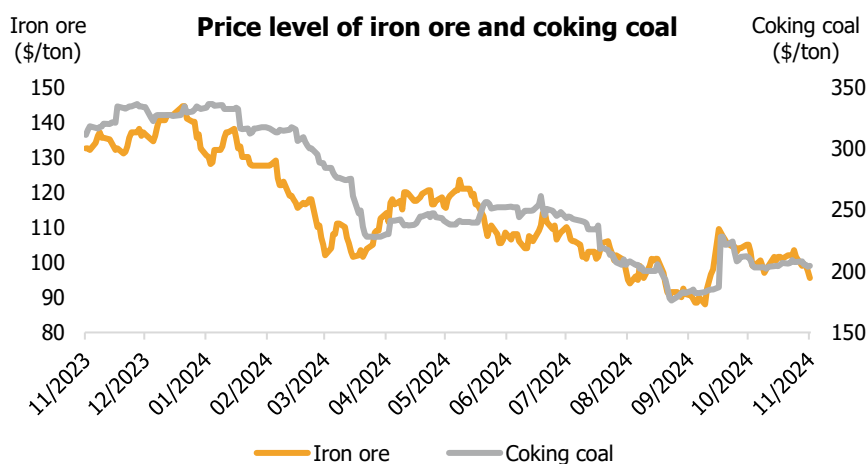


Source: Writer's computation based on data extracted from HPG's financial statements

- **Profit margin remains stable.** HPG recorded gross profit margin in the range of 12.5% - 14% in the last 5 quarters. In the 3Q/2024, gross profit margin was recorded at 13.93% (3Q/2023 reached 12.62%, 2Q/2024 reached 13.27%). In the most recent year, HPG has solidly maintained a gross profit margin around 13 - 14% when steel selling prices and input material prices are positively correlated with each other. We believe that HPG has taken advantage of its leading position in the industry to proactively regulate selling prices based on price movements of iron ore and coking coal, thereby effectively dealing with market risks. At the same time, HPG's EBITDA margin also reached 16.81%, equivalent to 16.68% in the same period last year and 15.25% in the previous quarter, also showing that the business still ensures its profitability.



Source: Writer's computation based on data extracted from HPG's financial statements

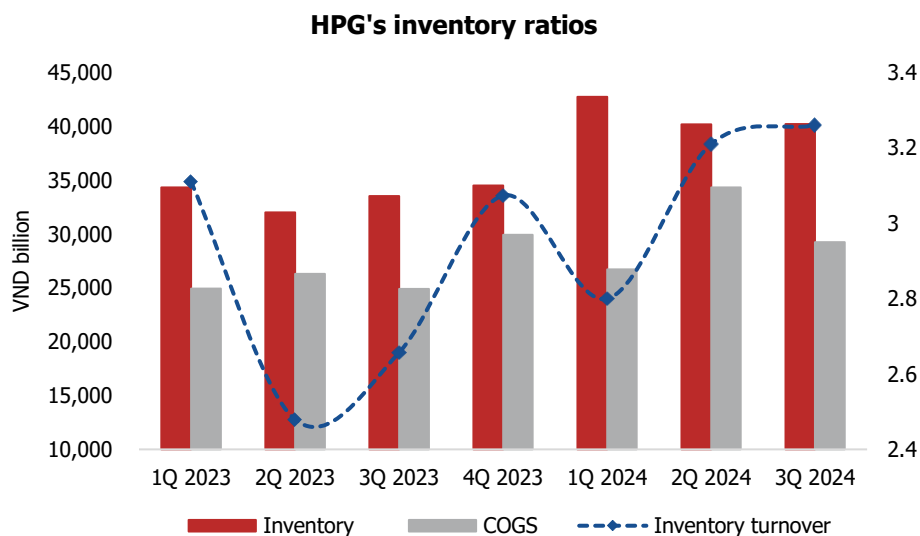


Source: Bloomberg

- **Interest expense decreased sharply.** HPG's interest expense recorded in the 3Q/2024 was VND 525 billion (-38.65% YoY, -6.92% QoQ), contributing to reducing financial costs by 42.1% YoY. Domestic interest rates have been gradually lowering since the end of 2023 and started to have a positive impact on HPG's business results. HPG's operating profit this quarter improved significantly, reaching VND 3,385 billion (+59.06% YoY), operating profit margin also increased to 9.97% (3Q/2023 reached 7.47%).
- **Accumulated in the first 9 months of 2024,** HPG achieved net revenue of VND 104,364 billion (+23.4% YoY), net profit of VND 9,210 billion (+140.4% YoY), and net profit margin of 8.83% (same period reached 4.53% YoY).

3. Financial performance

- **The resources are intensified to promote the Dung Quat 2 project.** HPG's cash balance declined by VND 4,531 billion (-30.7% compared to the last quarter), while cash flow from investing activities was negative at VND 10,587 billion, driven major by fixed asset investments (VND 9,402 billion). This reflects accelerated spending on Phase 1 of the Dung Quat 2 project, targeting trial operations by year-end.
- **Long-term borrowing balance continues to increase.** HPG's total borrowing balance as of September 2024 is 78,698 billion VND (+20.37% YTD) mainly due to net long-term borrowing increasing by 4,843 billion VND in the third quarter (equivalent to 6.63% of total loans). Long-term borrowing balance increased mainly due to the construction of Dung Quat 2 project in progress when phase 1 of this project entered the final stages before trial operation.
- **Inventory turnover ratio is improved.** HPG witnessed its highest inventory turnover since 1Q/2023, indicating improved sales capacity. The company also increased raw material reserves (+27.7% YTD) and stored VND 9,051.8 billion finished goods inventory (+26.97% YTD), preparing for the year-end peak season.

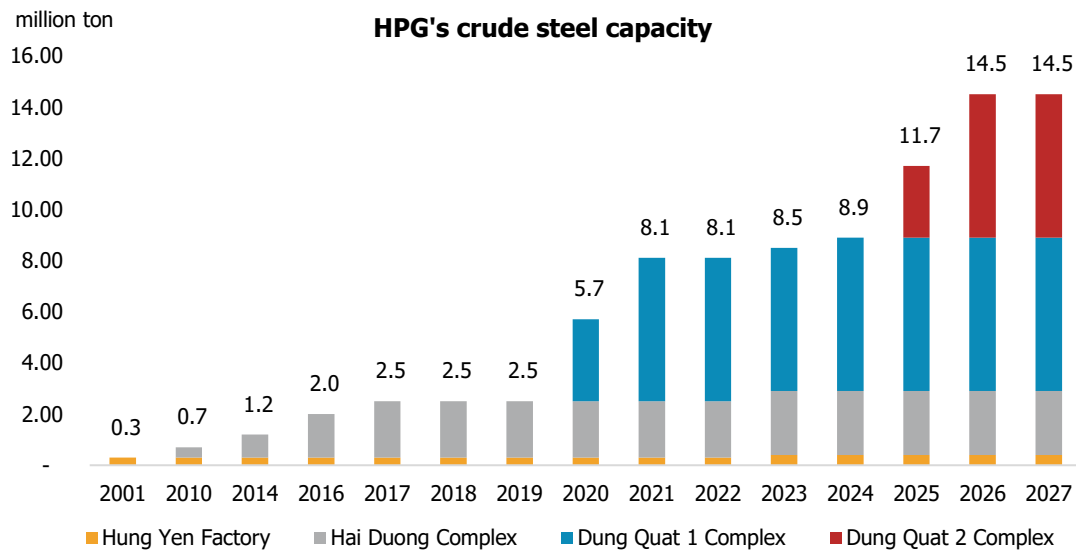


Source: Writer's computation based on data extracted from HPG's financial statements

4. HPG's outlook of 2025

- **Exports face challenges due to trade protectionism policies.** On last 10 September, India imposed anti-dumping duties of 12–30% for five years on certain steel imports from China and Vietnam. Similarly, the European Commission (EC) also announced similar measures targeting HRC and coated steel. These developments have put pressure on export revenue of HPG in the last quarter when the proportion of export revenue fell to the lowest since the beginning of the year and will likely continue in the near future.
- **Domestic consumption is expected to be a key growth driver.** We anticipate continued recovery in domestic consumption. The real estate sector is also showing signs of improvement, supported by new legislation (Land Law, Housing Law, and Real Estate Business Law) came to effect in August 2024. Additionally, when the first products of phase 1 of Dung Quat 2 Project enters the market, HPG's domestic sales volume is expected to be enhanced. After consecutive quarters recording

an increase in the proportion of domestic revenue in total revenue, domestic market is forecast to be the main driving force for HPG's business activities next year.



Source: HPG

- **Expectations for the results of the anti-dumping investigation.** Preliminary results for the investigation into HRC imports from China and India are expected to be announced by the end of November. Once this measure comes to effect, anti-dumping duties would enhance market transparency, reduce competition from low-cost imported products, and stabilize domestic steel prices.
- **Depreciation costs can negatively affect the profitability.** In the second half of 2025, phase 1 of Dung Quat 2 Project will officially go into operation and begin recording depreciation, thus possibly reducing HPG's profit margins in 2025.
- **Opportunities from public investment.** The Government is considering to invest in the North-South High-Speed Railway project with an estimated investment of \$67.34 billion. This project will require substantial steel consumption for infrastructure development such as stations, railways, bridges, etc. This presents a significant opportunity for HPG, given firm's capability to supply large volumes of high-standard steel products.

5. Valuation

Using the discounted cash flow (DCF) and comparable valuation methods, we forecast a target price for HPG stock at **VND 29,900 per share**.

VALUATION RESULT		
Method	Percentage	Result
P/B	33.3%	19,132
P/E	33.3%	37,213
FCFF	33.3%	33,431
Average		29,900

We recommend a **BUY** for **HPG** stock with a 12-month target price of VND **29,900 per share (Upside 16.9%)** compared to the closing price on 20 November 2024.

Financial statements

Income statement	2022	2023	T12M
Net revenue	141,409	118,953	138,748
Cost of goods sold	124,646	106,015	120,144
Gross profit	16,763	12,938	18,604
Financial income	3,744	3,173	2,658
Financial expense	7,027	5,192	4,086
Gain/losses from subsidiaries	0	0	
Selling expense	2,666	1,961	2,474
General & Administrative expense	1,019	1,307	1,422
Operating profit	9,794	7,651	13,280
Other profit	129	142	512
Profit before tax	9,923	7,793	13,791
Profit after tax	8,444	6,800	12,179
Profit after tax for parent company	8,484	6,835	12,186
Profit after tax for noncontrolling shareholders	-39	-35	-6
Balance Sheet	2022	2023	3Q 2024
Current Asset	80,515	82,716	80,842
Cash & cash equivalent	8,325	12,267	8,501
Short-term investment	26,268	22,162	16,387
Account receivables	9,893	10,702	9,141
Inventory	34,491	34,504	40,198
Other current asset	1,538	3,081	6,615
Noncurrent Asset	89,821	105,066	130,545
Noncurrent receivables	894	1,881	1,031
Fixed assets	70,833	72,014	68,476
Long-term financial investment	1	40	137
Other noncurrent asset	4,100	4,378	4,576
Total Asset	170,336	187,783	211,386
Liabilities	74,223	84,946	99,607
Current Liabilities	62,385	71,513	68,995
Current payaples	15,637	16,532	14,814
Short-term debts	46,749	54,982	54,181
Noncurrent liabilities	11,837	13,433	30,612
Noncurrent payables	686	3,034	6,094
Long-term debts	11,152	10,399	24,518
Owners' equity	96,113	102,836	111,779
Chartered capital	58,148	58,148	63,963
Capital surplus	3,212	3,212	0
Retained earning	33,834	40,593	46,809
Minority interest	106	66	189
Other capital			
Total Capital	170,336	187,783	211,386

Key Ratios	2022	2023	T12M
Profitability			
Gross margin	11.9%	10.9%	13.4%
EBITDA margin	14.1%	-5.5%	16.7%
EBT margin	6.0%	5.7%	9.9%
ROE	8.8%	6.8%	11.5%
ROA	5.0%	3.8%	6.3%
Liquidity & Leverage			
Current ratio	1.3	1.2	1.2
Total debt-to-asset ratio	43.6%	45.2%	47.1%
Total debt-to-equity ratio	77.2%	82.6%	89.1%
Interest coverage ratio	4.2	3.2	6.7
Valuation			
EPS (VND)	1,459	1,175	1,905
BVPS (VND)	16,511	17,674	17,446

Cashflow Statement	2022	2023	T12M
CFO	12,277	8,643	8,095
CFI	-24,626	-11,995	-30,273
CFF	-1,778	7,276	20,981



CONTACT

PETROVIETNAM SECURITIES INCORPORATED

Hanoitourist Tower, No. 18 Ly Thuong Kiet Street, Hoan Kiem District, Ha Noi

Tel: + 84 4 3934 3888 - Fax: +84 3934 3999

Website: www.psi.vn

Ho Chi Minh City Branch

1st floor, PVFCCo Tower, No. 43 Mac Dinh Chi Street, Da Kao, District 1, Ho Chi Minh City.

Tel: (84-8) 3914 6789

Fax: (84-8) 3914 6969

Vung Tau Branch

5th floor, Silver Sea Tower, No. 47 Ba Cu Street, Vung Tau City

Tel: (84-64) 254520/22/23/24/26

Fax: (84-64) 625 4521

Da Nang Branch

G floor and 1st floor, PVcomBank Da Nang Tower, Land lot A2.1 30/4 Street, Hoa Cuong Bac, Hai Chau District, Da Nang City

Tel: (84-236) 389 9338

Fax: (84-236) 38 9933

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