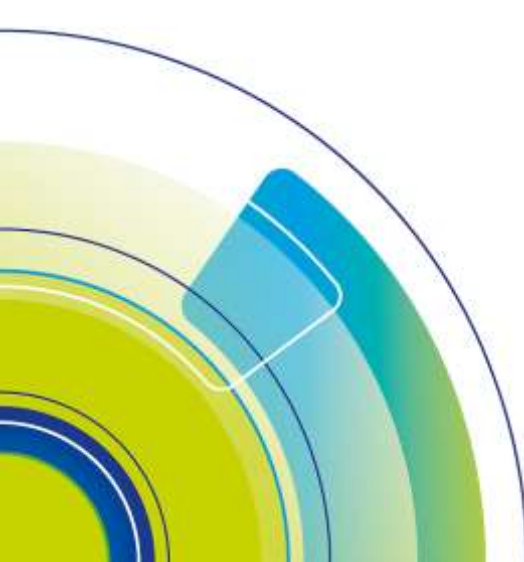




# HPG Update – BUY

November 15, 2024

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## Update Report

Recommendation

**BUY**

**HSX: HPG**

Construction material

Target price (VND) **32,900**

Market price (VND) **25,900**

Expected share price return 27.2%

Expected dividend yield 2%

Expected total return **29.2%**

### Stock performance (%)

	YTD	1M	3M	12M
Absolute	1.9	-2.8	3.3	7.1
Relative	-7.7	1.4	2.6	-6.0

Source: Bloomberg



### Ownership

Tran Dinh Long	25.8%
Dragon Capital	7.7%
Vu Thi Hien	6.9%

### Stock Statistics

15-Nov-24

Bloomberg code	HPGVN
52-week range (VND)	23,227-29,950
Shares O/S (m)	6,396
Mkt cap (VND bn)	165,663
Mkt cap (USD m)	6,496
Est. Foreign room left (%)	26.9
Est. free float (%)	55.9
3m avg daily vol (shrs)	20,513,090
VND/USD	25,502
Index: VNIIndex / HNX	1218.57/221.53

## HOA PHAT GROUP JSC (HPG VN)

HPG reported Q3/2024 results showing a continued trend of resilient profits. Cumulative 9M2024, HPG reported VND9,210 bn of NPAT, completing 92% of company 2024 target and 86% of our forecast. Going forward, we see that the launching of Dung Quat 2 in Q1 2025 will be the key catalyst for HPG's earnings growth. For 2025, we forecast a NPAT of VND16,289 bn, implying 23% YoY growth. Our new target price for 2025 is VND32,900/share. Rating **BUY** with a total upside of 29%.

### Total sale volume still increased in Q3/2024 despite low season for construction

In Q3, sale volume of HPG rose strongly, reaching 2.26 mn tonnes (+32%YoY) despite the low season for construction. In which, sale volume of construction steel and HRC increased by 19.2% YoY and -3.1% YoY, respectively.

### Q3/2024's profit exceeded expectation thanks to input costs decreasing faster than selling prices

In Q3/2024, HPG reported revenue of VND34,000 bn (+19% YoY) and a NPAT of VND3,022 bn (+29% YoY). Gross margin slightly improved to 14% compared to 13% in the 1H2024.

Cumulatively, for 9M2024, the company reported a top line of VND105,000 bn (+23% YoY) and a NPAT of VND9,210 bn (+140% YoY), achieving 75% and 92% of its target respectively.

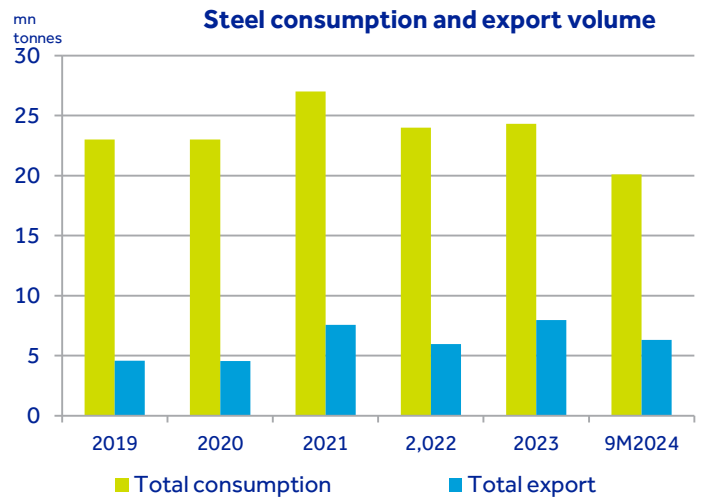
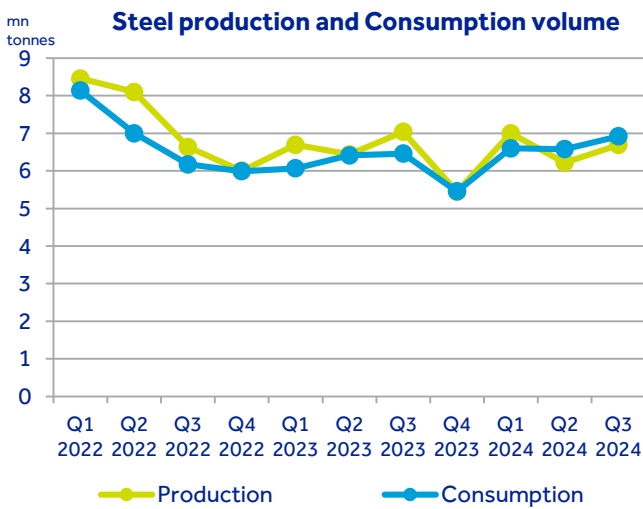
### Launching Dung Quat 2 in Q1/2025 will help to boost 2025 earnings growth (+23% YoY)

For 2025, we expect HPG to achieve revenue of VND182,900 bn (+29% YoY) and net profit of VND14,844 bn (+23% YoY). Key catalyst for 2025 earnings would be the HRC capacity expansion from Dung Quat 2 operation in Q1/2025 (forecasted production volume of 5 mn tonnes in 2025, equivalent to 85% of utilization rate). Besides, the impose of anti-dumping tax for HRC imported from China and India, if passed, would significantly support for HRC price in the domestic market. However, for the purpose of prudence, we have not fully reflected the effects of the anti-dumping tax impact on our model.

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	141,409	118,953	141,796	184,603	239,118
Growth	-6%	-16%	19%	30%	30%
EBITDA (VNDbn)	19,850	16,443	22,394	27,562	37,273
Growth	-55%	-17%	36%	23%	35%
NPAT (VNDbn)	8,444	6,800	11,783	14,572	21,292
Growth	-76%	-19%	73%	24%	46%
EPS (bonus-adjusted, VND)	1,452	1,175	1,833	2,267	3,312
Growth	-79.7%	-19.0%	55.9%	23.7%	46.1%
ROE	38%	9%	7%	10%	11%
ROIC	23%	5%	4%	6%	7%
Net debt/EBITDA (times)	0.4	1.2	1.9	1.6	1.8
EV/EBITDA (times)	10	12	9	7	5
PER (times)	18	22	14	11	8
PBR (times)	2	1	1	1	1
DPS (VND)	500	500	500	500	500
Dividend yield	2%	2%	2%	2%	2%

## Total sale volume of Vietnam steel market was mainly supported by strong exports

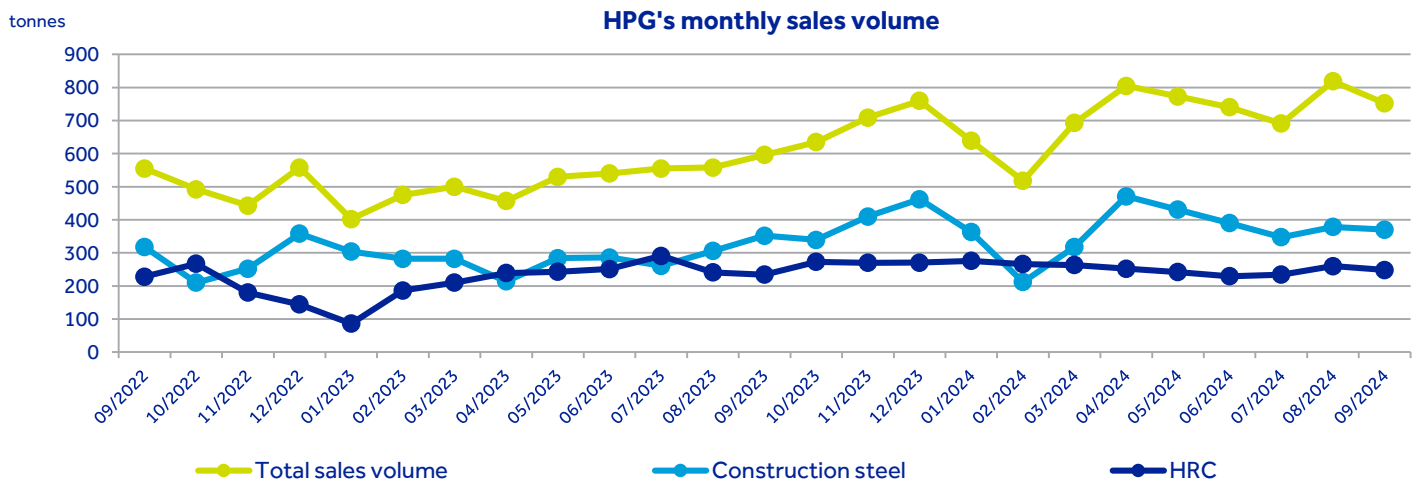
In 9M2024, domestic steel output reached 19.91 mn tonnes (-1% YoY) while consumption reached 20.1 mn tonnes (+6% YoY). The flat demand mainly caused by slower-than-expected disbursement in public spending while real estate sector still has not recovered fully. Specifically, public spending reached only VND320,5 trillion in 9M2024 (-11% YoY), achieving 47% of the Government's target. However, steel exports increased decently in this period, reaching a total of 6.3 mn tonnes (+11% YoY), mitigating some negative effects from the domestic market.



Source: VSA, ACBS Summarised

## HPG: gaining market share without having to sacrifice much on selling prices

HPG's sales volume increased strongly – reaching a total sales volume of 6.4 mn tonnes in 9M2024 (+39% YoY). Construction steel and HRC still are the company's main products, reporting a sales volume of 3,3 mn tonnes (+28% YoY) and 2,3 mn tonnes (+15% YoY) respectively.



Source: VSA, ACBS summarised

As a result, HPG gained market share, from 23% in 9M2023 to 32% in 9M2024.

Unit: mn tonnes	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Total steel sales volume (VSA)	6.1	6.4	6.5	5.5	6.6	6.6	6.9
HPG	1.4	1.5	1.7	2.1	1.9	2.3	2.3
Market share of HPG	23%	24%	26%	39%	28%	35%	33%

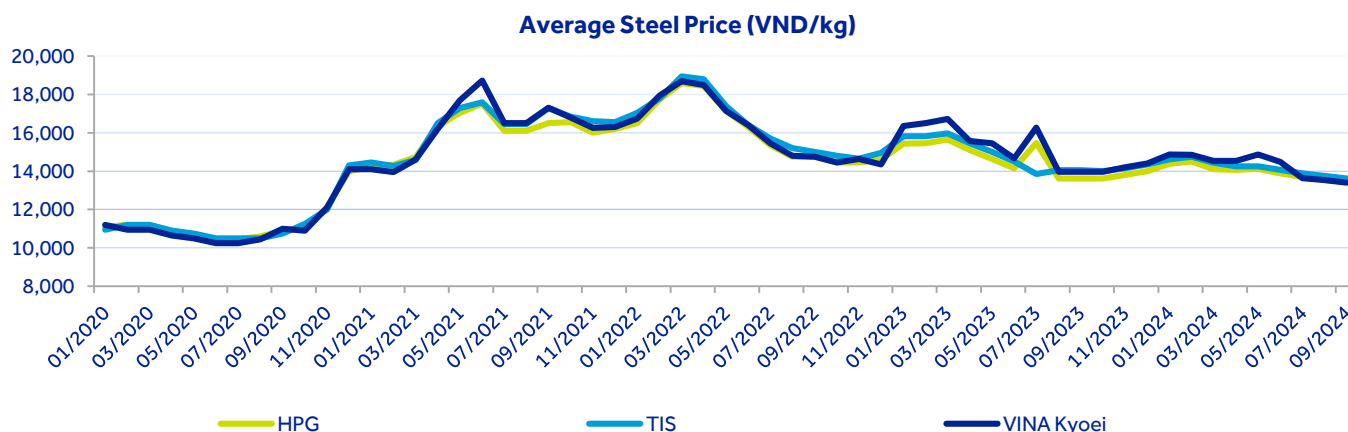
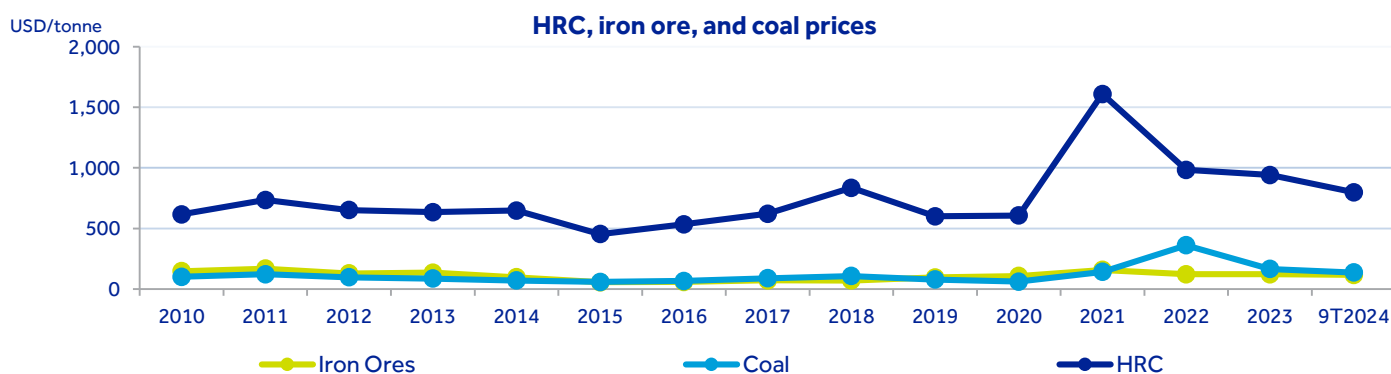
Source: VSA, ACBS summarised

### Input cost and selling prices were managed well, leading to a stable gross margin for HPG

While demand remained stagnant, average selling prices for 9M2024 slightly reduced by only 5% YoY. Overall, selling price was much less volatized compared to that in the 2021-2023 period. This allowed HPG to reduce provision for inventory. Besides, input costs fell at a faster pace, thus gross margin in 9M2024 was improved to 13.6% compared to 9.9% in 9M2023.

Average input cost & selling prices	9M2023	9M2024	% YoY
HPG's CB ASP (VND/kg)	14,765	13,997	-5%
HPG's HRC ASP (VND/kg)	14,442	13,779	-5%
Iron ore's average price (USD/tonne)	116	110	-5%
Coal's average price (USD/tonne)	171	136	-20%
HPG's GPM	9.9%	13.6%	

Source: VSA, ACBS summarised

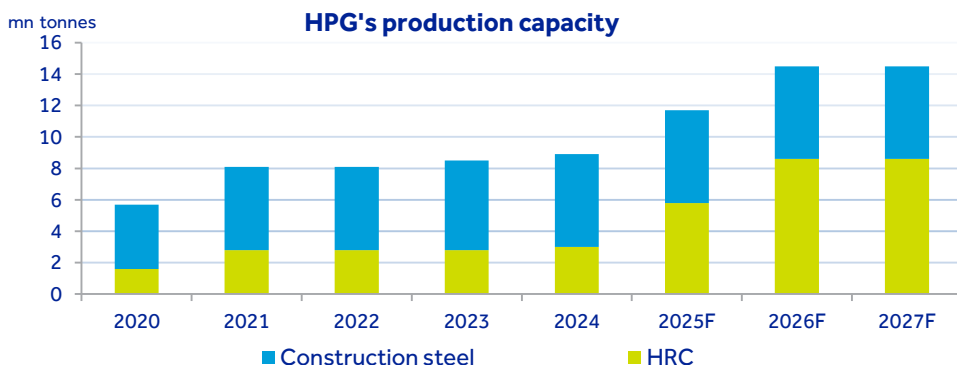


Source: VSA, ACBS summarised

### The update of Dung Quat 2 construction progress

#### Dung Quat 2 is expected to officially launch in Q1 2025

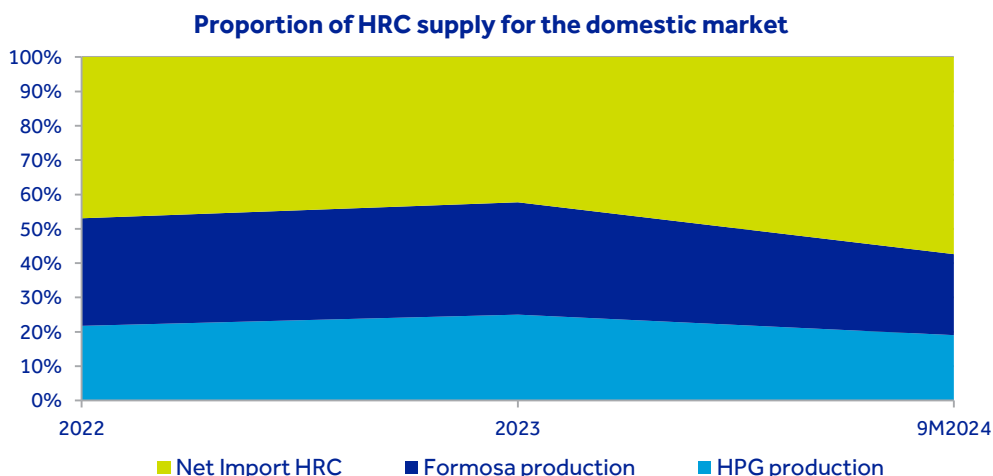
As of October 2024, Dung Quat 2's construction is strictly following its schedule. Phase 1 of Dung Quat 2 will start its production in December 2024 while phase 2 is also expected to complete by end of 2025. Phase 1 will add an extra 2.8 mn tonnes of HRC into HPG's production while phase 2 will add in another 2.8 mn tonnes of HRC. The extra capacity is almost double to HPG's current capacity in term of HRC leading to a total capacity of 8.6 mn tonnes of HRC, equivalent to 70% of domestic demand.



Source: HPG

### The extra capacity from Dung Quat 2 will be the key growth driver for the coming period

The incremental capacity is expected to add VND80-100 trn to HPG's revenues (equivalent to approximately 70%-80% of HPG total revenues in 2024). Currently, domestic demand for HRC far exceeds the local production capacity. 9M2024, total HPG and Formosa – the only two HRC producers in Vietnam – accounted for approximately 40% of domestic demand. Notably, this number is lower than previous years as local demand has increased strongly in recent years while capacity of HPG and Formosa stalled.



Source: VSA, Vietnam Customs

**Interest expenses for Dung Quat 2 was mitigated in 2024 thanks to lower borrowing rate.** Total debt of HPG increased approximately by 20% YTD, reaching VND78,700 bn by end of Sept 2024. Cash and cash equivalent fall by 26% YTD, reaching VND24.886 bn. However, interest expenses reached VND2,951bn (-28% YoY) as average interest rate fell significantly from approximately 8% in 2023 to 5% in 2024. In addition, unrealized foreign exchange losses reduced from VND331.7 bn in Q3 2023 to VND 9.2 bn in Q3 2024 as USDVND rate was nailed down in late Sept 2024.

## 2024 & 2025 earnings forecast

**We revised up our 2024 forecasts as HPG’s results for 9M2024 are better than expected** – Specifically, while we keep our forecast of total sale volume at 8.3 mn tonnes, we revised our forecast for gross profit margin from 11% in the previous report to 13%, resulting in a NPATMI of VND12,002 bn, increasing by 13% compared to our previous bottom line. The details of our adjustment were presented in the table below:

	9M2024	Previously forecasts	Revised forecasts	% change
Gross margin	13.6%	11%	13%	
Gross profit	14,132.7	16,553	18,094	9%
NPATMI	9210.5	10,585	12,002	13%
Net profit margin	8.9%	7.2%	8.5%	

**For 2025, we forecast that NPAT will increase by 23% YoY to VND16,289 bn, driven by these following assumptions:**

- Sale volume increased to 10.5 mn tonnes, equivalent to a utilisation rate of 86% of total capacity thanks to the operation Dung Quat 2, phase 1. We believe a warmer real estate market and government spending will help HPG to maintain a high utilisation rate.
- We keep a stable gross profit margin expecting sales price slightly increase by an average of 5% in 2025 but will be offset by increasing raw material price as a result of China’s new supports for its real estate market.
- Financial expenses will remain stable as: (i) FX risks is balanced out by its exports which currently accounting for 30% of its total revenues and (ii) we expect interest rates will remain the same as in 2024.

## Anti-dumping taxes will be the key catalyst for HPG in 2025

Dung Quat 2’s HRC will need to compete with imported HRC. Currently the average selling price of imported HRC, which are mainly from China, are 10%-15% lowered than those of HPG. Therefore, lots of domestic galvanized manufacturers prefer to use imported HRC to cut their input costs. However, in Q1 2024, HPG and Formosa submitted the requirement of anti-dumping tax for HRC to MOIT aiming at imported HRC from China and India with suggested anti-dumping rate of 27.83% and 22.27% respectively. The ADT, if applied, will help HPG to: (i) achieving high utilization rate for HPG’s extra capacity of HRC and (ii) higher HRC selling price in domestic market.

On 29th July 2024, MOIT has officially started investigation with expected preliminary result is expected in November 2024. Also, as stated by the MOIT, if there are any signals of anti-dumping breaches, a temporary anti-dumping tax will be applied soon. while the official result is expected to be applied in Q3/2025.



<b>HPG FINANCIALS MODEL</b>	Price (VND):	25,900	Target (VND):	32,900	Mkt cap (VND bn):	165,663
(VND bn except where stated)	2022	2023	2024F	2025F	2026F	
<b>Total Net Sales</b>	<b>141,409</b>	<b>118,953</b>	<b>141,796</b>	<b>184,603</b>	<b>239,118</b>	
<i>Sales growth (%)</i>	-6%	-16%	19%	30%	30%	
CoGS ex-dep'n	117,874	99,242	116,415	153,153	196,809	
SG&A	3,685	3,269	2,986	3,888	5,036	
SG&A as % of sales	3%	3%	2%	2%	2%	
<b>EBITDA</b>	<b>19,850</b>	<b>16,443</b>	<b>22,394</b>	<b>27,562</b>	<b>37,273</b>	
<i>EBITDA margin (%)</i>	14%	14%	16%	15%	16%	
Depreciation	6,772	6,773	7,287	9,222	11,146	
<b>Operating profit</b>	<b>13,078</b>	<b>9,669</b>	<b>15,107</b>	<b>18,339</b>	<b>26,127</b>	
<i>Operating profit margin (%)</i>	9%	8%	11%	10%	11%	
Other profits/losses	(2,021)	(386)	(291)	(385)	(427)	
Profits/Losses from associates	(1)	-	-	-	-	
Net interest expense	3,084	3,585	2,931	2,640	2,663	
<i>as % of avg net debt</i>	11%	11%	7%	6%	8%	
<i>Interest cover (x)</i>	6	5	8	10	14	
Tax	1,479	992	1,719	2,126	3,107	
<i>Effective tax rate (%)</i>	18,129	11,203	15,024	16,888	41,103	
Minority interest	(39)	(35)	60	74	109	
<b>Attributable net profit</b>	<b>8,484</b>	<b>6,835</b>	<b>11,723</b>	<b>14,498</b>	<b>21,183</b>	
Cash earnings	15,256	13,608	19,009	23,720	32,329	
Total number of shares	5,815	5,815	6,396	6,396	6,396	
<b>EPS (VND) (after treasury shares)</b>	<b>1,452</b>	<b>1,175</b>	<b>1,833</b>	<b>2,267</b>	<b>3,312</b>	
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0	
<b>Adjusted EPS (VND)</b>	<b>1,452</b>	<b>1,175</b>	<b>1,833</b>	<b>2,267</b>	<b>3,312</b>	
<i>EPS growth (%)</i>	-73%	-19%	56%	24%	46%	



KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	2,964	1,774	5,634	9,990	13,113
Capex	17,866	17,145	21,882	24,392	11,727
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	833	3,885	(1,569)	18,744	18,641
<b>Free cash flow</b>	<b>(4,741)</b>	<b>(1,426)</b>	<b>(10,076)</b>	<b>8,082</b>	<b>26,174</b>
Share issues	4	1	-	-	-
Dividends paid	2,907	2,907	3,198	3,198	3,198
Increase in net debt	7,644	4,332	13,274	(4,884)	(22,976)
<b>Net debt, end of year</b>	<b>30,952</b>	<b>35,284</b>	<b>48,558</b>	<b>43,674</b>	<b>21,513</b>
<b>Shareholders' equity</b>	<b>96,113</b>	<b>102,836</b>	<b>117,176</b>	<b>128,475</b>	<b>146,504</b>
BVPS (VND)	16,529	17,685	18,319	20,086	22,905
<i>Net debt / equity (%)</i>	<i>32%</i>	<i>34%</i>	<i>41%</i>	<i>34%</i>	<i>15%</i>
<i>Net debt / EBITDA (x)</i>	<i>156%</i>	<i>215%</i>	<i>217%</i>	<i>158%</i>	<i>58%</i>
<b>Total assets</b>	<b>74,223</b>	<b>84,946</b>	<b>89,221</b>	<b>106,640</b>	<b>113,151</b>

KEY RETURN AND VALUATION RATIOS	2022	2023F	2024F	2025F	2026F
<i>ROE</i>	<i>38%</i>	<i>9%</i>	<i>7%</i>	<i>10%</i>	<i>11%</i>
<i>ROA</i>	<i>19%</i>	<i>5%</i>	<i>4%</i>	<i>6%</i>	<i>6%</i>
<i>ROIC</i>	<i>23%</i>	<i>5%</i>	<i>4%</i>	<i>6%</i>	<i>7%</i>
<i>WACC</i>	<i>13%</i>	<i>13%</i>	<i>12%</i>	<i>12%</i>	<i>14%</i>
<i>EVA</i>	<i>10%</i>	<i>-8%</i>	<i>-8%</i>	<i>-6%</i>	<i>-7%</i>
<i>PER (x)</i>	<i>18</i>	<i>22</i>	<i>14</i>	<i>11</i>	<i>8</i>
<i>EV/EBITDA (x)</i>	<i>10</i>	<i>12</i>	<i>9</i>	<i>7</i>	<i>5</i>
<i>EV/FCF (x)</i>	<i>(40)</i>	<i>(135)</i>	<i>(19)</i>	<i>24</i>	<i>7</i>
<i>PBR (x)</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
<i>PSR (x)</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>
<i>EV/sales (x)</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>
<i>Dividend yield</i>	<i>0.4</i>	<i>0.5</i>	<i>(1.2)</i>	<i>0.6</i>	<i>0.2</i>

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**BUY:** Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

**OUTPERFORM:** Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

**NEUTRAL:** Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

**UNDERPERFORM:** Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

**SELL:** Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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