

OVERWEIGHT

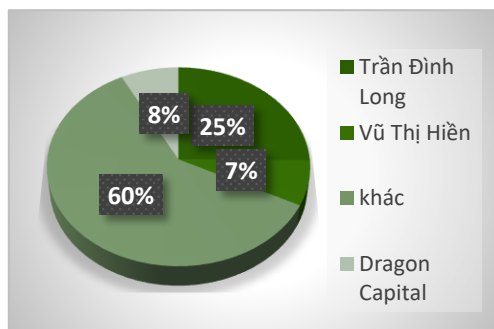
Target price 39,000 VND
Closing price 31,600 VND
 24/07/2017

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Co. profile

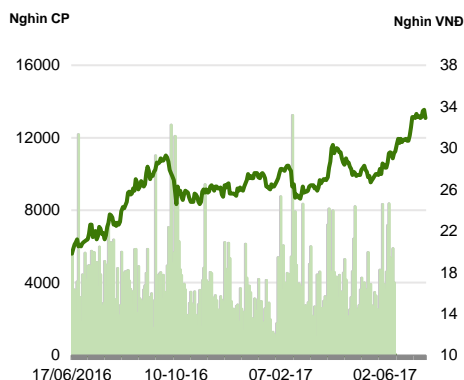
Ticker	HPG
Charter Capital (VND bln)	1,516,947
Outstanding shares (mln)	1,516,947,138
Market Capital (VND bln)	47,632
52W range (VND)	21,200 ~ 33,700
Ave. trading volume 3M	4,207,512
Beta	1.11
Foreign Ownership	17.9%
First listing date	15/11/2007

Major shareholders



Price Movement

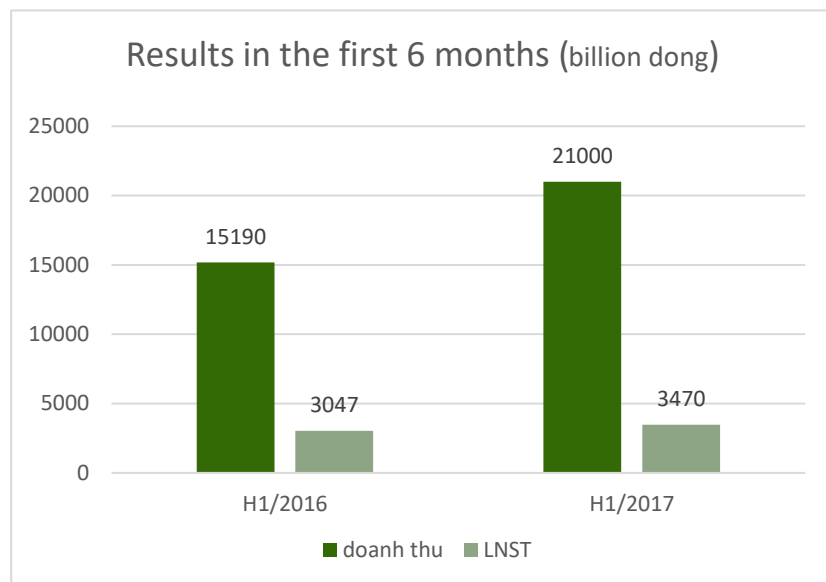
	3 M	6 M	12 M
HPG	12.6%	20.15%	49.06%
VN-INdex	7.82%	12.6%	16.4%



Motivation from steel operational space and the price is still attractive

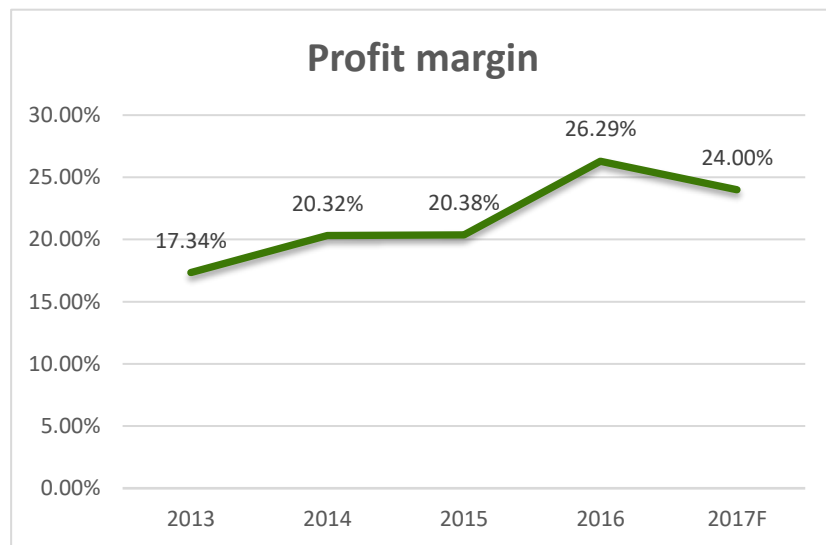
Q2/2017 business results and 2017 results forecast

Domestic steel market saw another growth in the first half of 2017. Steel production and selling both increased by 11.7% YoY. Therefore, Hoa Phat revenue and EAT also saw respective growth of 36% and 14%.



Source: HPG, PHS summarization

EAT growth wasn't as good as revenue since in 2016, HPG saw advantage of low price inventory from 2015 so HPG's margin was higher than other years. This year, this advantage is no longer but with current growth speed, we still have positive evaluation on HPG.



Source: HPG, PHS estimation

With stable construction steel demand, we think that HPG's core business will see another growth in the second half of 2017.

Besides, the profit from Mandarin Garden 2 will be recorded this year. HPG expects to finish and deliver the contracted apartments in Mandarin Garden 2 in December 2017. Mandarin Garden 2 project has

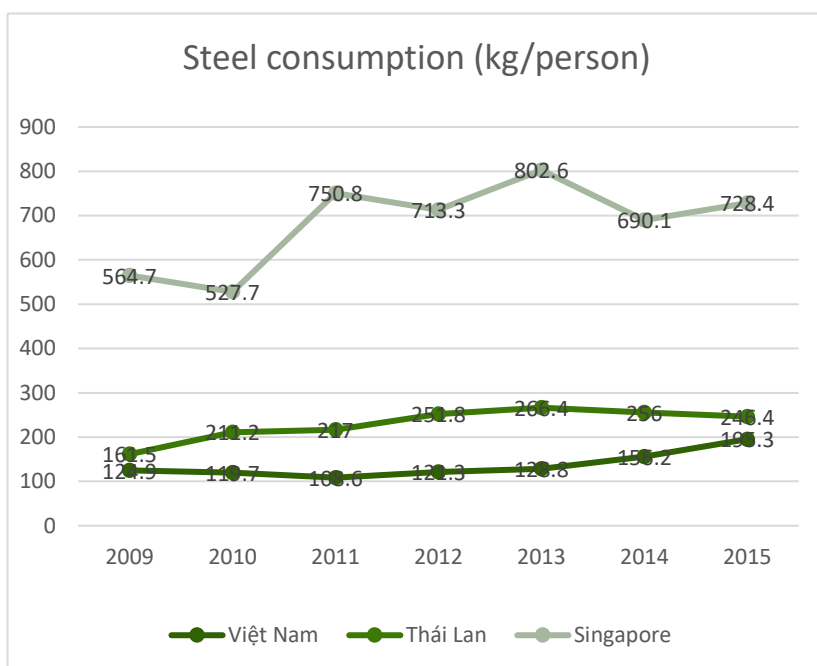
about 640 apartments with average selling price of about 30 million dong/m2.

Secondary business items like farming food and furniture are still stable and expected to growth is 20-30%, according to the group's plan.

Steel section prospect

We think that construction steel section still have space for developing and HPG will be the enterprise being directly benefited because:

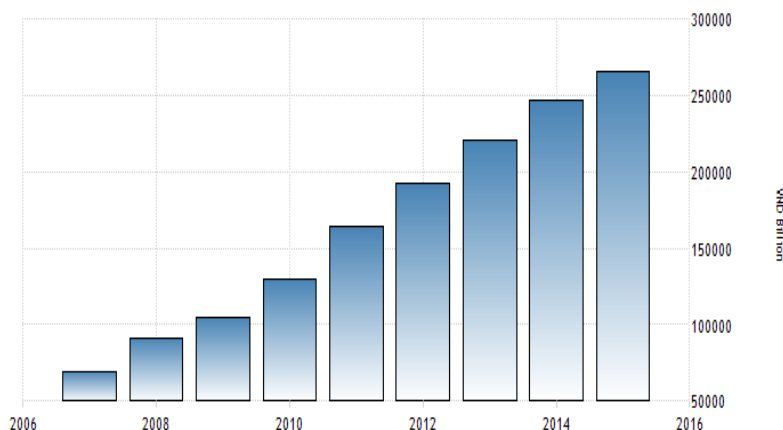
- Steel consumption per capita in Vietnam is still rather low comparing to more developed countries like Thailand or Singapore. So steel section is expected to develop further in the future.



Source: world steel association

- Vietnam is pushing hard on public expense, especially public infrastructure. Vietnam is forecasted to need over 400 billion USD for infrastructure construction in the next few years to catch up with the development, so construction steel demand will still be stable in the next few years.

VIETNAM GOVERNMENT SPENDING

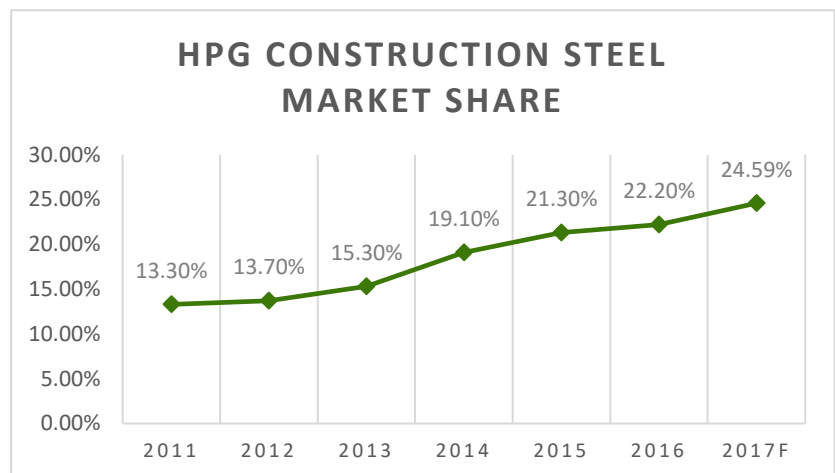


SOURCE: TRADINGECONOMICS.COM | GENERAL STATISTICS OFFICE OF VIETNAM

- Construction steel will still grow thanks to housing real estate developing demand in the future.
- Defensive tax on construction steel until 2020 will still play an important role in developing domestic steel section. As of May 31, 2017, total steel import is 6,776 tons, down by 5% YoY.

Enterprise prospect

HPG current productivity is 1.7 million tons of steel per year. Hoa Phat Dung Quat project with capacity of 4 million tons a year, we expect that HPG will still control domestic construction steel market share and might push on the export in the next few years.



Source: HPG, PHS estimation

Steel import volume dropped but the value increased strongly. The reason is that non-alloy rolled steel import in 5 months 2017 is 168,667 tons, up by 643% in quantity and 700% in value. Dung Quat project with capacity of 2 million tons of HRC a year might be able to solve this problem and help HPG strengthening the revenue.

Evaluation and investment point of view

Investment point of view

With assumptions that steel demand will increase stably by 12% in 2017, and HPG steel consumption market share might increase to 24.59%, we think that HPG might see 42,024 billion dong of net revenue (+26.3% YoY) and 7,170 billion dong of EAT (+9% YoY) in parent company, equivalent to EPS of 5,579 dong/share (adjusted).

Currently, HPG is being traded at PE trailing of 6.76x (adjusted), this price is still rather attractive for leading blue-chips like HPG. Therefore we recommend Overweight for HPG, with target P/E forward 2017 of 7x, equivalent to 39,000 dong/share, growing potential is 23%.

Unit: billion dong	2014	2015	2016	2017E
Net revenue	25,525	27,452	33,283	42,024
%YoY	34%	7.6%	21.2%	26.3%
Gross profit	5,187	5,593	8,750	10,090
%YoY	58%	8%	56%	15%
Gross margin	20.3%	20.4%	26.3%	24%
Operational margin	16.5%	16.1%	23.6%	21.7%
EAT	3,250	3,504	6,606	7,185
Parent company EAT	3,144	3,485	6,602	7,170
%YoY	62%	8%	89%	9%

Source: HPG, PHS estimation

Risks

Steel market still has to face supply surplus in long-term, so HPG might see problems if it gets more serious in near future.

Construction steel depends on real estate circle, so if real estate weakens, HPG might see disadvantages because of lower demand.

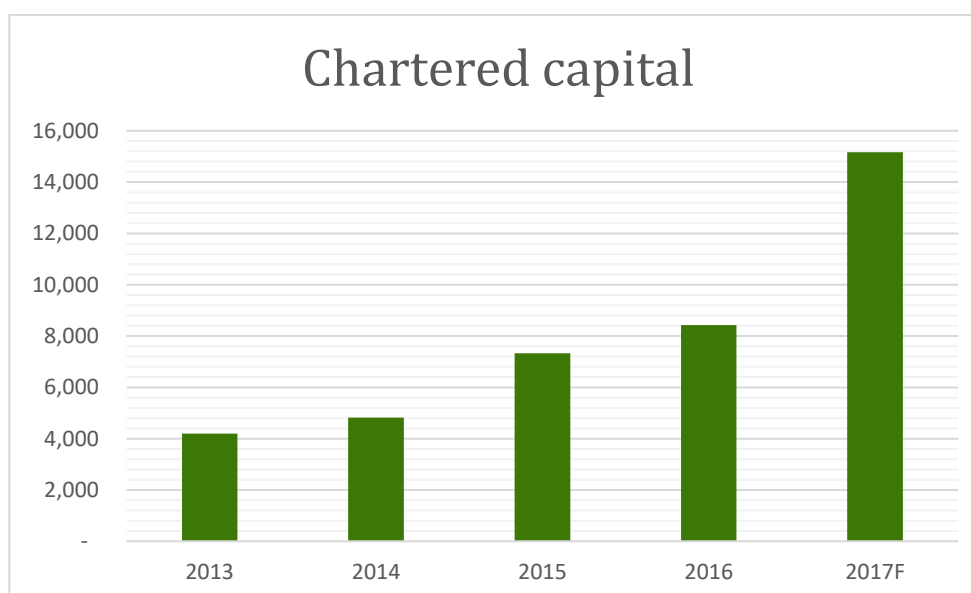
Defensive tax is valid until 2020 but the competition from China steel can still see influence on domestic steel manufacturers. Besides, Formosa project with first phase capacity of about 10 million tons a year will be direct competitor for HPG in the following time.

In the next few years, HPG will need more resources to invest in Dung Quat project, so the risk from higher financial expense (more loan) and diluting risk (more issuance) will see influence on shareholders. And if Dung Quat project doesn't work at its designed capacity, it might make the risks even more negative.

Company profile

- 1992: establishing Hoa Phat Equipment and Spare parts Limited – first company with Hoa Phat brand.
- 1996: establishing Hoa Phat Steel pipe Limited
- 2000: establishing Hoa Phat steel, now Hoa Phat steel one member company
- 2001: establishing Hoa Phat Construction and urban development JSC
- 2004: establishing Hoa Phat trading
- January 2017: restructured in accordance with Group model, parent company being Hoa Phat Group JSC and member companies
- June 2007: establishing Hoa Phat Minerals JSC
- August 2007: establishing Hoa Phat Steel JSC, deploying Steel-Iron Complex in Kinh Mon, Hai Duong.
- November 15, 2007: listing HPG on Vietnam stock market.
- June 2009: Hoa Phat Energy JSC became member company
- December 2009: Hoa Phat Steel-Iron complex finished first phase investment
- July 2010: Golden Gain Vietnam JSC became member company
- January 2011: restructured Parent company operation, separating steel production and steel trading
- August 2012: Hoa Phat celebrated 20 years of operation and development, receiving Third Level Labor Medal from the Country Chairman
- October 2013, Hoa Phat steel-iron complex finished second phase investment, bringing total steel productivity in Hoa Phat to 1.15 million tons a year.
- September 2014: deploying third phase of the steel-iron complex with capacity of 750,000 tons
- March 9, 2015: Hoa Phat officially introduced Hoa Phat farm food Trading and Production one member limited company, marking a new step in the Group’s history investing in agriculture section.
- July 6, 2015: Hoa Phat Minerals JSC officially changed the name into Hoa Phat Farming developing JSC
- July 2015: establishing Hoa Phat Dong Nai Farm food one member limited
- January 2016: establishing Hoa Phat Quang Binh Farm food limited
- February 2016: establishing Hoa Phat Agriculture development JSC
- April 2016: establishing Hoa Phat Steel Sheet one member limited company, deploying colored plated, zinc plated, and cold plated steel sheet at the capacity of 400,000 tons a year
- April 2016: finished 3rd phase of Steel-Iron complex in Hai Duong
- January 2017: deploying Hoa Phat Dung Quat steel-iron complex in Quang Ngai, capacity is 4 million tons a year with total investment of 52,000 billion dong, marking a new turn for Hoa Phat Group.

Capital increasing progress (billion dong)



Source: HPG, PHS estimation

Financial ratio (VND bln)

Income statement	2014	2015	2016	2017F
Revenue	25,525	27,453	33,283	42,043
Cost of goods sold	20,338	21,859	24,533	31,952
Gross profit	5,187	5,594	8,751	10,090
Selling Expenses	366	424	490	505
Managing Expenses	607	761	405	469
Operating profit	4,214	4,409	7,856	9,117
Non operating profit	160	249	197	252
Interest expense	564	566	368	1,051
Total profit before tax	3,770	3,990	7,702	8,360
Profit after Tax	3,250	3,504	6,606	7,185
Profit after Tax of parent company	3,144	3,485	6,602	7,171
Balance sheet	2014	2015	2016	2017F
Current Assets	11,746	11,915	18,183	23,592
Cash and Cash Equivalents	2,026	2,373	4,559	6,306
Short term Financial Investment	506,642	758,095	693,499	2,942,983
Short term Account Receivables	1,760	1,649	2,436	2,911
Inventory	7,601	7,208	10,391	11,347
Other Current Assets	107	239	289	365
Non-current Assets	10,343	13,592	15,044	28,896
Long term Account Receivables	-	16	18	-
Fixed assets	8,729	8,211	12,670	11,057
Real estate investments	232	236	246	246
Capital Construction in Process	429	4,342	1,155	16,322
Long term Financial Investments	61	103	79	79
Other long term assets	875	643	791	999
Good Will	-	-	-	-
Total Assets	22,089	25,507	33,227	52,488
Liabilities	10,124	11,040	13,376	20,309
Short term Liabilities	9,017	9,993	11,985	9,026
Long term Liabilities	1,107	1,047	1,391	11,283
Owners equity	11,796	14,444	19,745	31,928
Common stocks	4,819	7,330	8,429	15,171
Minority Interest	169	23	106	251
Total Equity	22,089	25,507	33,227	52,488

Cash flow	2014	2015	2016	2017F
Net operating	2,682	4,543	6,819	8,171
Net Investing	(1,170)	(3,764)	(3,128)	(17,624)
Net Financing	(1,611)	(433)	(1,505)	11,201
Net during the period	(99)	346	2,186	1,748
Cash at beginning	2,125	2,026	2,373	4,559
Cash at end of year	2,026	2,373	4,559	6,306
Valuation	2014	2015	2016	2017F
EPS (VND)	6,435	4,517	7,162	5,580
BVPS (VND)	23,533	19,739	24,477	21,047
P/E				7.00
P/B				1.86
Financial ratios	2014	2015	2016	2017F
Capital Structure				
Current assets/ Total assets	0.53	0.47	0.55	0.45
Non-Current assets/Total assets	0.47	0.53	0.45	0.55
Debt/Equity	0.57	0.47	0.33	0.40
Debt/Total assets	0.31	0.27	0.19	0.24
Interest coverage ratio	12.02	17.54	28.06	11.99
Liquidity				
Current ratio	1.30	1.19	1.52	2.61
Quick ratio	0.48	0.50	0.66	1.38
Efficiency				
Inventory Days	141	124	131	124
Receivables Days	24	23	22	23
Payables Days	39	39	42	40
Current assets turnover	2.11	2.32	2.21	2.01
Fixed assets turnover	2.87	3.24	3.19	3.54
Total assets turnover	1.13	1.15	1.13	0.98
Profitability				
Gross margin	20%	20%	26%	24%
Operating margin	15%	15%	23%	20%
Net profit margin	12%	13%	20%	17%
ROE	14%	15%	22%	17%
ROA	30%	27%	39%	28%

Source: HPG and PHS estimation

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Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%

Neutral (N) = Expected to in line with the local market by +10%~ -10%

Underweight (UW) = Expected to underperform the local market by >10%.

Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.
Performance is defined as 12-month total return (including dividends).

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