

**OVERWEIGHT**

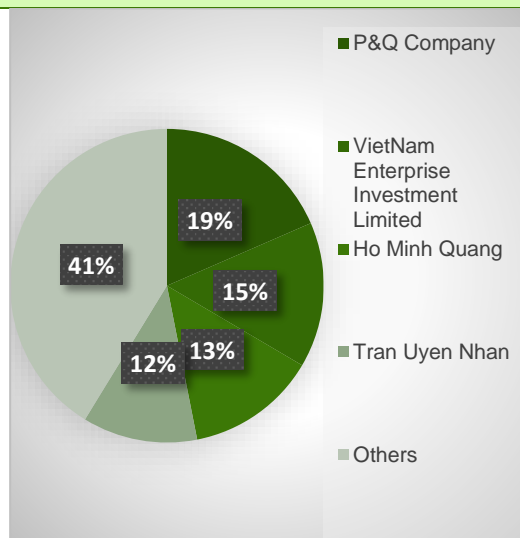
Target price 41,200 VND  
Closing price 25,250 VND  
29/9/2017

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**Co. profile**

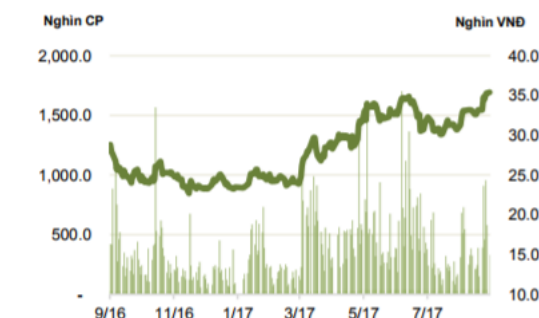
Ticker NKG  
Charter Capital (VND bln) 1,000  
Outstanding shares (mln) 100,000,000  
Market Capital (VND bln) 3,450  
52W range (VND) 21,300 ~ 35,000  
Ave. trading volume 3M 434,850  
Beta 1.02  
Foreign Ownership 29.82%  
First listing date 14/01/2015

**Major shareholders**



**Price Movement**

	3 M	6 M	12 M
NKG	7.06%	46.03%	32.7%
VN-Index	6.53%	13.53%	22.35%

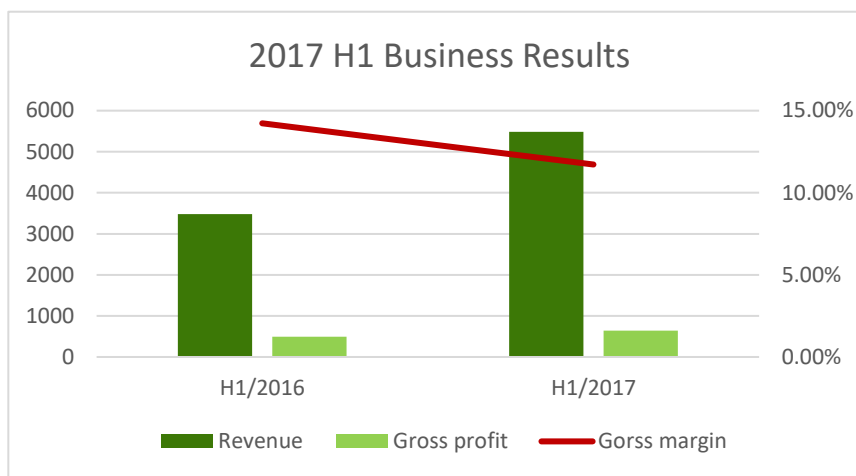


**Exploding with the direction of exporting to foreign markets**

**Q2/2017 business results and 2017 forecast**

Following the developing trend from 2016, NKG growing speed is no less impressive in the first half 2017. Ending the first half 2017, NKG revenue is 5,486 billion, up by about 38% YoY.

But with strongly increasing expense as well as lower profit margin because COGS no longer saw benefit from low price inventory like 2016, so profit growth speed couldn't keep up with the revenue growth. So NKG gross profit increased by about 29.9% YoY to 643 billion.



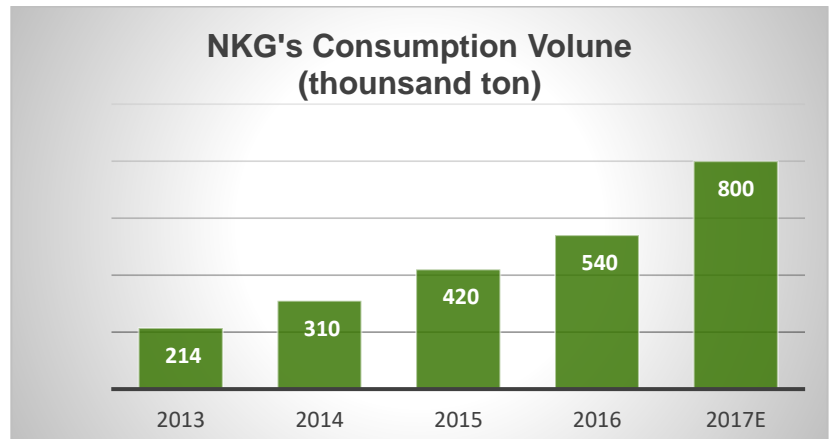
Source: NKG, PHS summarization

Assuming that domestic steel market will be stable with a growth of 12% this year, domestic steel pipe market share might reach 5.95% comparing to 5.14% and plated steel sheet market share will also increase to 16.25%, so we think that NKG domestic revenue might reach 5,661 billion (+13.12% YoY).

Meanwhile, with orientation of export being the spearhead (accounting 55-60% total revenue), revenue from this section might reach 7,012 billion (+80% YoY), consumption volume might reach 765,000 tons, up by 41.6% YoY. So, parent company EAT might reach 782 tỷ (+59% YoY).

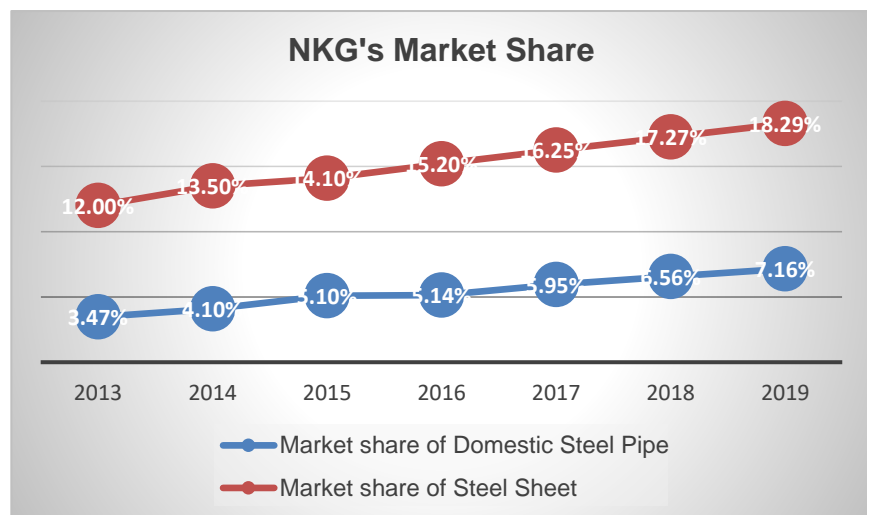
**Enterprise prospect**

Being a young enterprise but NKG has proved its potential as it slowly claimed the market share for steel sheet section lower to HSG only.



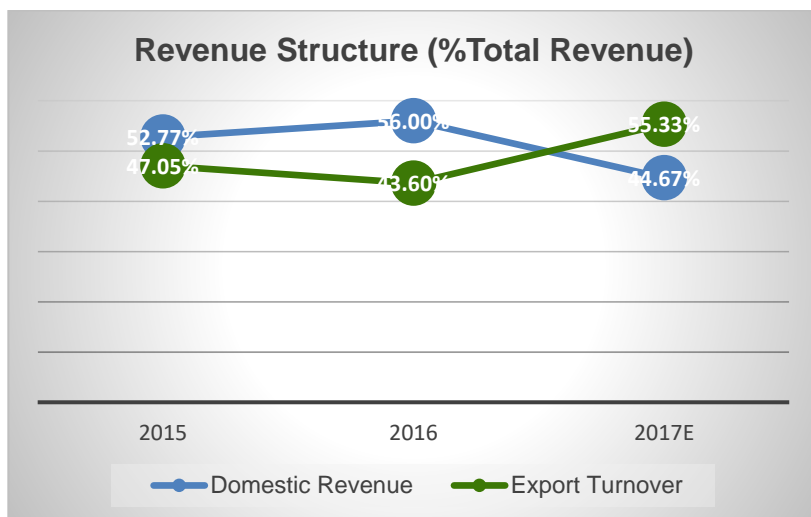
(Source: NKG)

Nam Kim steel sheet and steel pipe saw a stable growth speed, so NKG has a solid position in steel pipe as well as plated steel sheet market in Vietnam.



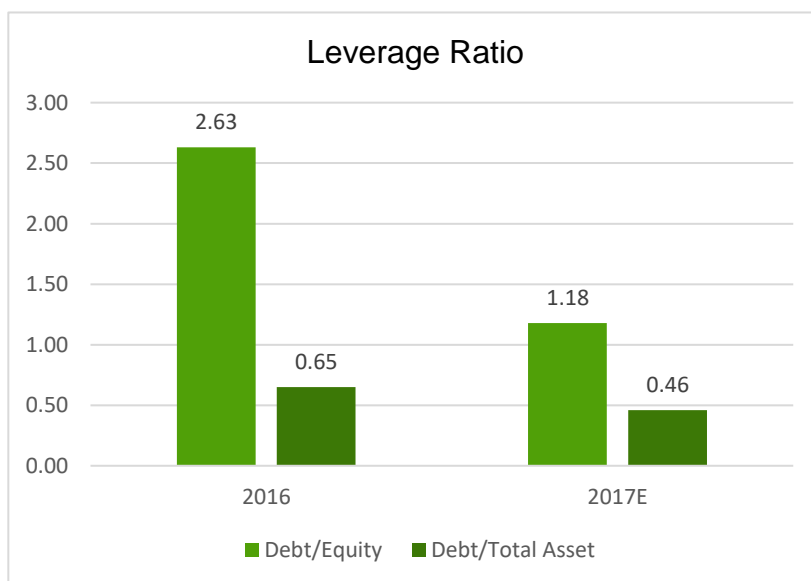
(Source: NKG, PHS estimation)

However, NKG's impressive point is the orientation on strengthening export activity. In accordance to NKG's orientation, export revenue in the next few years will account about 55-60% total revenue, in which, main markets will be Taiwan and America...



(Source: NKG, PHS estimation)

The private issuance of 30 million shares for 10 partners at the price of 27,000 dong/share will bring NKG 810 billion dong, helping NKG finishing the project of Nam Kim 3 factory. At the same time, a part of the capital will help NKG restructuring the leverage weight in a more positive direction since NKG current debt over equity ratio is quite high.



(Source: NKG, PHS estimation )

### Evaluation and Investment point of view

With FCFF solution, after paying dividend and setup investment and development fund, we think that NKG reasonable price is 41,200 dong/share, nearly 17% higher than current market price. Therefore, we recommend OVERWEIGHT on NKG.

Index (bil dong)	2017F	2018F	2019F	2020F	2021F
EAT	782,278	936,664	1,076,290	1,261,350	1,422,195
Loan interest after tax	290,829	266,340	233,875	213,818	201,417
Discount	323,062	323,697	322,703	323,153	323,183
Chartered capital change	19,578	541,892	459,124	538,864	439,032
Fixed asset expense	1,000,000	151,701	177,635	416,356	463,105
FCFF	376,591	833,107	996,108	843,101	1,044,658
WACC	11.54%	-	-	-	-
Discount term	1	2	3	4	5
Discount factor	0.90	0.80	0.72	0.65	0.58
PV CF	337,622	669,611	717,776	544,657	605,032
PV final value	6,467,411				
Enterprise value	9,342,109				
Debt	4,155,926				
Cash	174,109				
Market cap value	5,360,292				
Outstanding shares (million)	130				
Price per share (VND)	41,233				

(Source: PHS estimation)

## Risks

Steel market still has to face supply surplus status in long-term, so NKG might see problem if the situation gets more serious in near future.

Construction steel depends on real estate circle, so if real estate section weakens, NKG might see disadvantage with lower demand.

NKG saw a “hot” growth last year so in the next few years, NKG must prove its sustainable growing ability to strengthen the uptrend motivation for NKG shares.

NKG’s leverage ratio is still a worrying issue. NKG’s upcoming private share issuance might lower the debt balance, but we still think that NKG needs more actions to lower the loan ratio to a more reasonable weight.

Also because of the high leverage ratio, along with the demand on expanding the production, there will be higher risk of dilution. Therefore, it will be very risky if NKG operation cannot balance the leverage usage, leading to higher dilution risk.

## Company profile

Nam Kim Steel JSC was officially established on December 23, 2012, certified by Binh Duong province Department of Planning and Investment. Headquarter is located in N1 Road, An Thanh Production zone, Thuan An Town, Binh Duong Province, with an area of over 43,000m<sup>2</sup>.

Nam Kim operations are: producing and distributing cool steel sheet (55% aluminum zinc allow plated steel sheet), zinc plated steel sheet, color plated steel sheet, and industrial steel products. Nam Kim steel products serve industrial and civil constructions, arts and crafts, interior and outdoor design, electromechanical manufacturing, exact mechanics, and molded products.

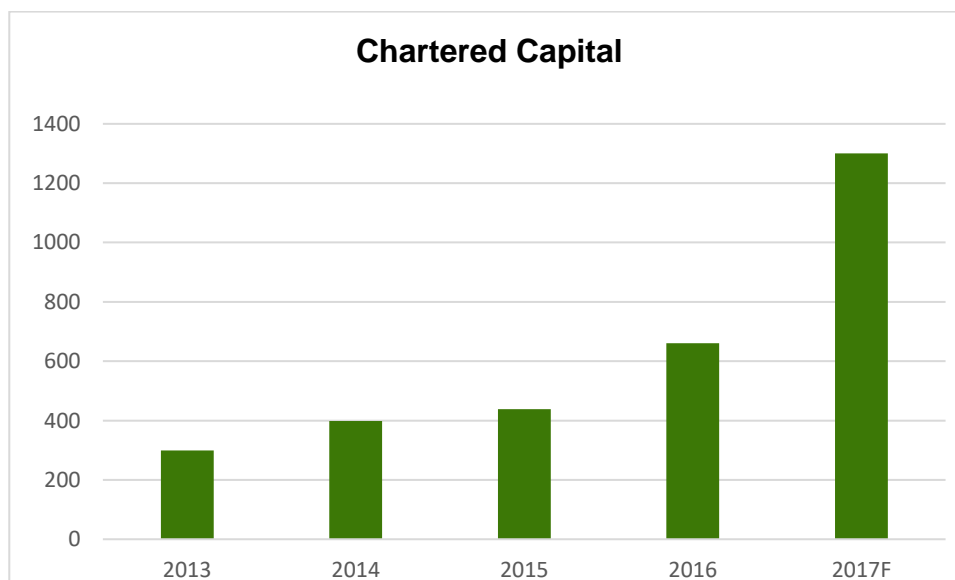
Nam Kim products are manufactured with modern technology equipments, set up by POSCO Group (Korea) and world big steel groups, with top quality materials imported from developed countries.

Besides, Nam Kim also invested in a 100% new steel roll processing line in Nam Kim 2 Steel Factory with most modern technology production line from developed countries. This is a strategic action to meet the more and more diversified demand of the market. Nam Kim steel roll processing line allows cutting rolled steel into plate, assembling into small rolls as required with high accuracy. Nam Kim 2 Factory is located in B2.2 –B2.3 Block, D3 Road, Dong An 2 IP, Hoa Phu Ward, Thu Dau Mot City, Binh Duong; the area is over 65,000m<sup>2</sup>. Closed production circle with 6 production lines, including cleaning, cool plating, thick zinc plating, cold plating, and color plating with total productivity of over 350,000 tons/year, bringing a remarkable competing advantage in the company's long-term developing target.

With 10 years of building and developing, now, Nam Kim Steel Sheet brand has reached residences, high-story buildings, and factories all over the country. Nam Kim Steel JSC is among Vietnam top 500 enterprises VNR500 and is evaluated as one of 2 leading companies in plated steel sheet market share of the country (according to the report of Vietnam Steel Association in 2013).

With "Quality commitment" that brings the best products to the customers along with best customer care policy and most competing price, Nam Kim Steel JSC always believe in the cooperation and partnership of the customers.

## Capital increasing progress (billion dong)



Source: NKG, PHS estimation

**Financial ratio (VND bln)**

Income statement	2014	2015	2016	2017F
Revenue	5,835	5,751	8,936	12,674
Cost of goods sold	5,518	5,304	7,924	11,280
Gross profit	317	447	1,012	1,394
Selling Expenses	76	95	162	182
Managing Expenses	53	42	54	64
Operating profit	189	310	796	1148
Non operating profit	11	42	110	152
Interest expense	109.0	81.8	141.6	350.4
Total profit before tax	84.087	532	494	468
Profit after Tax	352	352	352	352
Profit after Tax of parent company	77	126	518	782
Balance sheet	2014	2015	2016	2017F
Current Assets	<b>1,799</b>	<b>1,830</b>	<b>3,075</b>	<b>3,572</b>
Cash and Cash Equivalents	32	51	174	253
Short term Financial Investment	0	0	26	25
Short term Account Receivables	665	537	498	734
Inventory	972	1,098	2,033	2,073
Other Current Assets	190	147	346	490
Non-current Assets	1,138	1,742	3,315	4,002
Long term Account Receivables	-	-	0	-
Fixed assets	957	1,474	1,883	3,859
Real estate investments	-	-	-	-
Capital Construction in Process	171	244	1,407	107
Long term Financial Investments	-	-	-	-
Other long term assets	11	25	23	33
Good Will	-	-	-	-
<b>Total Assets</b>	<b>2,937</b>	<b>3,572</b>	<b>6,390</b>	<b>7,574</b>
Liabilities	2,430	2,933	4,810	4,604
Short term Liabilities	1,825	2,119	2,948	2,930
Long term Liabilities	605	813	1,861	1,674
Owners equity	506	640	1,577	2,970
Common stocks	399	439	660	1,300
Minority Interest	-	-	3	-
<b>Total Equity</b>	<b>2,937</b>	<b>3,572</b>	<b>6,390</b>	<b>7,574</b>

Cash flow	2014	2015	2016	2017F
Net operating	228	-212	24	1133
Net Investing	-191	-715	-2341	-1009
Net Financing	-24	945	2440	-44
Net during the period	13	18	122	79
Cash at beginning	19	32	51	174
Cash at end of year	32	51	174	253
Valuation	2014	2015	2016	2017F
EPS (VND)	1,921	2,872	7,841	6,018
BVPS (VND)	12,693	14,576	23,888	22,845
P/E				7
P/B				2
Financial ratios	2014	2015	2016	2017F
Capital Structure				
Current assets/ Total assets	0.61	0.51	0.48	0.47
Non-Current assets/Total assets	0.39	0.49	0.52	0.53
Debt/Equity	2.05	3.09	2.63	1.18
Debt/Total assets	0.35	0.55	0.65	0.46
Interest coverage ratio	1.73	3.79	5.62	3.28
Liquidity				
Current ratio	0.99	0.86	1.04	1.22
Quick ratio	0.45	0.35	0.35	0.51
Efficiency				
Inventory Days	59.45	71.24	72.11	67.07
Receivables Days	34.00	38.14	21.15	21.15
Payables Days	66.79	74.50	27.19	25.00
Current assets turnover	3.78	3.17	3.64	3.81
Fixed assets turnover	4.80	3.42	3.11	3.43
Total assets turnover	2.22	1.77	1.79	1.82
Profitability				
Gross margin	5%	8%	11%	11%
Operating margin	1%	3%	7%	7%
Net profit margin	1%	2%	6%	6%
ROE	3%	4%	10%	11%
ROA	18%	22%	47%	34%

Source: BFC and PHS estimation

## Analyst Certification

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## Ratings Definition

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**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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