

### A changing step with Dung Quat project phase I

#### The company business results in 2017.

Ending 2017, HPG Group released business results with rather positive growth as revenue is 46,161 billion (+38.7% YoY), so EAT increased strongly to 8,006 billion (+21.32% YoY).

## Overweight

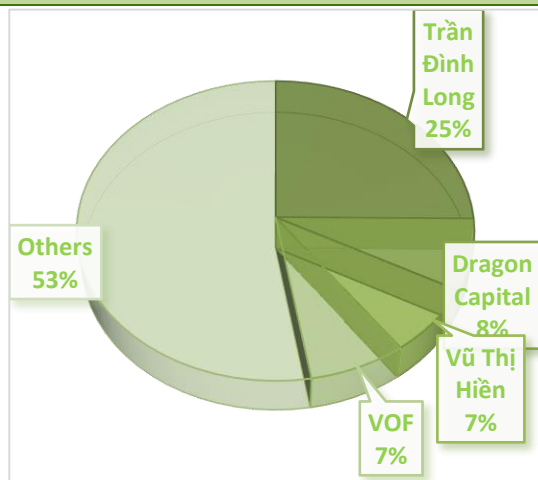
Target price	71,800	VND
Closing price	64,100	VND
(27.02.2018)		

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#### Co. Profile

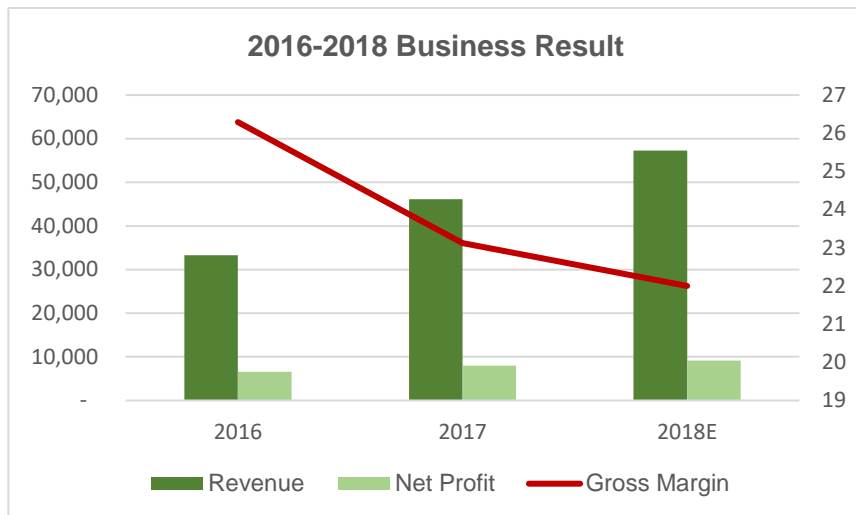
Ticker	HPG
Charter Capital (VND bln)	15,170,970
Outstanding shares (mln)	1,517,097,000
Market Capital (VND bln)	93,452
52W range (VND)	26,500~64,400
Ave. trading volume 3M	5,181,025
Beta	1.11
Foreign Ownership	49%
First listing date	15/11/2007

#### Major shareholder



#### Price movement

	3M	6M	12M
HPG	61.26%	92.5%	142%
VN-INDEX	18.24%	44.65%	53.79%



(Source: HPG, PHS estimation)

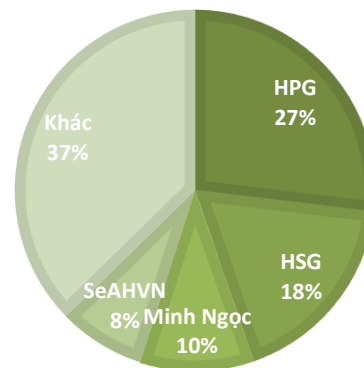
Business results saw impressive growth because HPG's steel production last year increased remarkably so its building steel market share increased from 22.2% to 24% in 2017, steel pipe market share also increased from 24.8% to 26.9%.

Remarkably, HPG average production growth is about 22% in 2017 but revenue increased strongly by 39%, since 2017 average selling price improved significantly and we expect that average selling price has improved by about 15% comparing to 2016.



(Source : HPG, PHS estimation)

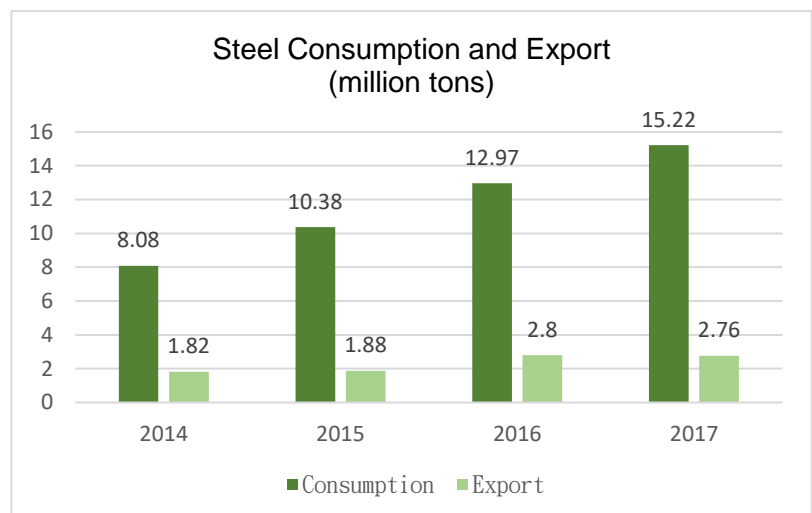
2017 STEEL PIPE MARKET SHARE



(Source : VSA)

2018 business prospect

Following the gaining trend in 2017, in 2018, HPG still expects a positive year since steel demand is expected to be stable at 12%.

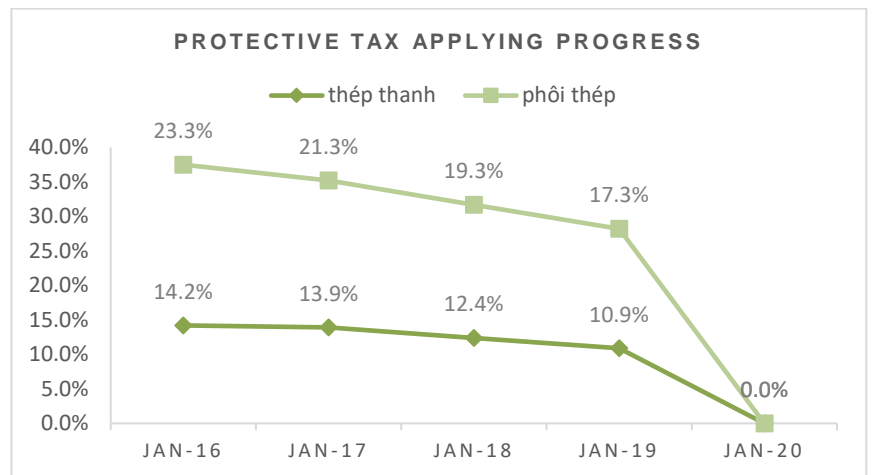


(Source : VSA)

China lowered the production which saw double positive influence on domestic steel enterprises

- World steel price will be more positive since main manufacturer lowered the production with the worry on environment issue
- China steel production drops which will lower the competing pressure on domestic as well as export market in near future

**Protective tax is still valid until the end of 2019** which is considered a supportive motivation for domestic steel in general and HPG in particular in strengthening the competitiveness.



(Source: Ministry of Industry and Trade)

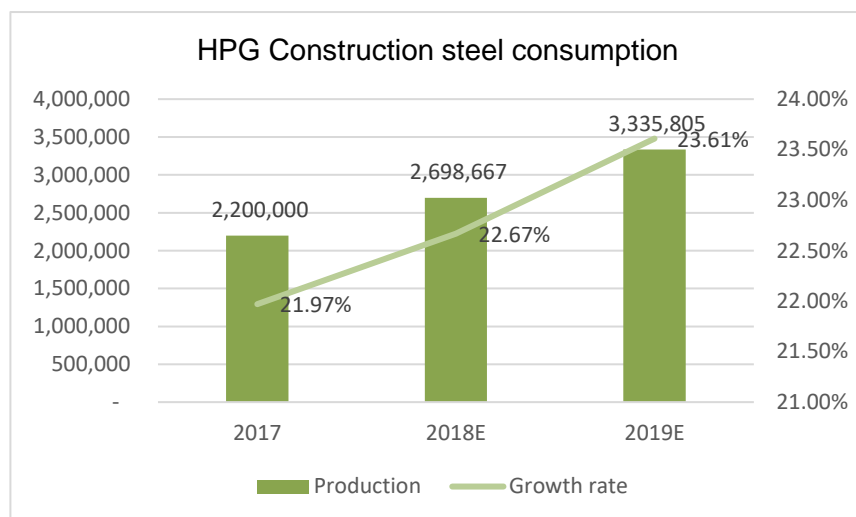
Plated steel sheet factory with capacity of 400,000 tons a year is expected to be operated in Q3/2018 which is also a remarkable point since HPG doesn't conceal the intention of expanding the scale as well as diversifying its products in the future. However, HPG plated steel sheet factory might see some disadvantages for expenses as well as transportation because of geographic characteristics, so the competitiveness might be weaker than HSG steel sheet.

Sung Quat steel project will not see influence on HPG business results in short-term. But 2018 is an important year for HPG in preparation for receiving the first steel products from Dung Quat project phase 1 which will be finished in 2019.

	Phase I	Phase II
Investing in basic construction and machinery	20,000 billion	20,000 billion
Flowing capital	6,000 billion	6,000 billion
Expected time	24 months since February 2017	24 months since August 2017
Target and project scale	2 million tons of steel a year: 1 million tons of stripe steel bar and 1 million tons of steel roll	2 million tons of steel a year: hot rolled steel

(Source : HPG)

Being the first year that HPG surpasses designed capacity by 10% (2.2 million tons comparing to 2 million tons a year), Dung Quang phase I steel project is the necessary addition in improving the scale and production. We can see that even with twice higher production in 2019, the consumption is still quite good because of: stable section demand growth and HPG continuing pushing on market share improving in the next few years.



(Source : HPG, PHS estimation)

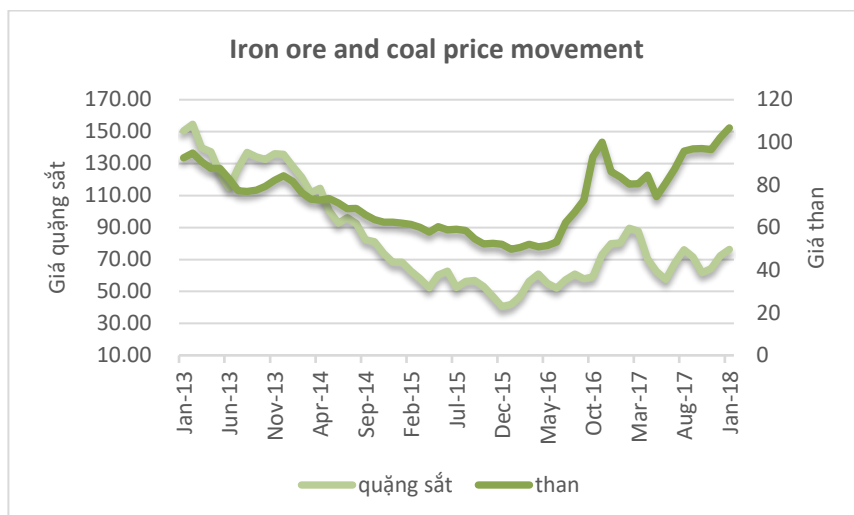
The project phase II helps HPG seeing a closed production cycle. With phase 2 product being hot rolled steel (HRC) which is input material for steel products, we think that 65-70% production will be consumed by HPG itself, so domestic supply source redundant will not be more severe.

### Evaluation detail and recommendation

In 2018, we think that HPG might reach 57,268 billion dong of net revenue (+24.1% YoY), basing on following main assumptions:

- Building steel production growth is 22.7% since the general market growth is maintained at 12%, meanwhile HPG market share will increase further to 26.29%, and selling price will increase slightly by 5%.
- Steel pipe growth might slow down in 2018 with the assumption that HPG market share will stay at current level and selling price will increase slightly by 2% comparing to 2017.

Meanwhile, HPG margin might drop slightly to 22%, since coal and iron ore price tend to increase slightly in the beginning of 2018. Therefore, in 2018, HPG might see 9,172 billion dong (+15.6% YoY), EPS is expected at 6,045 dong/share.



(Source: Indexmundi)

In previous report, we chose P/E for HPG at 7.x times, but currently, HPG has been re-evaluated by the market and is trading at P/E trailing 2017 of 12x times. Therefore, cautiously, we choose current P/E as target for HPG this year. So reasonable price for HPG is 71,895 dong/share. Recommendation: Overweight for HPG

Unit: billion dong	2016	2017	2018E	2019E
Net revenue	33,283	46,162	56,747	72,777
%YoY	21%	39%	23%	28%
Gross profit	8,751	10,674	12,484	16,011
%YoY	56%	22%	17%	28%
Gross margin	26.29%	23.12%	22.00%	22.00%
Operating margin	23.14%	20.12%	18.81%	18.45%
Earnings after tax	6,606	8,015	9,181	11,550
Parent company EAT	6,602	8,007	9,089	11,434
%YoY	89%	21%	14%	26%

(Source : HPG, PHS estimation)

HPG growth speed in 2018 might slow down because there is no steel price advantage like 2017. However, with revenue growth of 23% next year, it is still positive for enterprises like HPG. At the same time, Dung Quat project phase I will be a preparing step for raising productivity as well as market share for HPG in 2019. So we estimate that HPG EAT in 2019 will be 11,434 billion, 26% higher than 2018, EPS is 7,573 dong/share.

We need also add that P/E of 12.x times is still quite attractive for leading blue-chip with 20-25% growing potential. So in the future, the market might continue re-evaluating HPG like in 2017.

## Risks

Steel market is still facing long-term supply redundant, so HPG might still see problems if the situation gets worse in near future.

Building steel depends on real estate period, so if real estate weakens, HPG might see disadvantage because of dropping demand. Besides, real estate market is showing signs of limiting supply source in 2018, so there might be influence on HPG in near future.

Protective tax is valid until 2020 but the competition from China steel is still seeing influence on domestic steel enterprises. Formosa project with expected capacity in phase 1 being about 10 million tons of steel a year will be direct competitor for HPG in following period.

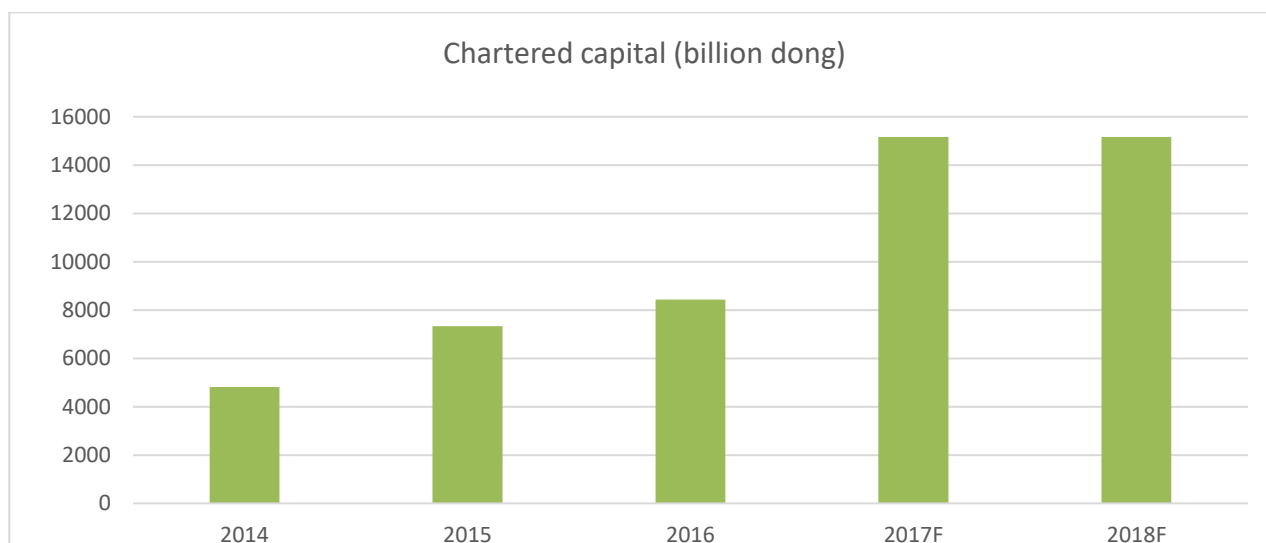
In the next few years, HPG will need more capital source to invest in Dung Quat project, so the risk from raising financial expense (stronger debt) and diluting risk (additional issuance) will see influence on shareholders. And if Dung Quat project cannot operate at expected capacity, the risks will be more negative.

## Company Profile

- In 1992: establishing Hoa Phat Equipment and Accessory Limited – the first company under Hoa Phat brand.
- 1996: establishing Hoa Phat Steel pipe Limited
- 2000: establishing Hoa Phat steel JSC, now Hoa Phat steel one member company
- 2001: establishing Hoa Phat Construction and Urban development JSC
- 2004: establishing Hoa Phat trading limited
- January 2007: restructuring under Group model, with Parent company being Hoa Phat Group and member companies
- June 2007: establishing Hoa Phat Minerals JSC
- August 2007: establishing Hoa Phat Steel JSC, deploying steel complex in Kinh Mon, Hai Duong
- November 15, 2007: listing HPG shares on Vietnam stock market
- June 2009: Hoa Phat Energy JSC becomes member company
- December 2009: Hoa Phat steel complex finishes first phase investment
- July 2010: Golden Gain Vietnam becomes member company
- January 2011: structuring Parent company operation model, separating steel production and trading
- August 2012: Hoa Phat celebrates 20 years of forming and developing, receiving Third degree Labor Medal of the President
- October 2013, Hoa Phat steel complex finishes second phase investment, bringing total steel production to 1.15 million tons a year.
- September 2014: deploying steel complex third phase at capacity of 750,000 tons
- March 09, 2015: Hoa Phat officially introduces Hoa Phat animal food production and trade, marking a new developing step in the group history as it invested in agriculture.
- On July 06, 2015: Hoa Phat Minerals JSC officially changed the name into Hoa Phat farming development JSC
- July 2015: establishing Hoa Phat Dong Nai animal food one member limited
- January 2016: establishing Hoa Phat Quang Binh farming Limited
- February 2016: establishing Hoa Phat Agriculture development JSC
- April 2016: establishing Hoa Phat steel sheet one member limited, starting deploying color, zinc, and cold plated steel sheet at the capacity of 400,000 tons a year
- April 2016, finishing steel complex third phase in Hai Duong
- January 2017: starting deploying Hoa Phat Dung Quat steel complex in Quang Ngai at the scale of 4 million tons a year with total investment of 52 trillion dong, marking a new development of Hoa Phat Group



## Capital raising progress



(Source : HPG, PHS estimation)

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

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**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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