

**BUY [+18.1%]**

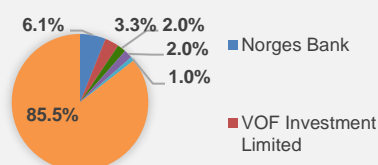
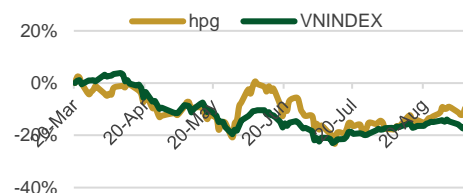
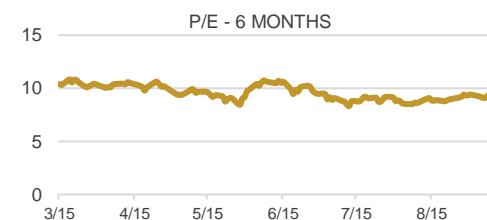
Updated time: 18/09/2018

Target price	46,600	VND
Current price	39,450	VND

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**Stock information**

Outstanding share (million)	2,123.9
Free-float (million)	1,274.3
Market cap (billion dong)	84,956
3 month average volume	5,423,590
Foreign owning rate	40%
First listing date	21/05/2012

**Major shareholder**

**Price movement comparing to the Index**

**Evaluating history**


Source: FiinPro

**Dung Quat complex brings a growing potential to HPG in long-term. However, short-term problems are revealing**

**Update business results:** 1H2018 report showed that HPG still sees stable growth with net revenue of 27,595 billion and Eat of 4,425 billion, up by 30% and 27% respectively. HPG business results and EAT reached 48% estimation in our previous report. Therefore, we won't adjust 2018 business results basing on current conditions.

**2019 business result forecast:** We estimate HPG revenue might reach 65,738 billion (+14.79% YoY). EAT might grow only slightly by 8% YoY to 9,899 billion. EPS Forward 2019 HPG is about 4,661 dong/share.

Revenue growth is led by the stable growth in the industry at 12% while real estate market is slowing down and HPG market share in the North showed signs of saturation.

Meanwhile, Dung Quat phase 1 has just been operated which might lower profit margin because of high depreciation and the fact that it is not at full capacity yet.

However, Dung Quat complex being operated will help HPG improving profit margin in long-term with its steel closed production cycle.

Along with it, there is expectation of expanding export market when Dung Quat complex is operated. We hope that HPG might push on export market expansion since this is a potential piece to solve growing problem as well as domestic supply redundant.

**Evaluation and Recommendation:** In this report, we lower target P/E from 12x to 10x because of the market risk as well as Dung Quat complex in 2019. With above mentioned revenue and profit assumption, HPG P/E forward is 4,661 dong/share, HPG reasonable price is 46,610 dong/share. We recommend BUY on HPG with upside potential of 18.1%.

**Risk:** Steel market is still facing long-term supply redundant problem although it is still growing stably throughout the years. Real estate market slowed down so building material section slows down. Competition pressure and market expansion are tough problems for big enterprise like HPG. Dung Quat complex coming into operation in near future might bring unpredictable risks.

Financial indicators	2014A	2015A	2016A	2017A	2018F	2019F
Net revenue (billion VND)	25,525	27,453	33,283	46,162	57,268	65,738
Earnings after tax (bil VND)	3,144	3,485	6,602	8,007	9,172	9,899
EPS (VND)	6,525	4,755	7,833	5,278	4,318	4,661
EPS growth (%)	40%	-27%	65%	-33%	-18%	8%
Book value (VND)	24,478	19,706	23,425	21,282	18,520	23,181
P/E					10.79	10
P/B					2.52	2.01
Cash dividend (VND)	15%	10%	15%	N/A	N/A	N/A

## Steel market seeing high growth speed in the first half of the year

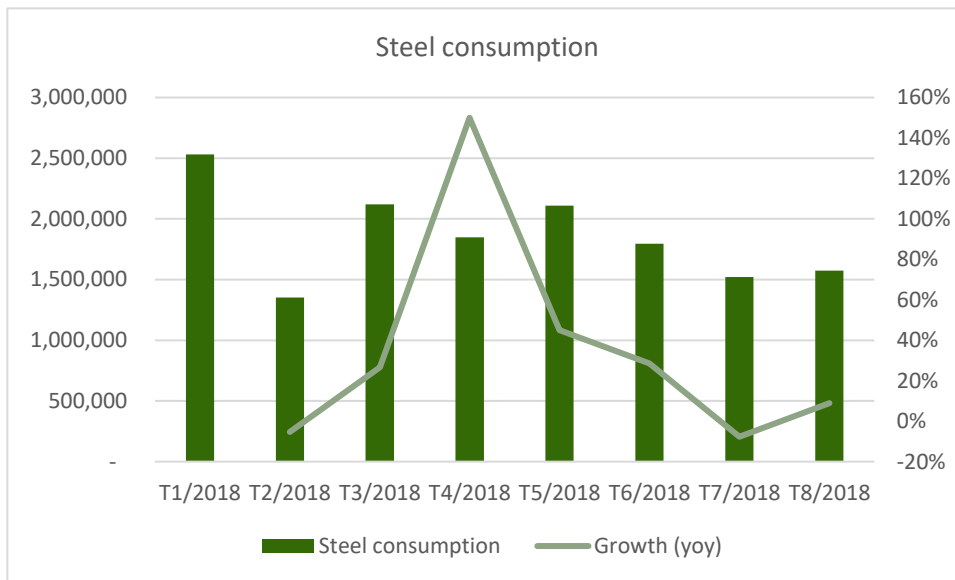
In 6 months, steel market is still positive thanks to real estate market. In which, the section consumption is over 10 million tons, up by 36.2% YoY.

So, HPG revenue also saw strong growth of 30% to 27,595 billion, EAT also increased strongly by 27% to 4,425 billion. With such results, HPG revenue and profit reached 48% our estimation in previous report.

Normally, steel market at the end of the year will be smooth with higher revenue and profit than the first 2 quarters of the year, but we realize that building ateel market is showing initial negative signs. Therefore, in this update report, we still keep HPG business results forecast in 2018.

## The growth is tending to slow down

Accordingly, the market steel consultion in the first 2 months of Q3 tended to drop. The pressure from monetary policy on real estate section might be reflected on building material although it is still too soon to come to conclusion.



(Source: Vietnam Steel Association)

HPG production growth is stable, but HPG building steel growth speed is tending to slow down. Especially in July, where HPG production dropped strongly because the company actively brought the products to Southern market to expand the market share, showing that HPG market share in the North might already be in saturating state and HPG can hardly raise the market share here.

We are worried that monetary policy might still see influence on real estate enterprises at least until 2019. Therefore, HPG might be influenced by this. However, steel section is still benefited from expanded fiscal policy with Vietnam public infrastructure construction demand still being high.

## Opportunities and challenges for HPG in near future from Dung Quat complex

Dung Quat complex phase 1 will be operated in February 2019 which will help HPG improving productivity by 2 million tons of product a year. Helping HPG expanding not just domestic but also export market.

Phase 2 is expected to be operated in September 2020 which will provide HPG with 2 million tons of hot rolled coil HRC a year, this is medium product for building steel. We hope that the completion and closed cycle might help HPG profit margin improving by 2-4%.

However, as mentioned above, steel market showed negative signs and might see bad influence on HPG at the initial stage of Dung Quat complex because of high expense, while the production might not be enough to reach breakeven point in the first stage of operation.

Export might be a new direction for HPG since domestic market is tough. Export has been increasing strongly recently, showing that this is quite a potential market since China steel is pushing on lowering the production.

However, Vietnam steel has been seeing many protecting and anti-dumping lawsuits, which is also quite a great pressure on Vietnam steel in general and HPG in particular.

## Evaluation and Recommendation

We think that steel market will slow down in 2019 and stay at 12% as forecasted by steel association because construction demand will slow down, however, public investment demand is still great so steel section can still be stable next year.

Therefore, we hope that HPG will maintain the same growth speed with the industry, and selling price will improve by 5% comparing to 2018. So, 2019 revenue might reach 65,738 billion (+15 % YoY), EAT might increase less since cost and selling expense both increase because of new factory and the promotion on Southern market.

Unit: billion dong	2015	2016	2017E	2018E	2019E
Net revenue	27,453	33,283	46,162	57,268	65,738
%YoY	8%	21%	39%	24%	15%
Gross profit	5,594	8,751	10,674	12,599	13,805
%YoY	8%	56%	22%	18%	10%
Gross margin	20.38%	26.29%	23.12%	22.00%	21.00%
Operating margin	14.53%	23.14%	20.12%	18.81%	17.48%
Earnings after tax	3,504	6,606	8,015	9,265	9,999
Parent company EAT	3,485	6,602	8,007	9,172	9,899
%YoY	11%	89%	21%	15%	8%

(Source: HPG, PHS estimation)

However, in this report, we lower HPG target P/E to 10.x while steel section is tending to slow down this year. So, we adjust target price from 51,286 dong/share (after adjusting) to 46,608 dong/share. We still recommend BUY on HPG since it is a leading code with stable growth, especially after Dung Quat complex being operated which will contribute remarkably in the revenue as well as improve HPG profit margin.

## 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.

Dung Quat complex, at first stage of operation might not reach breakeven point because of the influence from the market which might be tough for HPG.

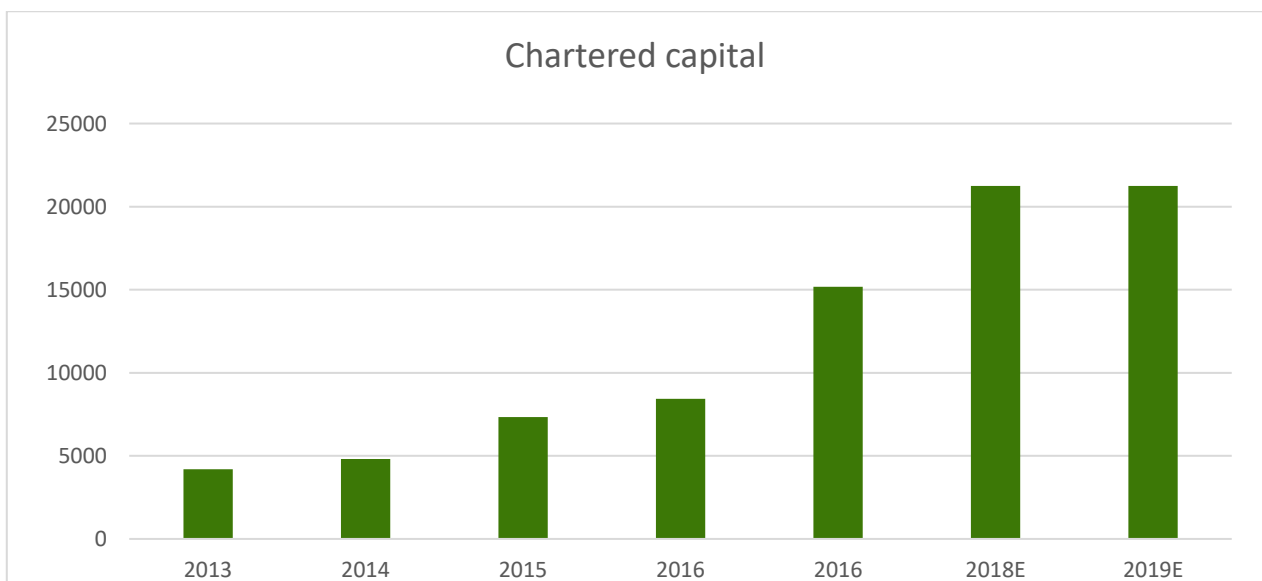
## Company profile

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 (billion)



**Finance statement (billion dong)**

Business results	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Net revenue	25,525	27,453	33,283	46,162	57,268	65,738	75,599	86,939	99,980
Cost of goods sell	20,338	21,859	24,533	35,487	44,669	51,933	58,967	67,378	76,984
Gross profit	5,187	5,594	8,751	10,674	12,599	13,805	16,632	19,561	22,995
Selling expense	366	424	490	643	859	1,052	1,058	1,130	1,200
Management expense	607	761	405	409	573	657	756	869	1,000
Operational profit	4214	4,409	7,856	9,622	11,167	12,096	14,817	17,562	20,796
Financial profit	160	249	197	186	293	350	627	488	561
Loan interest profit	350.6	251	280	480	892	922	1,943	1,577	1,269
Earnings before tax	3770	3,990	7,702	9,288	10,773	11,493	14,356	16,797	19,917
Earning after tax	3250	3,504	6,606	8,015	9,265	9,999	13,638	15,957	18,921
Parent company's EAT	3144	3,485	6,602	8,007	9,172	9,899	13,502	15,798	18,732
Balance sheet	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
<b>Current asset</b>	11,746	11,915	18,183	33,077	28,457	29,619	36,505	42,467	49,018
Cash and equivalent	2,026	2,373	4,559	4,265	7,445	6,574	11,340	13,041	14,997
Short-term finance investment	507	758	693	9,937	2	3	3	4	4
Short-term receivables	1,760	1,649	2,436	6,591	5,491	5,047	5,956	7,139	8,625
Inventory	7,601	7,208	10,391	11,913	15,020	17,419	19,360	22,456	25,583
Other current asset	107	239	289	552	685	786	76	87	100
<b>Non-current asset</b>	10,343	13,592	15,044	19,945	37,028	62,766	59,933	59,511	59,237
Long-term receivables	-	16	18	22	57	-	-	-	4
Fixed asset	8,729	8,211	12,670	13,173	23,005	41,636	56,066	49,294	41,321
Invested real estate	232	236	246	246	246	246	246	246	-
In progress construction	429	4,342	1,155	5,474	12,474	19,474	1,974	8,094	15,536
Long-term finance investment	-	-	79	17	17	17	17	17	17
Other non-current asset	875	643	791	897	1,113	1,277	1,469	1,689	1,943
Good will	-	-	-	-	-	-	-	-	-
<b>Total asset</b>	22,089	25,507	33,227	53,022	65,486	92,385	96,438	101,977	108,25
Payables	10,124	11,040	13,376	20,624	25,947	42,848	38,572	35,588	32,502
Short-term debt	9,017	9,993	11,985	18,521	14,187	18,229	17,096	16,847	16,422
Long-term debt	1,107	1,047	1,391	2,104	11,760	24,619	21,477	18,741	16,081
Equity capital	11,796	14,444	19,745	32,287	39,335	49,234	57,426	65,790	74,964
Chartered capital	4,819	7,330	8,429	15,171	21,239	21,239	21,239	21,239	21,239
Minority benefit	169	23	106	111	203	303	440	599	788
<b>Total resource</b>	22,089	25,507	33,227	53,022	65,486	92,385	96,438	101,977	108,25

Cash flow	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Operational net cash flow	3234	2,682	4,543	6,819	11,717	13,512	17,826	20,367	23,947
Investment net cash flow	-3252	(1,170)	(3,764)	(3,128)	(10,317)	(30,108)	(2,692)	(6,341)	(7,700)
Financial net cash flow	850	(1,611)	(433)	(1,505)	1,780	15,724	(10,368)	(12,325)	(14,291)
Net cash flow during the period	831	(99)	346	2,186	3,180	(871)	4,766	1,701	1,956
Cash and equivalent at the beginning	1294	2,125	2,026	2,373	4,265	7,445	6,574	11,340	13,041
Cash and equivalent at the end	2125	2,026	2,373	4,559	7,445	6,574	11,340	13,041	14,997
Financial indicators (%)	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Growth									
Revenue	34.8%	7.6%	21.2%	38.7%	24.1%	14.8%	15.0%	15.0%	15.0%
Earnings after tax	60.9%	10.9%	89.4%	21.3%	14.6%	7.9%	36.4%	17.0%	18.6%
Total asset	-4%	15%	30%	60%	24%	41%	4%	6%	6%
Total equity	24%	22%	37%	64%	22%	25%	17%	15%	14%
Profitability									
Gross margin	20%	20%	26%	23%	22%	21%	22%	23%	23%
EBIT margin	15%	15%	23%	20%	19%	17%	19%	19%	20%
EBITDA margin	23.7%	16.6%	14.4%	18.0%	15.3%	13.0%	12.8%	12.8%	12.5%
Net margin	12%	13%	20%	17%	16%	15%	18%	18%	19%
ROA	14%	15%	22%	19%	15%	13%	14%	16%	18%
ROE	30%	27%	39%	31%	26%	22%	25%	26%	27%
Efficiency									
Receivables days	15.0	16.1	16.3	10.2	9.5	12.5	13.7	13.3	12.7
Inventory days	2.6	3.0	2.8	3.2	3.3	3.2	3.2	3.2	3.2
Payables days	9.4	9.4	8.7	9.3	10.1	9.7	9.8	9.9	9.8
Liquidity									
Current ratio	1.30	1.19	1.52	1.79	2.01	1.62	2.14	2.52	2.98
Quick rator	0.48	0.50	0.66	1.15	0.96	0.68	1.01	1.20	1.44
Financial structure									
Total debt/Total asset	0.98	0.81	0.89	1.03	0.70	0.68	0.64	0.60	0.55
Total debt/Equity	0.86	0.76	0.68	0.64	0.66	0.87	0.67	0.54	0.43
Short-term debt/Equity	0.76	0.69	0.61	0.57	0.36	0.37	0.30	0.26	0.22
Long-term debt/Equity	0.09	0.07	0.07	0.07	0.30	0.50	0.37	0.28	0.21

Source: PHS

## Analyst Certification

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Buy = Expected to outperform the local market by >10%

Hold = Expected to in line with the local market by +10%~ -10%

Sell = Expected to underperform the local market by >10%.

Not Rated = 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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