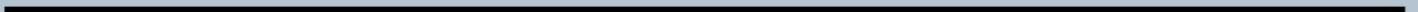
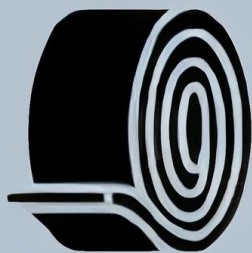
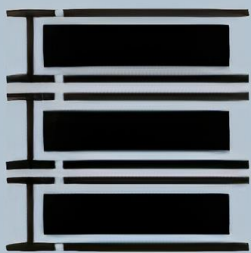


# **STEEL**

## Building Momentum



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### What is the report about?

- Domestic demand could heighten in 2H24F
- Steel exports are under increased pressure from China
- HPG, HSG, and NKG are all situated to benefit from rising consumption

## I. Executive summary

**Domestic and export market both saw positive growth**

According to VSA statistics, in 5M24, the total sale volume of the steel industry is at 11mn tonnes, +15% yoy.

*Domestic market:* The number of housing units licensed for construction has risen sharply, at +92% yoy in 4Q23 and +36% yoy in 1Q24. Which led to an improved sales volume in Apr and May. Accumulatively, in 5M24 domestic consumption rose by 15% yoy.

*Export market:* export activities achieved a positive growth rate of 14% yoy. Thanks to (1) HPG's encouraging exports of construction steel and (2) an increase in exports to Europe and North America. However, steel coils export dropped 16% yoy in 5M24 due to heightening competition.

**The industry's sales volume could maintain positive growth**

*In 2H24F,* we expect a return of the domestic construction sector, promising growth from the US building activities, and stable demand from Europe. Thus, we forecast the industry's sales volume to maintain positive yoy growth. However, the growth rate could be limited to a single digit due to no longer being supported by last year's low base and increased competition from Chinese exporters.

**Lower input prices widen gross margin in 3Q24F**

In 1Q24, both the producers and the traders enjoyed an improvement in gross margin (GM). However, in 2Q24F, we forecast that the companies' GM could be affected by rising material costs. Meanwhile, selling prices decreased as demand from China remained low. This was reflected in input material prices, started in May, which in turn could have a positive effect on the cost of sale in 3Q24F. The selling price declined at a slower pace compared to the input price, which could support the company's GM in 3Q24F.

**HPG is our favorite stock**

HPG, HSG, and NKG are all well-positioned for growth in 2H24F. For HPG and HSG, growth momentum could come from the recovery of the construction sector and their large market share. For NKG, we have high expectations for export volume growth in strategic markets. As the steel industry transitions into a new cycle, companies with large market share will be well-positioned for medium and long-term growth.

However, despite 2H24F bright prospects, only HPG has a potential upside of 26%, per Bloomberg consensus. Meanwhile, both HSG and NKG had reached their consensus target valuation and are no longer attractive.

**Table 1. Coverage valuation**

Recommendation & TP			Earning & Valuation										
Company				Sales	OP	NP	EPS	BPS	ROE	ROA	PE	PB	EV/EBI TDA
				(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(%)	(%)	(x)	(x)	(x)
Hoa Phat Group (HPG)	TP (Consensus)	36,000	2019A	63,658	9,743	7,527	1,177	(12)	7,445	8.3	1.3	17.1	8.4
	Price	28,450	2020A	90,119	17,123	13,450	2,103	79	9,235	10.0	2.3	25.2	11.5
	Market cap	181,973	2021A	149,680	37,664	34,478	5,390	156	14,169	5.9	2.3	46.1	22.3
	(VND bn)		2022A	141,409	13,078	8,484	1,326	(75)	15,010	12.3	1.1	9.1	4.9
			2023A	118,953	9,669	6,835	1,069	(19)	16,067	23.8	1.6	6.9	3.8
Hoa Sen Group (HSG)	TP (Consensus)	24,800	2019A	27,074	1,302	482	813	190	9,327	6.6	0.6	8.9	2.6
	Price	24,550	2020A	30,045	2,364	1,544	2,491	206	11,717	6.4	1.4	24.3	9.1
	Market cap	15,122	2021A	56,561	5,067	4,380	7,225	190	18,482	4.1	1.6	47.7	21.7
	(VND bn)		2022A	40,694	(787)	(1,067)	(1,724)	(124)	16,485	25.6	0.7	(10.0)	(5.5)
			2023A	32,806	895	814	1,321	(177)	17,621	16.8	1.3	7.7	4.7
Nam Kim Steel (NKG)	TP (Consensus)	25,700	2019A	12,177	63	47	181	(17)	11,511	25.1	0.4	1.6	0.6
	Price	25,700	2020A	11,560	509	295	1,180	553	12,843	8.5	0.8	9.5	3.7
	Market cap	6,766	2021A	28,173	2,749	2,225	8,994	662	21,838	3.5	1.4	50.0	19.2
	(VND bn)		2022A	23,071	93	(125)	(475)	(105)	20,205	4.3	0.6	(2.3)	(0.9)
			2023A	18,596	373	117	446	(194)	20,598	55.3	1.2	2.2	0.9

Source: Company Data, KISVN

**Table 2: 2H24 business results**

(VNDbn, %)

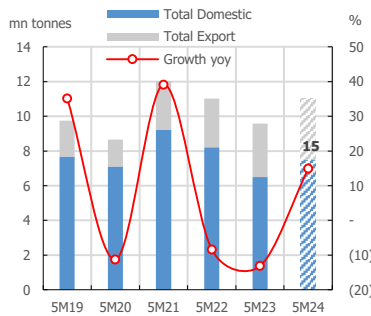
	Revenue		NPAT	
	2H24F	yoy	2H24F	yoy
<b>HPG</b>	82,849	30	8,415	69
<b>HSG</b>	19,909	19	510	13
<b>NKG</b>	11,263	18	391	127
<b>KIS coverage list</b>	111,446	24	9,316	67

Source: Company data, KISVN

## II. 1H24: Industry' outlook begin to brighten

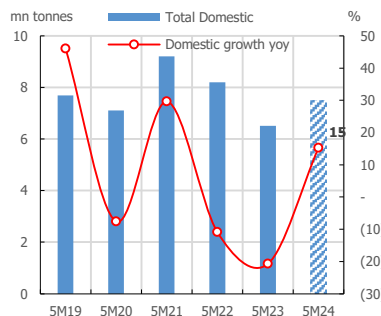
According to VSA statistics, in 5M24, the total sale volume of the steel industry reached 11mn tonnes, a 15% yoy improvement (fig.1). Positive growth could be thanks to sale growth in both the domestic market (+15% yoy, fig.2) and in the export market (+14% n/n, fig.3)

**Figure 1. Total sales growth showed first signs of recovery**



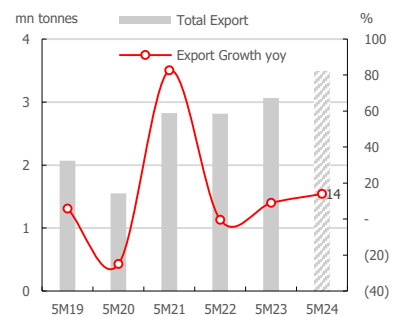
Source: VSA, Fiinpro, KISVN

**Figure 2. Domestic demand returned from 2023 low base**



Source: VSA, Fiinpro, KISVN

**Figure 3. Export yoy growth rate remained stable**



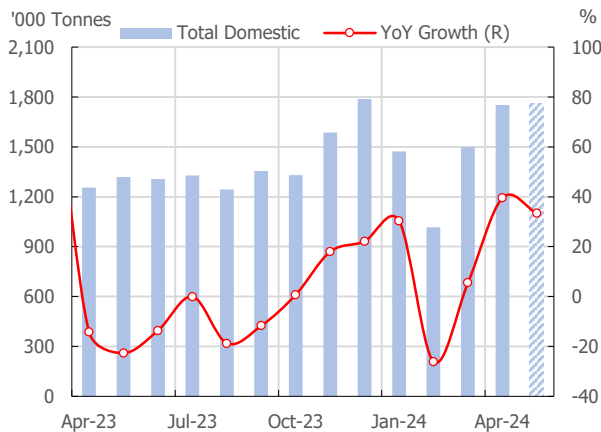
Source: VSA, Fiinpro, KISVN

**Steel demand improve as construction outlook brighten**

### 1. Domestic sales grew as construction activities return

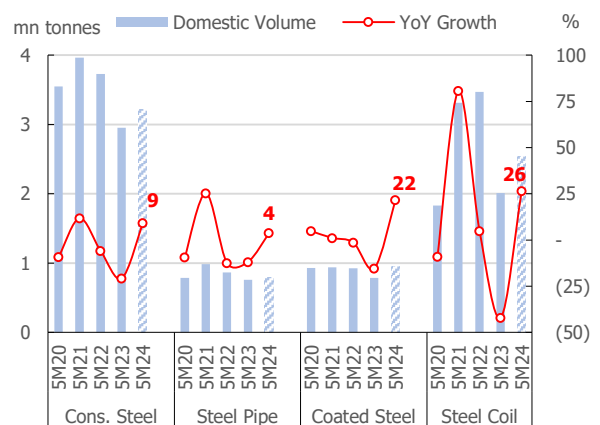
Per the Ministry of Construction, the number of housing units licensed for construction rose sharply in 4Q23 and 1Q24 at +92% yoy and +36% yoy, respectively. This could indicate a more active construction sector, which led to a more enthusiastic demand for finished steel in 5M24. In Apr and May, domestic steel consumption grew by 40% yoy and 33% yoy, consecutively (fig.4). In 5M24, the segments that saw particularly healthy growth are Construction steel (+9% yoy) and Coated Steel (+22% yoy, fig.5).

**Figure 4. Domestic steel consumption started to show positive sign in April**



Source: VSA, Fiinpro, KISVN

**Figure 5. Domestic demand of steel coil perked up thank to good coat steel export**

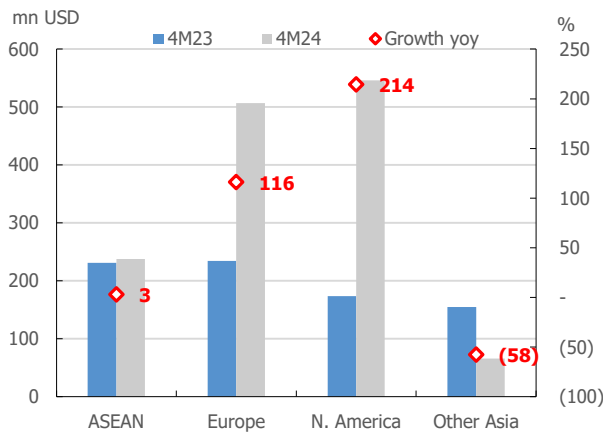


Source: VSA, Fiinpro, KISVN

**HRC demand rise alongside with coated steel exports**

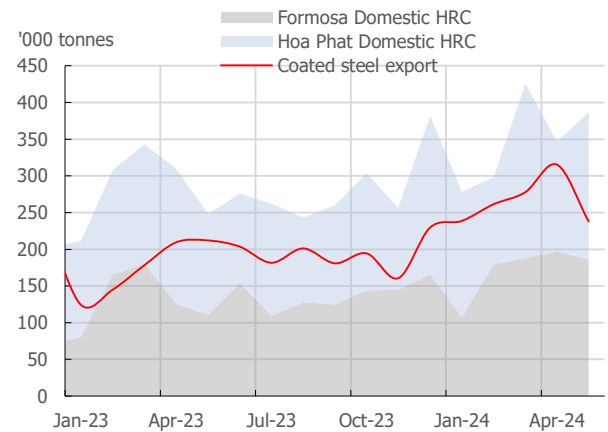
Domestic HRC demand was boosted by high Coated Steel export demand in 4M24. In North America, where export value surged by 214% yoy, and Europe (+116% yoy, fig.6). These markets required products that had source materials come from outside of China due to trade disputes. This created a healthy demand for domestically produced HRC from companies such as Hoa Phat and Formosa (fig.7). In 5M24, Hoa Phat domestic HRC consumption increased by 29% yoy and Formosa local HRC sales rose by 16% yoy.

**Figure 6. Exports values of coated steel to Europe and North America sky rocked ...**



Source: KISVN

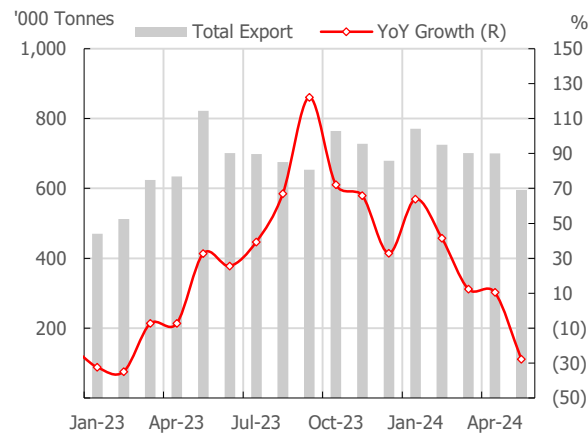
**Figure 7. ... led to increased demand for domestic HRC**



Source: VSA, Fiinpro, KISVN

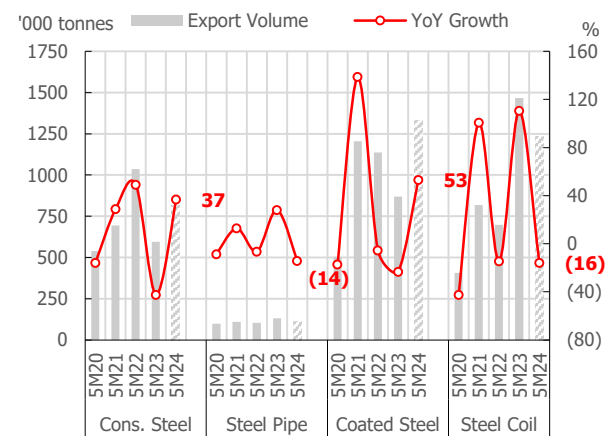
**2. Positive exports growth in 1Q24 but slowed in 2Q24F**

**Figure 8. Steel exports had lost growth ...**



Source: VSA, Fiinpro, KISVN

**Figure 9. ... due to reduced steel coils exports volume**



Source: VSA, Fiinpro, KISVN

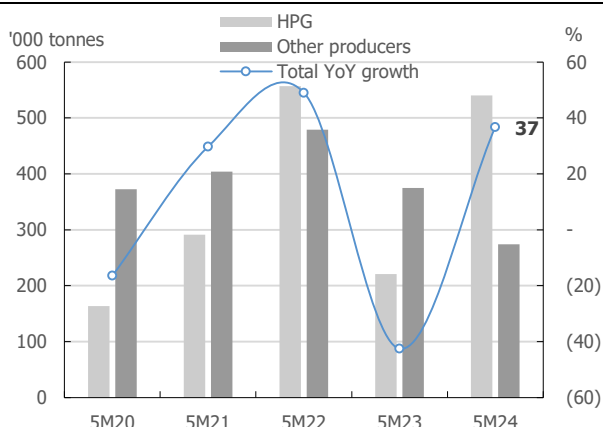
In 5M24, the industry exports maintained positive growth at 14% yoy, at 349 thousand tonnes. Thanks to (1) construction steel exports grew by 37% yoy and (2) a surge of 53% yoy in coated steel exports. However, HRC export, the key growth driver in previous quarters, recorded a 16% yoy decline (fig.9). This was caused by heightened competition, as Chinese producers boosted their export volume. This is one of the important reasons that caused the export volume to lose growth

**Hoa Phat raised the industry construction steel exports**

momentum in recent months, with May's growth fell to the negative (-28% yoy, fig.8).

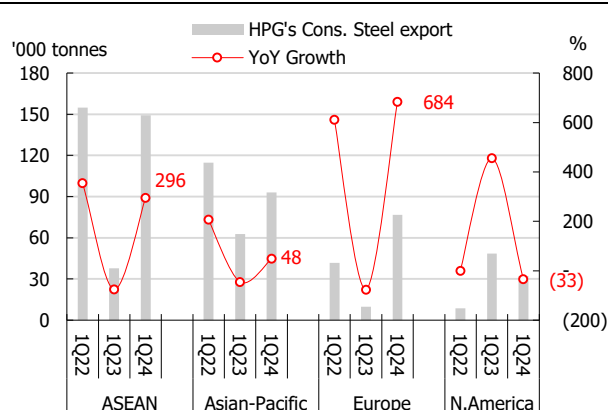
- (1) In 5M24, Vietnam's construction steel export rose by 37% yoy, at 492 thousand tonnes (fig.9), which mostly came from Hoa Phat exports activities, accounted for 66% of total rebar export (fig.10), at 326 thousand tonnes (+122% yoy, fig.11). The prime destination of which are Europe (~76 thousand tonnes) and Singapore (~121 thousand tonnes). As construction demand in Europe is expected to remain stable while demand in Singapore is to grow to 13% yoy in 2024, we have high hopes for export volume to be maintained at a high level in 2H24F.
- (2) In 4M24, our observation indicated that the Coated steel export to the US grew by 398% yoy and to Italy grew by 28x yoy. These gains were brought about by a more active construction sector in the US and the expansion of market share in Europe. Because of the Ukraine War, two of Europe's largest steel providers (Russia and Ukraine) have been delivering to this market in two recent years.

**Figure 10. Exports of Construction steel have rose significantly in the last 5M24**



Source: VSA, Fiinpro, KISVN

**Figure 11. ... growth are led by Hoa Phat exports to ASEAN and European markets**



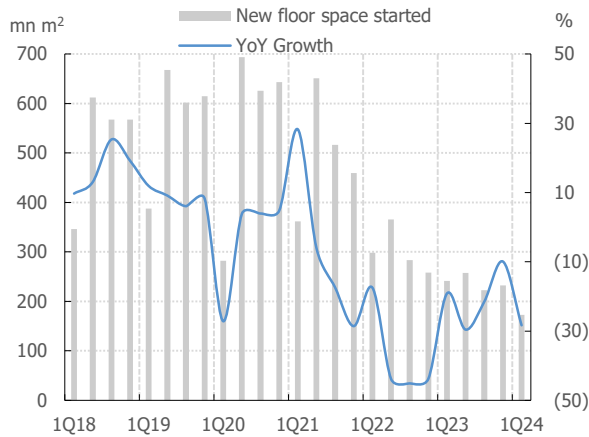
Source: KISVN

**HRC exports plummeted due to increased pressure from China**

In other markets, export activities are under intense pressure from Chinese competitors, as China's steel industry facing excess supply as demand from their domestic market remains weak (fig.12). According to China Steel and Iron Association, in 1Q24, exports reached 26 mn tonnes (+31% yoy), focusing in the ASEAN (+24% yoy) market which accounted for 31% of total export volume, the Middle East (22%, +42% yoy) and the Gulf (11%, +55% yoy, fig.13).

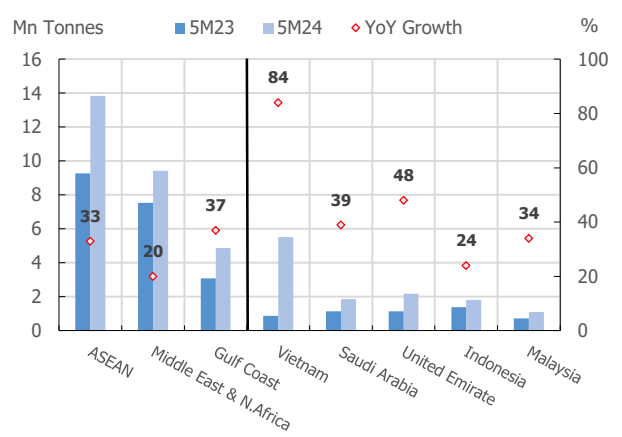
These markets, especially ASEAN, will be key buyers of Vietnamese HRC in 2023. Vietnamese HRC producers met with difficulties as China increased its rolled coils exports. In HRC exports fell by 37% yoy in Apr and 61% yoy in May.

**Figure 12. Construction demand slid in China, causing an excess of steel supply**



Source: Bloomberg, KISVN

**Figure 13. ... Causing a surge in Chinese HRC exports into Vietnam and other key markets**



Source: China Custom, KISVN

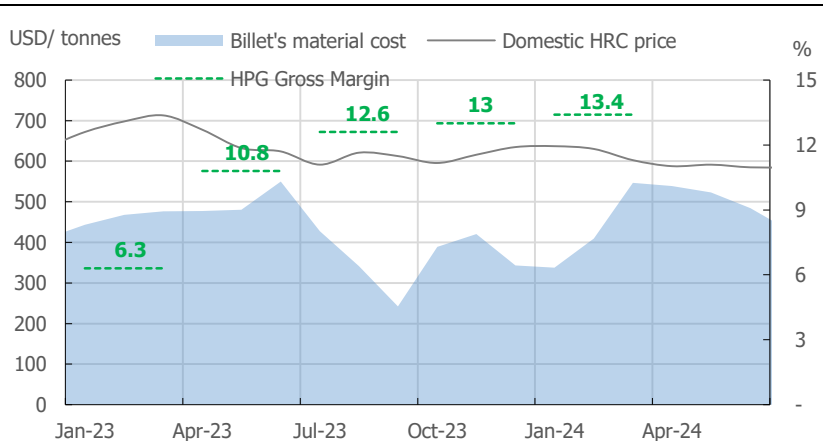
**Low input price could start to reflect on COGS in 3Q24F**

**3. Producers GM to take hits from rising input cost in 2Q24F**

In 1Q24, Hoa Phat's gross margin (GM) reached 13.4% (+0.4%pt vs 4Q23, fig.14). We expect this increase to come from volume growth as we did not observe a large change in the price of materials and selling price.

However, in 2Q24F, our calculation indicated GM of producers might fall as the cost of sale could increase, beginning in late 1Q24. Meanwhile, selling prices started to slide in Mar due to subdued signals from the Chinese construction industry (fig.15).

**Figure 14. We expects producers GM to improve in 2H24F**

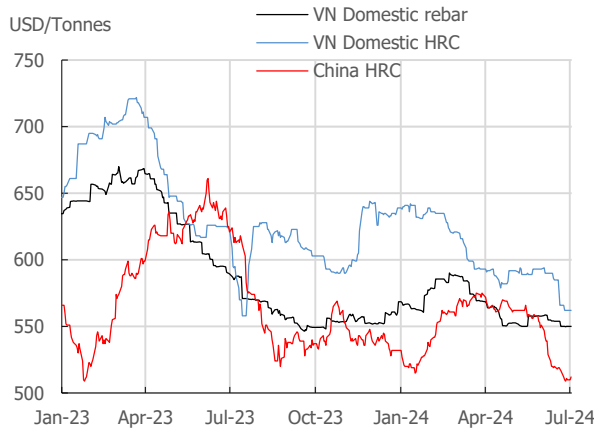


Source: KISVN  
Material cost are calculated using turnover date

We propose that weak Chinese demand had had a serious impact on the prices of input material as well as the selling price of finished steel, starting in May (fig.16). This reduced cost of sales might have a positive impact on producers' GM starting in 3Q24F, as the material cost had dropped more rapidly compared to the selling price.

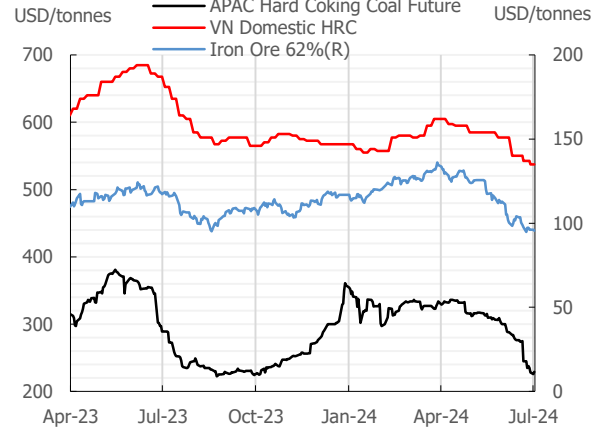


**Figure 15. Chinese steel price crashed required Vietnamese producers to drop price to compete...**



Source: Bloomberg, KISVN

**Figure 16. ... input price also fell due to low demand on the global market**

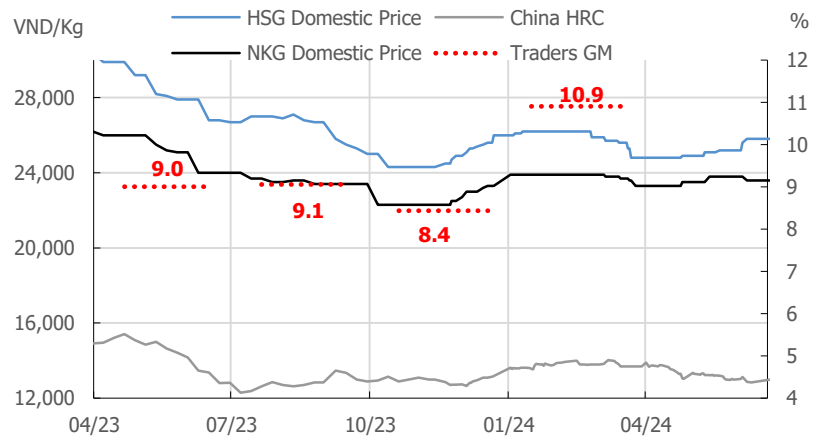


Source: Bloomberg, KISVN

**4. Traders benefited from high export prices**

In 1Q24, the collective GM of the three largest traders (HSG, NKG, and GDA) was at 10.9% (+2.5%p qoq, fig.17). The primary supporting factors of this growth are improved selling prices, especially in the export market.

**Figure 17. We expects producers GM to improve in 2H24F**



Source: KISVN

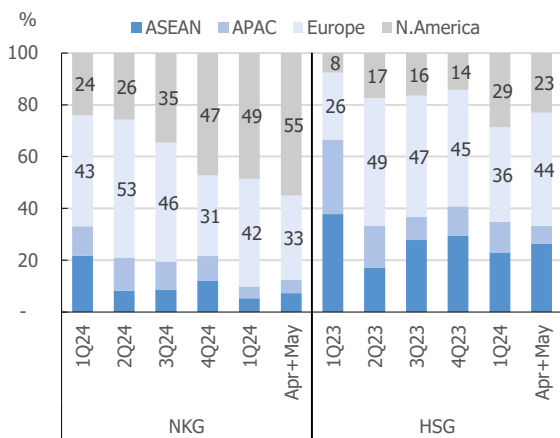
In 2Q24F, the group GM could be affected by the costlier HRC inventory purchased in March. However, GM is likely to experience segmentation based on selling market:

- *Domestic market to endure increased pressure:* In 2Q24F, lower domestic selling prices, especially in Apr and May (fig.17). Coupled with costlier inventory, could put pressure on sellers with more exposure to the domestic market like HSG. This pressure would likely reduce in 2H24F as the input price falls and the selling price rebounds.

**Improve exports  
price could boost  
GM in 2Q24F**

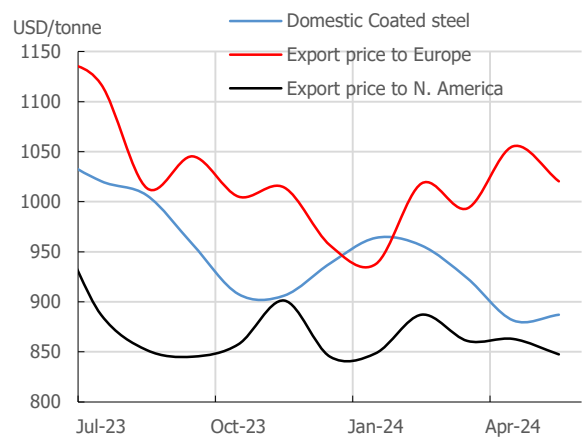
- *Export market: GM on the export market might benefit from (1) Exporters enjoy higher prices abroad compared to the domestic market, especially in North America (Fig. 19). (2) Traders have gradually redirected their exports from ASEAN to North America and Europe (fig.18). These markets accounted for 91% of NKG's total exports in 1Q24 and 88% in April and May. Similarly, 65% of HSG's exports went to North America and Europe in 1Q24, and these markets comprised 64% in April and May. This strategic shift could also shield the companies from competition with Chinese products.*

**Figure 18. Coated steel export value grew fastest in European and N. American market**



Source: KISVN

**Figure 19. Higher coated steel export price to boost export earning**



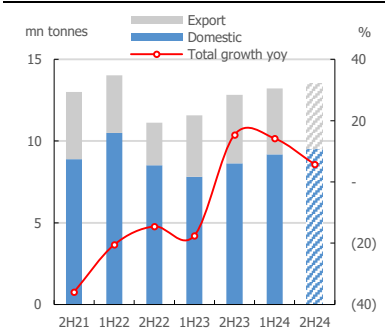
Source: KISVN

### III. 2H24F: Sale volume projected to remained at high level

***In 2H24F, total consumption could maintain at a high level similar to 1H24***

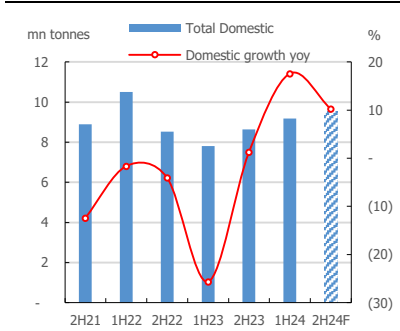
In 2H24F, the domestic construction demand forecast to recover coupled with coated steel exports to Europe and North America remained high. For this, we forecast the industry total sales to maintain the growth, but the rate of growth might be slowed to a single-digit level due to reduced export volume and growth is no longer supported by the low base (fig.20). Domestic sales could be the key segment in 2H24F as the growth rate is expected to stay in the double-digit range (fig.21). We anticipated export volume might see a slight fall due to (1) increasing competition on the international market and (2) improved export volumes in 2H23 created a high base (fig.22).

**Figure 20. Total sale growth to maintain momentum**



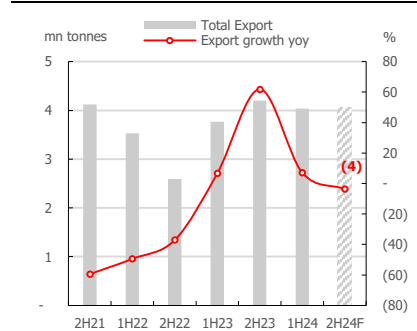
Source: VSA, Fiinpro, KISVN estimate

**Figure 21. Domestic sale could keep its impressive growth that was started in 4Q23**



Source: VSA, Fiinpro, KISVN estimate

**Figure 22. Export growth fell, as it was limited by a high base**



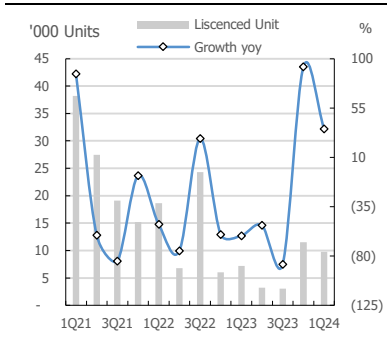
Source: VSA, Fiinpro, KISVN estimate

#### ***Vietnam Real Estate market posed for recovery***

#### 1. Improved construction outlook supports domestic sale

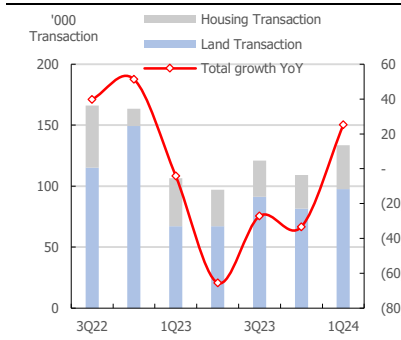
As mentioned above, the housing units licensed for construction rose sharply in 4Q23(+92% yoy) and 1Q24 (+36% yoy, fig.23). For construction, it usually takes between 3-6 months to go from licensing to the breaking ground, thus we expect a more active construction market in 2H24F. The volume of real estate transactions had also increased by 25% yoy (fig.24), promising a more robust demand for construction civil products. Furthermore, a lower interest rate (fig.25) could further create a friendlier environment for homebuyers, and help boost demand for the construction and real estate sectors. These factors could help bolster rebar and coated steel sales in 2H24F.

**Figure 23. Housing units licensed sky rocked in 4Q23 and 1Q24**



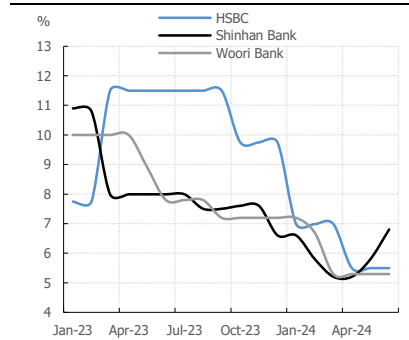
Source: Ministry of Construction, KISVN

**Figure 24. Increased real estate transition promise a more robust demand for construction**



Source: Ministry of Construction, KISVN

**Figure 25. Lowered mortgage rate created a more lender-friendly market**



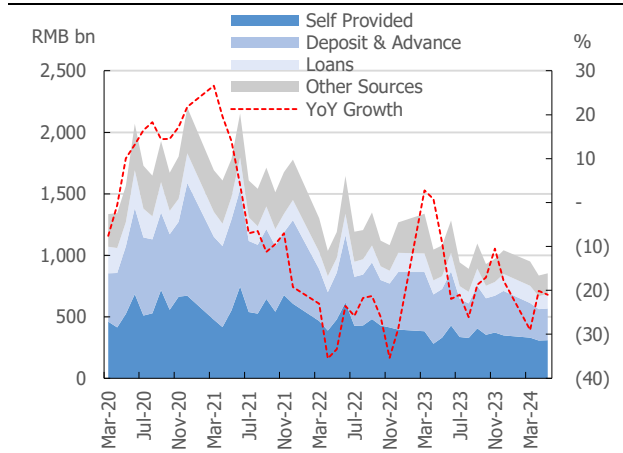
Source: KISVN

**Chinese Steel demand remained at a low level**

In our view, hardships in the Chinese real estate market are posed to continue in 2H24F. In 5M24, total construction investment was only at RMB 2.6tn (-23% yoy, fig.26), with capital from individual deposits dropped by 38% yoy. Developers' capacities to invest in new projects are reduced, which could negatively affect the prospects of the Chinese real estate and construction sectors. According to the National Bureau of Statistics, demand for public investment in China also had cooled as the growth rate was only at 4% in May (fig.27).

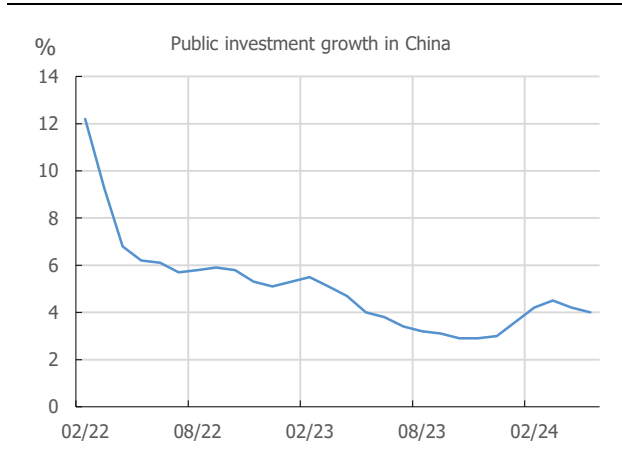
With construction demand expected to stay at a low level in 2H24F, the export volume of Chinese steel products might remain elevated. Especially in markets without anti-dumping tariffs against Chinese steel products such as South East Asia and the Middle East. We also expect Vietnam will continue to be a key importer of Chinese HRC.

**Figure 26. Investment in civil construction stayed subdued in 2H23 and 1Q24**



Source: National Bureau of Statistics, KISVN

**Figure 27. Public investment saw weak growth**



Source: National Bureau of Statistics, KISVN

As competition mounted, both producers and traders filed a petition to the Bureau of Trade Protection and the Ministry of Industry and Trade for anti-dumping measures against imported HRC and coated steel (Table 3). If these measures are approved, the bureau will apply a temporary tariff once the investigations are concluded. This tariff will go into effect in 2H24F and last 120-180 days.

*Protective measure could increase traders and producers' sale volume*

**Table 3. We expects producers GM to improve in 2H24F**

Status	Investigation code	Begin	Term	Products type	Rate	Applicable subjects
In effect	ER02-SG04	04/22	03/23-03/26	Rebar	6.1%-6.3%	Worldwide
Ongoing investigation	AD19	06/24		Coated Steel		China, ROK
		05/24		HRC		China, India

Source: Bureau of Trade Protection, KISVN

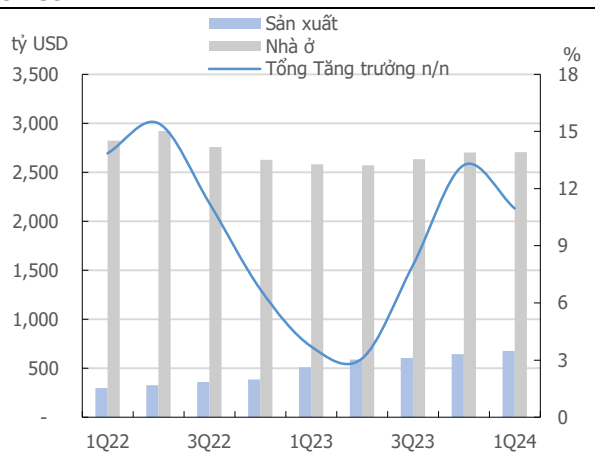
The official tariff rate will go into effect 12 -18 months from the start of the investigation. This protective measure could help the companies to protect and expand their market share in 2H24s and 2025F. This is particularly important as demand for coated steel is on the rise both at home and abroad.

## 2. Export - Promising demand in strategic markets

As competition risks against the Chinese mounting in the ASEAN market, Vietnamese steel exporters are making a return to the North American and European markets. These destinations imposed protective measures against Chinese-made steel and products with Chinese steel as the primary material, aiming to limit the penetration of Chinese goods.

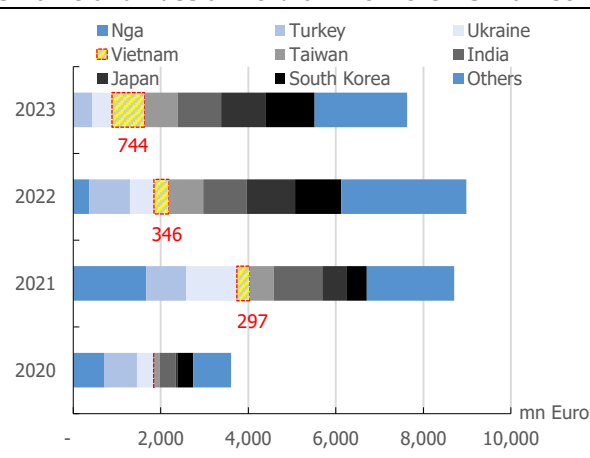
- **Export to North America could increase thanks to high construction demand.** Per the U.S Commission of International Trade, in 4M24, the steel imported from Vietnam reached 252 thousand tonnes (+185% yoy), with emphasis on coated steel imports (+211% yoy) Rise in demand could be attributed to returning construction activities. Of which, spending on homebuilding grew 5% while the manufacturing segment grew by 34% yoy in 1Q24 (fig.28).
- **Export to North America is expected to be stable.** We have high hopes for export into the Eurozone as exporters continue to maintain their newly gained market share while total demand in the region remains stable.
  - In 2023, Imports from Vietnam value growth at the rate of 115% yoy, despite total steel imports of the EU-27 zone being downed by 15% yoy (fig.29). This growth originated from seizing the market share of Russia and Ukraine, these two countries are traditional providers of steel to Europe, however, due to the Ukraine War, they have stopped exports to the European markets. The Vietnamese steel industry is one of the primary beneficiaries of this withdrawal as Vietnam's market share grew from 4% in 2022 to 10% in 2023 (fig. 30).
  - In 1Q24, the EU construction sector remained stable with the construction activities index at 104pt (Table 4). With Italy, one of the largest importers of Vietnamese steel, index growth, to 138pt in 1Q24 (10pt yoy).

**Figure 28. Construction spending in America is on the rise**



Source: FRED, KISVN

**Figure 29. Vietnam had increase its market share as Ukraine and Russia withdraw from the EU market**



Source: Eurostat, KISVN

**Table 4. We expects producers GM to improve in 2H24F**

	01/23	02/23	03/23	04/23	05/23	06/23	07/23	08/23	09/23	10/23	11/23	12/23	01/24	02/24	03/24	04/24
EU-27	105	106	105	104	105	104	105	104	104	104	103	105	104	104	103	104
Belgium	100	103	100	104	101	102	105	99	101	100	101	104	101	103	104	101
Bulgaria	100	99	100	100	100	99	99	99	100	99	99	99	101	103	103	102
Czechia	106	101	105	100	101	104	101	100	100	101	98	99	99	104	97	100
Denmark	105	105	104	105	105	105	105	105	105	106	106	106	103	105	108	107
Germany	98	98	96	98	98	96	97	95	95	94	93	91	93	96	95	93
Spain	93	96	96	96	97	96	96	96	96	96	96	97	96	97	94	95
France	102	104	102	103	103	101	101	100	101	100	99	101	101	99	100	99
Croatia	105	106	106	106	108	108	110	110	112	114	114	118	120	122	122	122
Italy	126	128	129	125	126	129	128	134	132	133	136	138	142	137	135	138
Hungary	95	96	102	93	96	95	102	99	96	96	94	99	109	99	96	107
Netherlands	109	109	107	103	107	107	106	105	104	103	100	103	100	104	103	103
Austria	104	114	103	101	99	100	101	100	99	101	97	102	99	101	99	103
Poland	116	116	113	113	112	111	110	112	116	114	112	128	107	108	104	106
Portugal	107	106	108	106	107	109	108	109	108	109	110	110	112	110	108	113
Romania	119	122	128	120	126	129	130	135	131	137	139	153	97	115	126	138
Slovakia	89	83	80	79	83	84	84	82	86	83	84	78	78	82	76	82
Finland	100	98	97	95	95	95	94	93	92	92	90	90	88	89	88	89
Sweden	100	97	97	94	95	95	94	94	92	94	92	92	93	92	89	90
Norway	103	103	103	102	103	103	101	103	103	102	102	101	102	102	101	102

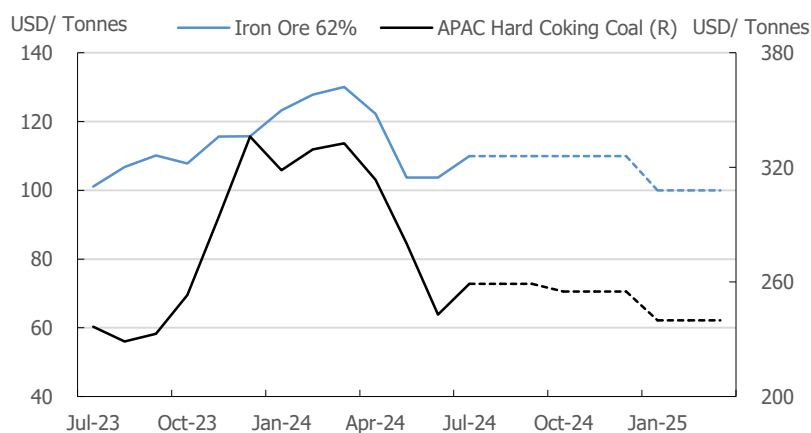
Source: Eurostat, KISVN

**3. Prospect of stable input prices in 2H24F**

**Input prices are expected to remain stable in 2H24F**

With both private and public construction spending in China expected to remain tepid, demand for steel and steel-making material (iron ore, coking coal) has reduced. Therefore, we expect material prices to stabilize at a lower base compared to 1H24. With 62% iron ore spot prices expected to stabilize at USD 110/tonnes, in line with the average price in 1H23 and average coking coal prices in 2H24F could be at USD 255/tonnes, -2.5% yoy (fig.30).

Selling prices could also decrease, but at a slower pace compared to input prices, thanks to increasing demand for HRC and rebar in the domestic market. Therefore, we anticipate the producer's GM in 2H24F to either maintain at the 1H24 level or slightly improve.

**Figure 30. Inputs price might cooled in 2H24F**

Source: Bloomberg, KISVN

## IV. Risk Factor

***Domestic demand may not recover as expected.***

Domestic consumption of construction steel and coated steel products is highly dependent on the performance of the construction and real estate sectors. If the recovery of these two industries cannot reach the same momentum as in 1H24, the growth of domestic steel consumption will be limited.

***China's strong increase in steel exports could pose difficulties for Vietnamese producers.***

Currently, the export output of Vietnam's steel industry is under competitive pressure from Chinese manufacturers. The weaker-than-expected Chinese real estate market and construction demand could lead to increased steel export output and accelerate the downward trend of finished product prices. In this case, the wave of cheap steel from China will create difficulties for Vietnamese steel producers, not only in the export market but also in the domestic market.

***Construction demand in North America and Europe may be lower than expected.***

Steel exports to North America and Europe will be the main growth drivers for steel trading enterprises. However, if demand at these destinations is not as high as expected, it could slow down the growth rate of Vietnamese galvanized steel enterprises.

## Company Analysis

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Hoa Phat Group	HPG
Hoa Sen Group	HSG
Nam Kim Steel	NKG

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## Hoa Phat Group (HPG)

TP VND36,000 (Consensus)

		Yr to	Sales	OP	NP	EPS	% chg	BPS	PE	P/B	ROA	ROE	DY
		Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(yoy)	(VND bn)	(x)	(x)	(x)	(%)	(%)
Stock price (Jun 27, VND)	28,450	2019A	63,658	9,743	7,527	1,177	(12)	7,445	8.3	1.3	17.1	8.4	0
Market cap (USD mn)	7,172	2020A	90,119	17,123	13,450	2,103	79	9,235	10.0	2.3	25.2	11.5	1.0
Shares outstanding (mn)	6,396	2021A	149,680	37,664	34,478	5,390	156	14,169	5.9	2.3	46.1	22.3	0.8
52-Week high/low (VND)	29,600/20,728	2022A	141,409	13,078	8,484	1,326	(75)	15,010	12.3	1.1	9.1	4.9	2.1
6M avg. daily turnover (USD mn)	28.00	2023A	118,953	9,669	6,835	1,069	(19)	16,067	23.8	1.6	6.9	3.8	0
Free float / Foreign ownership (%)	55.9/24.4												
Major shareholders (%)													
Tran Dinh Long	25.8												
Dragon Capital	6.9												

Source: Company data, KIS Research

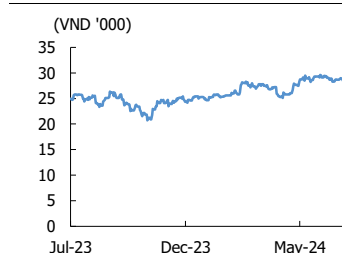
Note: NP and EPS attributed to controlling interest

### Domestic sale to drive revenue growth in 2H24F

#### Performance

	1M	6M	12M
Absolute (%)	(2.2)	15.5	13.8
Rel. to VNI (%p)	(2.4)	3.6	2.1

#### Stock price



Source: Bloomberg

**1Q24:** Hoa Phat revenue is at VND31tn (+16% yoy). Driven by exports increase from 1Q23's low base (+255% yoy). GM doubled (+7.2%p yoy, to 13.5%) as cost per tonne fell by 23% yoy while the selling price only reduced by 17% yoy. Increased GM helped the company NPAT to rise by 6.5x, at VND2.9tn.

**2H24F:** We forecast sale volumes could grow by 23% yoy as rebar sales rebound by 37% yoy. Which could help HPG revenue reach VND83tn (+32% yoy) and VND8.4tn in NPAT (+69% yoy). Our forecasts are based on:

- *Domestic sales can improve revenue.* Positive signals from the construction sectors indicate a recovery of construction steel demand. We forecast that domestic sale volumes to be at 4.2mn tonnes (+48% yoy), as rebar and coated steel could both improve by 30% yoy and 52% yoy.
- *Improved GM thanks to stable input costs.* In 2H24F, input prices could remain at low levels following the Apr drop, while selling prices are still supported by local demand. This will put less pressure on GM moving forward.

In 2024F, we forecast revenue to VND152tn (+28% yoy) NPAT in 2024F to VND13tn (+69% yoy) surpassing the company's NPAT expectations by 34%.

**Dung Quat 2** Phase 1 is expected to be completed in 4Q24 and operational in 1Q25F, adding 2.8mn tonnes/year to Hoa Phat's HRC production capacity. In 2026F, Phase 2 is expected to start operation and add another 2.8mn tonnes of HRC/year, bringing HPG's total HRC capacity to 8.6 million tons/year.

**Valuation:** The steel industry is highly cyclical, with HPG's two latest cycles in 2015–2019 and 2020–2023. The historical average EPS is VND5,087, 2.5 times higher than the current EPS. Currently, HPG is trading at a P/E of 19.7x, 3.4 standard deviations above the historical P/E of 8.3x, indicating valuation is paying a lot for next year's recovery. And per Bloomberg Consensus, the stock is valued at 36,000 VND per share, at an upside of +26%.

Table 5. HPG 2H24F earnings forecast

(VNDbn, %, %pt)

	1Q24	2Q24F	2H24F		2024F		Consensus	
				yoy		yoy	2H24F	2024F
<b>Revenue</b>	<b>31,092</b>	<b>38,700</b>	<b>82,849</b>	<b>32</b>	<b>152,402</b>	<b>28.1</b>		<b>138,963</b>
Domestics	18,375	29,190						
Exports	12,476	9,510						
<b>Gross Profit</b>	<b>4,153</b>	<b>3,431</b>	<b>10,235</b>	<b>26.9</b>	<b>17,531</b>	<b>35.5</b>		<b>20,566</b>
Gross Margin	13.5	8.9	12.4	1.8	11.5	0.6		14.8
<b>NPAT</b>	<b>2,869</b>	<b>2,431</b>	<b>8,415</b>	<b>69.3</b>	<b>13,426</b>	<b>69.3</b>		<b>12,865</b>

Source: Company data, Bloomberg, KISVN estimate

## Hoa Sen Group (HSG)

TP VND24,800 (Consensus)

		Yr to	Sales	OP	NP	EPS	% chg	BPS	PE	P/B	ROA	ROE	DY
		Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(yoy)	(VND bn)	(x)	(x)	(x)	(%)	(%)
Stock price (Jun 27, VND)	24,550	2019A	27,074	1,302	482	813	190	9,327	6.6	0.6	8.9	2.6	0
Market cap (USD mn)	596	2020A	30,045	2,364	1,544	2,491	206	11,717	6.4	1.4	24.3	9.1	0
Shares outstanding (mn)	616	2021A	56,561	5,067	4,380	7,225	190	18,482	4.1	1.6	47.7	21.7	0
52-Week high/low (VND)	25,350/16,175	2022A	40,694	(787)	(1,067)	(1,724)	(124)	16,485	25.6	0.7	-10.0	-5.5	0
6M avg. daily turnover (USD mn)	11.39	2023A	32,806	895	814	1,321	(177)	17,621	16.8	1.3	7.7	4.7	0
Free float / Foreign ownership (%)	69.4/20.4												
Major shareholders (%)													
Hoa Sen Tourism	19.9												
Le Phuoc Vu	17.0												

Source: Company data, KIS Research

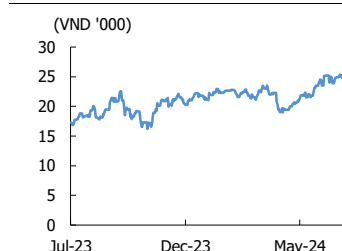
Note: NP and EPS attributed to controlling interest

### Benefited from large market share in the domestic market

#### Performance

	1M	6M	12M
Absolute (%)	4.2	16.5	41.8
Rel. to VNI (%p)	4.0	4.6	30.1

#### Stock price



**2QFY24:** HSG records revenue of VND 9.2tn (+32.5% yoy), driven by strong sales growth (+51% yoy), especially in exports (+105% yoy). GM rebounds to 12.1% (-0.85ppt yoy) due to higher selling prices and lower raw material costs stockpiled in Dec 2023. With net margin returns to 3.4% (-0.2%pt yoy).

**2HFY24F:** we project HSG's revenue at VND 20tn (+19% yoy) and NPAT to reach VND510tn (+12.4% yoy). This estimation is thanks to:

- *Resurgent of the domestic sales:* In 5M24, Hoa Sen accounted for the largest market share of the domestic market, at 26%. As domestic demand is expected to return in 2H24F, we expect improved sales (+34% yoy) will boost the company revenue in 2H24F.
- *HRC prices fell to support a higher GM:* HRC prices dropped significantly in Apr and May while selling prices remained edged up thanks to high demand. Widening the gap between input and selling price could help expand the company's GM.

In 3QFY24F, KISVN projects HSG's sales volume to increase by 38% yoy in 2HFY24. Higher sales could boost HSG revenue to VND38tn (+21% yoy) and VND933bn in NPAT 37x improvement yoy and +133% company NPAT goal.

**Valuation:** HSG's current P/E stands at 17.2x, 2.6 standard deviations above the historical average PE of the past two cycles of (2015-2018, 2019-2022). Suggesting investors anticipated a strong rebound in the company's earnings. HSG consensus price for FY2024F is at VND24,800/share, per Bloomberg.

Table 6. HSG 2H24F earnings forecast

(VNDbn, %, %pt)

	2QFY24	3QFY24F	2HFY24F		FY2024F		Consensus	
				yoy		yoy	FY2H24F	FY2024F
Revenue	9,250	9,998	19,909	18.8	38,232	20.8		36,467
Domestics	3,840	5,925						
Exports	5,409	4,073						
Gross Profit	1,118	1,126	2,380	17.6	4,448	46.8		4,303
Gross Margin	12.1	11.3	12.0	-0.2	11.6	2.06		11.8
NPAT	319.23	190.34	510	12.4	933	3,691		887

Source: Company data, Bloomberg, KISVN estimate

## Nam Kim Steel (NKG)

TP VND 25,700 (Consensus)

		Yr to	Sales	OP	NP	EPS	% chg	BPS	PE	P/B	ROA	ROE	DY
		Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(yoy)	(VND bn)	(x)	(x)	(x)	(%)	(%)
Stock price (Jun 27, VND)	25,700	2019A	17,001	1,623	1,194	5,034	(7.8)	20,316	15.7	3.9	15.9	28.7	2.2
Market cap (USD mn)	267	2020A	17,511	1,508	1,069	4,463	(11.4)	23,029	17.7	3.4	12.5	21.8	3.0
Shares outstanding (mn)	263	2021A	19,547	1,409	1,029	4,295	(3.8)	26,416	18.4	3.0	10.7	18.3	1.4
52-Week high/low (VND)	26,800/17,300	2022A	33,876	2,337	1,810	6,988	70.9	34,302	11.3	2.3	15.1	25.1	0.8
6M avg. daily turnover (USD mn)	8.07	2023A	33,137	2,484	1,971	6,009	(22.4)	29,882	14.3	3.3	14.2	21.6	0.6
Free float / Foreign ownership (%)	65.8/15.4												
Major shareholders (%)													
Ho Minh Quang	11.8												
Unicoh Specialty Chemicals	5.85												

Source: Company data, KIS Research

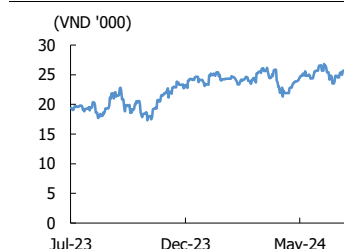
Note: NP and EPS attributed to controlling interest

### Export sale led growth expectation

#### Performance

	1M	6M	12M
Absolute (%)	0.0	10.3	32.8
Rel. to VNI (%p)	(0.2)	(1.6)	21.1

#### Stock price



Source: Bloomberg

**1Q24:** Nam Kim recorded a revenue of VND 5.3tn (+21% yoy), primarily driven by a 65% yoy increase in export volume and a 6% yoy increase in average export prices. As export ASPs improved and the average cost per tonne fell by 15% yoy, GM reached 10.7% (+7.6%p yoy), bringing a net profit of VND 150bn (compared to 1Q23 loss of VND 49bn)

**2H24F:** We expect NKG's revenue to reach VND 11.2tn (+29% yoy), and VND 391bn (+747% yoy) in NPAT. Our expectations are based on:

- *Improve demand abroad:* North America and Europe took up 49% of NKG exports in 1Q24. As the demand remained stable similar to 1H24, we expect exports to rise by 20% yoy, which could support overall revenue growth.
- *HRC prices could support GM:* In 2Q24, the price of Vietnamese HRC plummeted to compete with Chinese HRC. In 2H24F, we project that finished steel prices will remain at a lower level compared to 2H23. As high demand supports the selling price, NKG could enjoy a higher GM in 2H24F.

In 2024F, we forecast NKG revenue at VND23tn (+23% yoy) and NPAT at VND694 (+4.7x yoy).

**Update on the Phu My Sheet Steel project:** The project is expected to complete construction and begin operations in 4Q25-1Q26. The new plant will increase the company's capacity to 950 thousand tons (+69% of current capacity).

**Valuation:** The current P/E ratio of NKG is approximately 19.3x, 2.7 standard deviations higher than the historical average of 5.6x of the last two cycles (2015-2018 and 2019-2022). According to Bloomberg, the consensus target price for Nam Kim Group in FY2024F is 25,700 VND per share.

Table 7. NKG 2H24F earnings forecast

(VNDbn, %, %pt)

	1Q24	2Q24F	2H24F		2024F		Consensus	
				yoy		yoy	2H24F	2024F
Revenue	5,316	6,483	11,263	29	22,919	23		21,728
Domestics	1,606	2,054						
Exports	3,709	4,706						
Gross Profit	567	684	1,169	144	2,277	105		1,836
Gross Margin	10.7	10.5	10.4	4.9	9.9	4.0		8.5
NPAT	150	287	391	747	694	467		391

Source: Company data, Bloomberg, KISVN estimate

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