

Hoa sen Group

(HOSE: HSG)

Growth beyond expectations

BUY

(Updated report)

Target price:
VND22,200
 (Upside 22.8%)

 Mirae Asset Securities (Vietnam) LLC
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Valuation and recommendation

We increase the target price by 33% to VND22,200 with FY20/21 PE forward at 7.1x. During FY20/21-FY21/22 period, we increase HSG's net profit after tax (NPAT) by 25%-27% compared to our previous forecast, based on the recovering performance of the company which goes beyond our expectation. Stock market price has increased by 51% since our latest report on July 2020. We are keeping a BUY recommendation on HSG stocks with an expected return of +22.8%.

Investment thesis

Maintain the leading position in galvanized steel sheet segment: With a 9%YoY output growth rate in FY19/20, Hoa Sen has increased its market share to 32.5% from 30% in FY18/19; therefore, it maintains the number one position in the galvanized steel sheet segment.

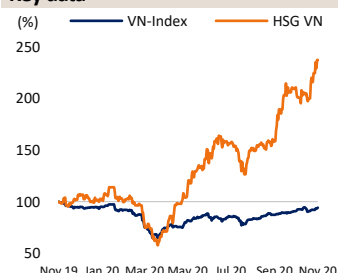
Financial position's quality improved: In the FY17/18, the net debt to equity ratio reached 3.x as HSG accelerated its borrowing to invest in steel plant projects in Ca Na, Ninh Thuan and steel pipes projects in Yen Bai and Binh Dinh. However, we found that when the company started to assign some projects, the company's leverage gradually returned to a safer level. The net debt to equity ratio has gradually decreased to 1.2x in FY19/20. Net debt/EBITDA ratio fell sharply from 6.6x to 2.6x in the aforementioned period. We expect HSG to continue not paying cash dividend and stock dividend at the rate of 10% to focus on cash flow to clear its debt in FY20/21.

Earnings update and forecast

Net profit increased by 218%YoY for FY19/20: HSG announced its FY19/20 earnings (on September-October) before auditing with a revenue of VND27,534bn (-1.8%YoY) and NPAT of VND1,151bn (+218% YoY). Sales volume recovered in all three segments of galvanized steel sheet, steel pipe and plastic with a total output of 1.62mn tons (+9% YoY), of which galvanized steel sheet is estimated at 1.14mn tons (+9% YoY) and steel pipe 427,445 tons (+10% YoY, 16% market share). Gross profit margin (GPM) improved from 11.4% in FY18/19 to 16.8% due to the low HRC price, while interest expense decreased by 25%YoY, boosting profit growth.

FY20/21 forecasts, net profit growth will be higher than revenue: For FY20/21 period, we forecast a revenue of VND32,202bn (+17% YoY) and a NPAT of VND1,395bn (+21% YoY). Forecasted sales volume of steel sheet and steel pipe to be 1.22mn/mt (+7% YoY) and 453,092mt (+6% YoY), respectively. We project interest expense decrease to VND 467bn (-18%YoY), leading to a faster growth of NPAT than revenue growth. However, chairman of HSG has registered to sell 60mn shares (est. 13.5% total share) from November 25th, which may cause short-term correction of HSG stock.

Key data



OP (21F, VNDbn)	2,190	Market cap (VNDbn)	7,909
Consensus OP (21F, VNDbn)	2,050	Shares outstanding (mn)	444
EPS growth (21F, %)	21	Free float (%)	65.3
Market EPS growth (21F, %)	n/a	Foreign ownership (%)	10.9
P/E (21F, x)	7.1	Beta (12M)	1.4
Market P/E (21F, x)	15.9	52-week low	4,152
VN-Index	952	52-week high	18,000

Share performance

(%)	1M	6M	12M
Absolute	12,7	101,1	137,2
Relative	9,8	86,0	143,7

Earnings and valuation metrics

	FY17	FY18	FY19	FY20	FY21	FY22
FY 30/9 (VNDbn)						
Revenue (VNDbn)	26,149	34,441	28,035	27,543	32,202	34,394
OP (VNDbn)	2,104	1,266	979	1,951	2,190	2,373
OP margin (%)	8.0%	3.7%	3.5%	7.1%	6.8%	6.9%
NP (VNDbn)	1,332	409	361	1,150	1,395	1,570
EPS (VND)	2,997	921	813	2,589	3,139	3,533
ROE (%)	24.4%	7.9%	6.4%	17.5%	17.5%	16.5%
P/E (x)	6.0x	6.1x	9.5x	6.1x	7.1x	6.3x
P/B (x)	1.2x	0.4x	0.6x	1.1x	1.3x	1.1x
Dividend yield (%)	3%	16%	0%	0%	0%	0%

Note: NP refers to net profit attributable to controlling interests

Source: HSG, Mirae Asset VN Research

Adjustment in business earnings

Table 1: Sales projection							
Billion	Previous projection		Adjustment		% change		Assessment
	FY20/21	FY21/22	FY20/21	FY21/22	FY20/21	FY21/22	
Revenue	24,681	28,939	27,543	32,202	11.6%	11.3%	In FY20, HSG completed the restructuring of its sales system, focusing more on customer diversity, supporting HSG's revenue to decline at a modest pace regardless the influence of Covid-19. Sales in FY21 is forecasts to continue growing due to the recovery of both domestic and export markets.
OP	1,678	1,794	1,951	2,190	16.3%	22.1%	The divestment of Ca Na project balanced the cash flow from business operations. In addition, the expected price of HRC will be stable, while an effective inventories control has helped the company to increase operating profit margin.
OP margin (%)	6.8%	6.2%	7.1%	6.8%	4.4%	9.7%	
Net profit before tax	1,106	1,320	1,369	1,722	23.8%	30.5%	Interest rates was reduced by 17% in FY20/21 due to the divestment of inefficient projects like Ca Na and not paying cash dividends to focus on cash flow to pay debts. Net profit margin increased to 4% (sv 1% FY19).
NPAT	921	1,098	1,150	1,395	24.9%	27.0%	

Source: Fiinpro, HSG, Mirae Asset VN Research

Average hot rolled coil (HRC) price for FY19/20 year reached US\$510/ton (-9.5%YoY): From April-September 2020, although iron ore prices have risen by 42% to US\$114/ton when Brazil was forced to stop operating some iron ore mines to limit the spread of COVID-19 epidemic while China is constantly pushing strong public investment. However, coke coal price decreased due to decline in electricity demand has helped stabilize global HRC price. In our opinion, HRC prices will continue to remain stable around US\$480-560/ton during the FY20/21 period, opening an opportunity for HSG to maintain a stable gross margin around 16% -18%.

In FY20/21, the growth rate of NPAT is estimated to be higher than revenue growth rate: For the FY20/21 period, revenue and NPAT are forecasted at VND32,202bn (+17%YoY) and VND1,395bn (+21%YoY) respectively. Consumption growth of steel sheet and steel pipe is expected to reach 1.22mn/mt (+7%YoY) and 453,092mt (+6%YoY). We estimate HSG's net debt to decline to VND6,728bn (-17%YoY) and interest expense decrease to VND467bn(-18% YoY), leading to a faster growth of NPAT than revenue growth.

Figure 1a. HSG sheet market share in FY19 and FY20 (as per September 30)

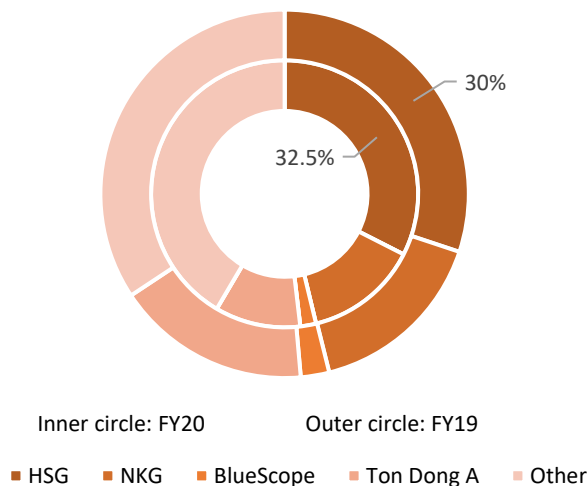
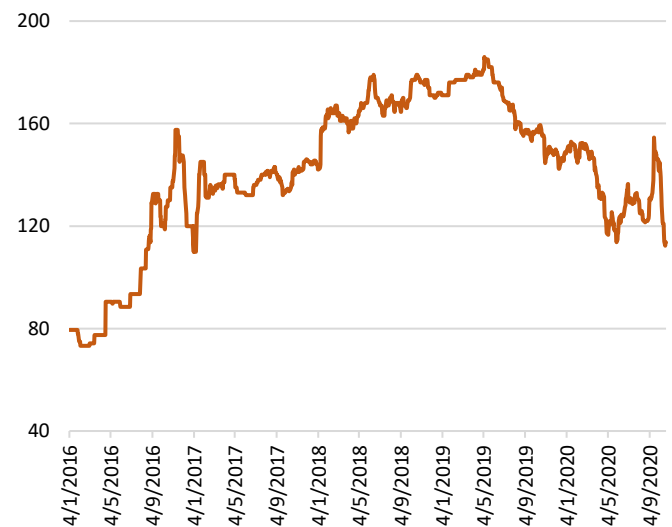


Figure 1b. FOB Australia coke coal price for the period FY16-10M20 (US\$/ton)



Source: Anfavea, Statista, Bloomberg, Mirae Asset VN Research

Figure 2a. FE ore price 56% FOB Australia from FY14-10M20 (US\$/ton)

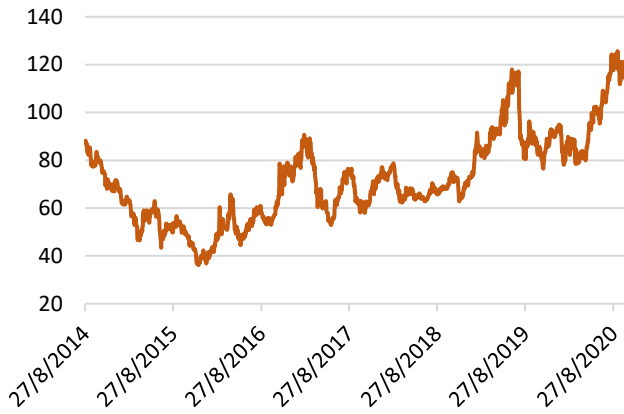
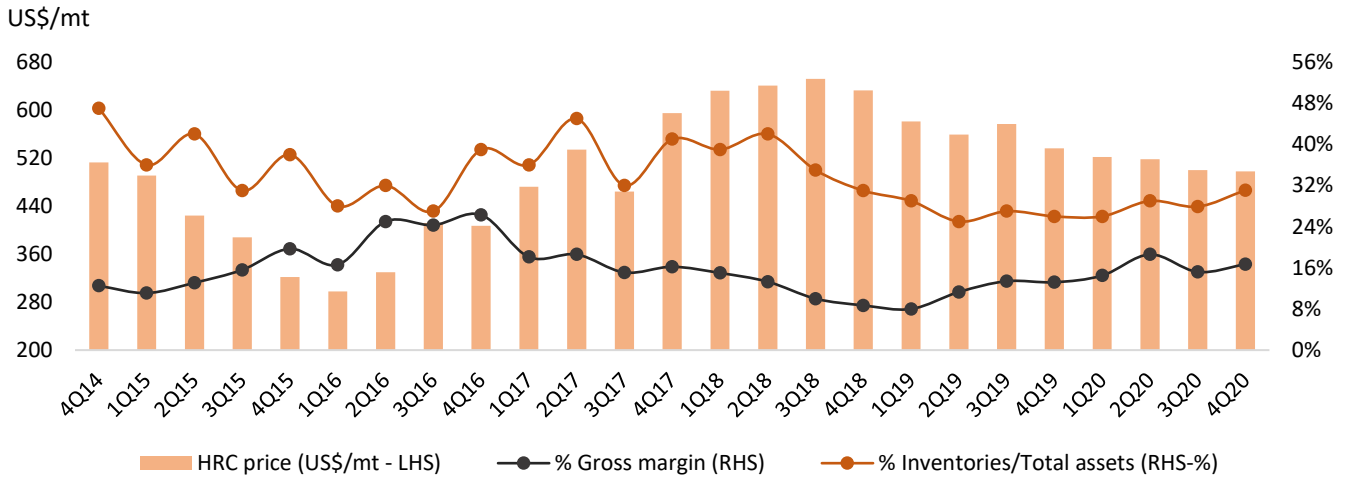


Figure 2b. HRC Shanghai price from FY14-10M20 (US\$/ton)



Source: Bloomberg, Mirae Asset VN Research

Figure 3. Correlation between HRC price (US\$/mt), gross margin (%) and HSG's inventory/total assets (%) (as per September 30)



Source: Bloomberg, Fiiipro, Mirae Asset VN Research

Hoa sen Group (HOSE: HSG)

Income statement (summarized)

(VNDbn)	2019	2020	2021F	2022F
Net revenue	28,035	27,543	32,202	34,394
Cost of sales	(24,836)	(22,923)	(26,888)	(28,616)
Gross profit	3,199	4,620	5,314	5,778
SG&A	(2,220)	(2,669)	(3,124)	(3,405)
Operating profit	979	1,951	2,190	2,373
Operating profit (adjusted)	979	1,951	2,190	2,373
Non-Operating Profit	(746)	(560)	(467)	(378)
Net Financial Income	(746)	(560)	(467)	(378)
Net Gain from Inv in Associates	-	-	-	-
Pre-tax Profit	462	1,369	1,722	1,962
Income Tax	(101)	(218)	(327)	(392)
Profit from Continuing	361	1,151	1,395	1,570
Other profit	-	-	-	-
NPAT	361	1,150	1,395	1,570
Net profit of the parent company	361	1,150	1,395	1,570
Minority interests	-	-	-	-
NPAT	361	1,150	1,395	1,570
Net profit of the parent company	361	1,150	1,395	1,570
Minority interests	-	-	-	-
EBITDA	2,166	3,181	3,376	3,599
FCF (Free cash flow)	2,152	1,748	1,603	674
EBITDA Margin (%)	8%	12%	11%	11%
Operating Profit Margin (%)	4%	7%	7%	7%
Net Profit Margin (%)	1%	4%	4%	5%

Cash Flows (Summarized)

	2019	2020	2021F	2022F
Cash Flows from Op Activities	5,181	1,923	1,956	1,940
Pre-tax Profit	462	1,371	1,722	1,962
Non-Cash Income and Expense	13	9	12	5
Depreciation	1,187	1,230	1,186	1,226
Amortization	-	-	-	-
Others	(101)	(218)	(327)	(392)
Chg. in Working Capital	3,742	(498)	(665)	(824)
Chg. in AR & Other Receivables	1,208	(373)	251	(303)
Chg. in Inventories	2,048	(972)	(1,312)	(442)
Chg. in AP & Other Payables	486	847	396	(79)
Other changes	(122)	29	28	(37)
Cash Flows from Inv Activities	(786)	(142)	(512)	(661)
Chg. in PP&E	(1,058)	(219)	(547)	(697)
Chg. in Intangible Assets	292	6	35	37
Chg. in Financial Assets	7	5	-	-
Chg. in other long-term investment	(27)	66	-	(1)
Cash Flows from Fin Activities	(4,596)	(1,301)	(1,476)	(1,261)
Chg. in Financial Liabilities	(4,514)	(1,448)	(1,458)	(1,242)
Issue shares	-	212	(212)	-
Dividends Paid	-	-	-	-
Others	(82)	(65)	194	(19)
Increase (Decrease) in Cash	(201)	480	(32)	18
Beginning Balance	424	432	575	543
Ending Balance	223	912	543	561

Source: HSG financial statements, Mirae Asset VN Research

Statement of Financial Condition(Summarized)

(VNDbn)	2019	2020	2021F	2022F
Current Assets	7,099	9,025	10,011	11,012
Cash and Cash Equivalents	223	912	543	561
AR & Other Receivables	1,318	2,024	1,792	2,112
Inventories	4,323	5,572	6,883	7,326
Others	1,235	517	793	1,013
Non-Current Assets	9,626	8,737	7,986	7,419
Investments in Associates	8,983	8,171	7,468	6,940
Property, Plant and Equipment	22	26	26	26
Other non-current assets	621	540	492	453
Total Assets	16,725	17,762	17,997	18,431
Current Liabilities	8,325	8,999	8,156	7,238
AP & Other Payables	822	1,462	1,882	1,803
Short-Term Financial Liabilities	6,625	6,023	4,865	3,823
Other Current Liabilities	878	1,514	1,409	1,612
Non-Current Liabilities	2,757	2,174	1,875	1,676
Long-Term Financial Liabilities	2,163	1,863	1,663	1,663
Other Non-Current Liabilities	594	311	212	13
Total liabilities	11,082	11,173	10,031	8,914
Controlling Interests	5,643	6,589	7,966	9,517
Capital Stock	4,235	4,446	4,446	4,446
Capital Surplus	152	152	152	152
Retained Earnings	1,256	1,991	3,368	4,919
Non-Controlling Interests	-	-	-	-
Stockholders' Equity	16,725	17,762	17,997	18,431

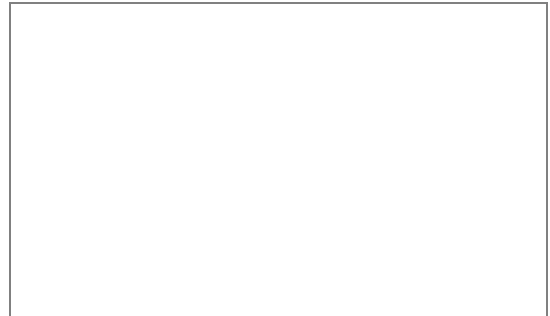
	2019	2020	2021F	2022F
P/E (x)	9.5x	6.1x	7.1x	6.3x
P/CF (x)	1.3x	3.7x	3.7x	3.7x
P/B (x)	0.6x	1.1x	1.3x	1.1x
EV/EBITDA (x)	5.9x	4.8x	4.9x	3.5x
EPS (VND)	813	2,589	3,139	3,533
CFPS (VND)	4,328	4,403	4,366	1,266
BPS (VND)	12,757	14,294	17,425	20,949
DPS (VND)	-	-	-	-
Payout ratio (%)	0.0%	0.0%	0.0%	0.0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Revenue Growth (%)	-18.6%	-1.8%	16.9%	6.8%
EBITDA Growth (%)	-5.2%	46.8%	6.1%	6.6%
EBIT Growth (%)	-22.6%	99.2%	12.3%	8.4%
EPS Growth (%)	-11.7%	218.5%	21.2%	12.6%
Days receivable outstanding (day)	14.0x	24.0x	17.0x	19.0x
Days inventory outstanding (day)	64.0x	89.0x	93.0x	93.0x
Days payable outstanding (day)	12.0x	23.0x	26.0x	23.0x
ROA (%)	2.2%	6.5%	7.7%	8.5%
ROE (%)	6.4%	17.5%	17.5%	16.5%
ROIC (%)	6.5%	13.2%	14.9%	15.8%
Liability to Equity Ratio (%)	196.7%	169.7%	126.0%	93.7%
Current Ratio (%)	90.0%	100.0%	120.0%	150.0%
Net Debt to Equity Ratio (%)	160.0%	120.0%	80.0%	50.0%
Interest Coverage Ratio (x)	1.3x	3.5x	4.7x	6.3x

APPENDIX 1

HSGortant Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Hoa sen Group (HOSE: HSG)	16/11/2020	BUY	22,200
Hoa sen Group (HOSE: HSG)	16/07/2020	BUY	16,700



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or HSGrowing
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (→), Not covered (≡), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be HSGeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	74.13%	15.92%	9.95%	0.00%
Investment Banking Services	75.00%	11.11%	13.89%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2016)

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