

Recommendation: BUY

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Target price	79,300
Current price	80,000
Upside	-0.9%

Anh Tuan Nguyen (TA)
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Target price	76,000
Cut loss	57,000

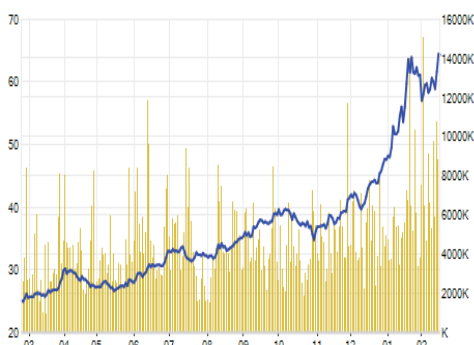
Market Data

Outstanding share	1,517
Mkt Cap	93,439
High of 52w	64,400
Avg Vol 10 days (share)	7,789
Foreign onwership	40.05%

Major shareholder

Tran Dinh Long	25%
Dragon Capital	8%
Vu Thi Hien	7%
VOF Investment Limited	5%

Chart (1 year)



Overview

HPG is the leader in the steel industry, owning a closed production process. HPG has been developing many new projects to maintain the growth rate, affirming the number 1 position in the domestic steel market.

Other report

Iron King ascend the throne

Valuation

We recommend Buy HPG with a target price of VND 79,300/share (+20.2% from the closing price on Feb 28, 2012) based on FCFF method (assuming WACC is 13.04% and g is 2%) and PE method (with target PE is 13x)

Earning Forecast

We forecast that in 2018 HPG's revenue will come to VND57.227 billion (+24.08% yoy), gross profit margin was 22.5% lower than that of 2017 due to Phase 1 of Dung Quat project must import billet from outside. EAT is VND 9.382 billion (+17.2% yoy), EPS 2018 = VND 6,184.

Catalyst

International ore prices are up by 6.7% in 2018, causing a slight increase in China and Vietnam steel prices

Investment risk

Business results are affected by the price of iron ore raw materials. Demand for inputs depends on the economic cycle

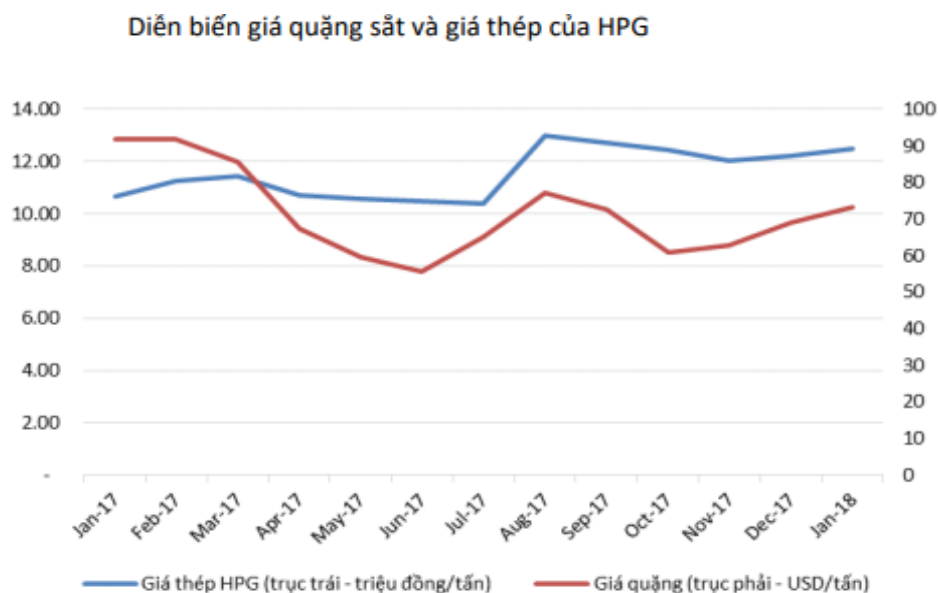
Business Update (see page 2 for more details)

- (1) Market share continues to improve, maintaining leading position: continue to dominate, take over the market as current trend in China
- (2) Production capacity is being boosted, Steel consumption is estimated around 2.7 - 2.8 million tons in 2018. Galvanized Factory with the capacity of 400,000 tons / year also will come into operation in 2018.
- (3) Steel segment continues to get benefit from domestic demand and anti-dumping tax. Domestic steel prices in China are 686 USD/ton (about 15 million VND/ton), contributing to limit the amount of steel imported into Vietnam.
- (4) Steel price increases in line with the world ore price : Ore price in early 2018 is in a rising trend, so we have optimistic for the HPG steel price in Q1 / 2018.
- (5) Profit from real estate and agriculture: Mandarin Garden 2 project is expected to record the most profit (about 500 billion) in 2018, profit contribution of the agricultural sector has not yet substantial.
- (6) Progress of Dung Quat project: fast, timely. It is forecasted that HPG will have to increase its debt to about 8,200 billion dong to serve Dung Quat project in 2018

(1) Market share continues to improve, maintaining the leading position. Considering the period 2015 -2017, HPG's construction steel market share increased from 21.3% to 24%, consumption volume also increased from 1.38 million tons/year to 2.2 million tons/year, CAGR of 26.24%. Steel pipe also held the leading position with a market share of 27%, output reached over 600,000 tons. Currently the market share trend will focus on the leading group of enterprises in China , China's share of top 10 biggest company is over 36%, target is over 60% by 2020), BSC believe that the market share of HPG will continue to expand, increasing market dominance as production capacity improve sharply in the next 3 years..

(2) Production capacity is being strengthened. Hoa Phat Dung Quat Steel Plant's rolling mill No. 1 will be put into operation in June 2018, with a capacity of 600,000 tons / year. It is expected that the second mill of 1.4 million tons will be put into operation in August 2018. BSC estimates that HPG's construction steel consumption in 2018 will reach 2.7 - 2.8 million tons, The steel will be sourced domestically (from Viet Trung steel company) to avoid anti-dumping duty of steel tax (19.3%) . From 2019, when the induction billet furnace is put into operation, HPG's profit margin will improve from 2018, while production capacity will double, reaching more than 4 million tons of construction steel per year. In addition, the color coated steel factory with the capacity of 400,000 tons / year will also be put into operation, the rolling line is expected to be completed and put into operation immediately after the Lunar New Year, plating lines will be launched in the second quarter of 2018.

(3) Steel price increases in line with the trend of world ore prices. HPG Steel prices fluctuate in line with the trend of world ore price, Hoa Phat steel price in January 2010 is 10.6 million VND/ton, continuously increasing in 2017 and reached 12.8 million VND/ton on 26/02/2018. After the Chinese government implemented closed measures low quality steel doors, cut output in winter, steel prices in the market has increased sharp, iron ore prices also increased from USD 55.7 to USD 68.9 in 2017. The world price of ore in early 2018 is on the upward trend so we have optimistic expectations for steel prices of HPG in Q1 / 2018.



(4) Steel segment continues to benefit from domestic demand and Anti-Dumping tax. Domestic consumption of steels is expected to grow well in 2018 thanks to the construction of transportation and utilities of the government; the total FDI in 2017 reached 35.88 billion dong + 44% yoy also support growth for economics. In 2018, domestic steel enterprises will continue to be protected with a tax rate of 19.3% for steel billets and 12.4% for long steels (applied from 22/3/2018 - 21/3/2019). The price of steel in China is \$ 686/tonne (about 15 million VND/ton), also contributing to limit the amount of steel imports into Vietnam.

(5) Revenue from real estate and agriculture. The Mandarin Garden 2 project is expected to be completed and profit will be recorded (about 500 billion) in 2018. With the agricultural sector, the business has completed investment and transfer to the market penetration phase, HPG's target for agricultural sector in this period is the development of sales and marketing, profit contribution of the agriculture sector will be negligible.

(6) Investment progress of Dung Quat project: total investment of the project is 52,000 billion including 40,000 billion investment in fixed assets, 12,000 billion for working capital. According to financial statements and share from company, at the end of 2017, the Dung Quat project has been invested about 6,000 billion, It is expected to be completed sooner than originally planned (production started in June/2018). In terms of capital, the total profit after tax of 2016 and 2017 is VND 14,600 billion with 7,000 billion dong of additional debt in 2017, with expected profit in 2018 around VND 9,400 billion, we forecast that HPG will have to increase about VND 8,200 billion to serve the Dung Quat project in 2018.

SUMMARY OF FINANCIAL STATEMENT

IRON KING ASCENDING TRENDS

Unit: billions	2014	2015	2016	2017	2018E
Net sales	25,525	27,453	33,283	46,162	57,279
Gross profit	5,187	5,594	8,751	10,674	12,887
Financial income	160	249	197	186	192
Financial exps	(564)	(566)	(368)	(556)	(1,013)
interest exps	(351)	(251)	(280)	(480)	(939)
Sell exps	(366)	(424)	(490)	(643)	(798)
G&A exps	(607)	(761)	(405)	(409)	(507)
Operating profit	3,810	4,091	7,685	9,252	10,755
Net other income	(40)	(101)	17	36	36
EBT	3,770	3,990	7,702	9,288	10,791
Net income	3,250	3,504	6,606	8,015	9,388
Minority interests	106	19	4	8	8
Parents	3,144	3,485	6,602	8,007	9,382
EPS	6,525	4,755	7,833	5,278	6,184
Current asset	11,746	11,915	18,183	33,077	41,160
Cash and CE	2,026	2,373	4,559	4,265	3,032
Accounts receivable	1,720	1,608	2,395	6,555	4,389
Inventories	7,386	6,937	10,247	11,769	15,464
Other current assets	107	239	289	552	479
Non-current asset	10,343	13,592	15,044	19,945	30,057
LT receivables	-	16	18	22	18
Fixed assets (fa)	9,158	8,211	12,670	13,173	24,032
Tangible fa	8,548	8,047	12,488	12,987	23,846
Finance lease fa	-	-	-	-	-
Intangible fa	180	164	183	186	186
LT incomplete assets	-	4,342	1,155	5,474	5,820
Other LT assets	545	726	919	1,068	205
Total asset	22,089	25,507	33,227	53,022	71,217
Total liabilities	10,124	11,040	13,376	20,624	29,462
Current liabilities	9,017	9,993	11,985	18,521	17,251
ST borrowings	5,737	6,117	5,488	11,329	9,941
Non-current liabilities	1,107	1,047	1,391	2,104	11,347
LT borrowings	1,011	739	972	1,651	11,211
Owner's equity	11,796	14,467	19,850	32,398	41,755
Paid-in cap	4,819	7,330	8,429	15,171	15,171
Retained earnings	4,095	5,549	9,486	13,397	22,225
Total resources	22,089	25,507	33,227	53,022	71,217
% yoy Revenue	34.81%	7.55%	21.24%	38.69%	24.08%
Gross margin	20.32%	20.38%	26.29%	23.12%	22.50%
Ir.exps / sale	1.37%	0.92%	0.84%	1.04%	1.64%
Sell exps / sale	1.43%	1.55%	1.47%	1.39%	1.39%
Admin exps / sale	2.38%	2.77%	1.22%	0.89%	0.89%
Net profit margin	12.73%	12.77%	19.85%	17.36%	16.39%

Net sales of 2017 + 38.9% yoy, total consumption of steel products reached 3 million tons (+ 25% yoy). Construction steel output reached 2.2 million tons (+ 12% yoy, operating capacity was 110%). The difference between revenue and output growth is due to HPG benefiting from the rising trend of global iron ore price. The selling price of Hoa Phat completed steel bar was increased from VND10.6 million/ton (January 2017) to VND12.25 million/ton

The interest expense/net sales ratio increased slightly from 0.84% to 1.04%, which is quite safe in the context of HPG's increasing of debt to serve Dung Quat project (+ VND6,000 billion in 2017)

Current receivables of the company increased 173%, focusing on advances to Dung Quat project contractors (over 4,000 billion VND). In general, HPG's current assets since the implementation of the project are higher than previous years' average (average receivables are 3 times higher, inventory is 54% higher)

Short-term loans stood at VND11,329bn (+ 106% yoy), as subsidiaries boosted their working capital loans while the parent company recouped their profits for project implementation. Equity + 80% yoy; in 2017, the company paid a 50% share dividend and a 5: 1 preferential sale rate. Total investment of about 52,000 billion for Dung Quat project, BSC estimated in 2018, HPG will increase additional loans about 8,200 billion to supplement the capital for the project.

The gross profit margin of the company in 2017 was 23.12%, down from 26.29%, mainly due to the price movement of iron ore in 2017 more complicated than in 2016, sharply decreasing in Q2 / 2017, but continuously surged in Q4 / 2016

FINANCIAL RATIO

2013 2014 2015 ascend t 2017

1. Liquidity ratio

Current ratio	1.11	1.30	1.19	1.52	1.79
Quick ratio	0.37	0.47	0.47	0.64	1.12

2. Capital structure ratio

Ca/TA	0.54	0.53	0.47	0.55	0.62
NCA/TA	0.46	0.47	0.53	0.45	0.38
Liabilities/TA	0.58	0.46	0.43	0.40	0.39
Liabilities/TE	1.42	0.86	0.76	0.67	0.64
CL/TA	0.48	0.41	0.39	0.36	0.35
NCL/TA	0.10	0.05	0.04	0.04	0.04

3. Operating efficiency ratio

Inventory turnover	2.1	3	3	3	3
Receivable turnover	15.7	20	22	24	26
Payable turnover	8.8	9	9	9	9
Days of inventory	173.2	138	120	128	113
Days of receivables	23.2	18	16	15	14
Days of payables	41.5	39	39	42	39
CCC	154.9	117	97	101	88

4. Profitability ratio

Net income/NSale	10.6%	12.7%	12.8%	19.8%	17.4%
ROE	21.2%	27.6%	24.2%	33.3%	24.7%
ROA	8.7%	14.7%	13.7%	19.9%	15.1%
Oper profit/NSale	12.5%	14.9%	14.9%	23.1%	20.0%

5. Dupont analysis

TA/TE	2.43	1.87	1.76	1.67	1.64
NSale/TA	0.82	1.16	1.08	1.00	0.87
EBIT/NSale	0.15	0.16	0.15	0.24	0.21
EBT/EBIT	0.87	0.91	0.94	0.96	0.95
Net income/EBT	0.84	0.86	0.88	0.86	0.86

6. Valuation multiples

PE	13.0	9.3	12.7	7.7	11.5
PB	2.7	2.5	3.1	2.6	2.8
EPS	4,663	6,525	4,755	7,833	5,278
BVPS	22,671	24,478	19,706	23,425	21,282

7. Growth (%yoy)

TA	15%	30%	60%	34%
Liabilities	9%	21%	54%	43%
Sale	8%	21%	39%	24%
GP	8%	56%	22%	21%
NI	8%	89%	21%	17%
EPS	-27%	65%	-33%	17%

Good financial liquidity: In 2017, the current ratio and quick ratio of HPG is relatively high (average of 4 closest years are 1.28x and 0.49x), we assume that these ratio will decrease in the year

2018 due to HPG currently having about VND9.937 billion of term deposits at 31/12/2017 (at January 1, 2017 is VND693 billion), part of the balance will be disbursed to the Dung Quat project for the upcoming years.

Financial leverage is safely maintained through the years: The liabilities / Total asset ratio in 2017 is 0.39x, down compared to

the average of 4 years (0.47x); raising capital by issuing 252.83 million shares at VND 20,000/share in 2017 helped balance financial leverage for the enterprise.

Stability of operation: Inventory turnover improved to 3.2x, payables turnover is equivalent to previous years, however receivables turnover is 10.3x, a sharp decrease compared to the 16.1x level of the average of 3 previous years. The reason is that HPG has a provision of 4,007 billion in advance for Dung Quat project contractor, if excluded, the receivables turnover is 16.34x, equivalent to previous years.

Profitability affected by global iron ore price: In general, the profitability ratios are lower than in 2016(peak in HPG's history); 2017 ore price trend caused a disadvantage over the same period in 2016

Indicators of valuation: EPS 2017 is lower than in 2016 although the parent company's EAT is 8006 (+ 21% yoy). This is because HPG paid a share dividend of 50% and then issued 252.83 million more shares to raise capital. Average PE of the VNIndex is 20.04. Average PE of the steel industry in Vietnam is 7.53. Average PE of the world steel industry is 15.53 We deduce that with a leading position and good growth potential, HPG deserves the PE level of 13x

Technical highlights:

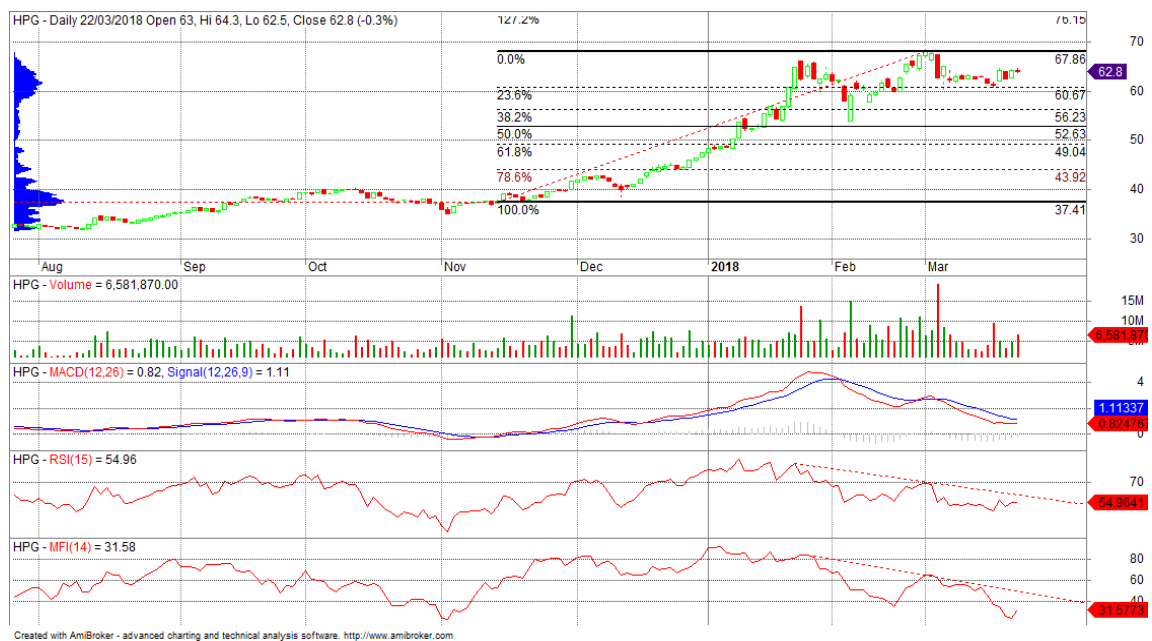
- Current trend: long-term uptrend
- MACD indicator: rising, converging with signal line
- RSI: rising
- OBV indicator: increase

Comment:

After a short-term correction and accumulation, HPG is continuing its long-term uptrend. Today, HPG closed at 64,400, approaching the resistance at 65,000. The MACD is rising and tends to converge with the signal line from the bottom up, confirming the uptrend. RSI tends to rise to the overbought zone, consolidating the upward momentum. The OBV is rising and creating a new peak, confirming the uptrend. Shares will continue to increase in the coming sessions

Recommendation: Purchase price: 60,000 - 64,400. Target price: 76,000. Cut loss: 57,000

Technical Chart



Disclaimer

Iron King ascend the throne

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