

Sector: Materials (Latest Report: [Link](#))

Recommendation		BUY HOA SEN GROUP JSC (HSX: HSG) FLOURISH SEASON			
Current price:	37,400	Date	14/05/2021	<b>Shareholder Structure</b>	
Previous target price	32,220	Outstanding Shares (Million)	444,697,013	Le Phuoc Vu	16.7%
New target price:	47,800	Market Cap (VND billion)	16,787	Hoa Sen I&S Co., Ltd	9.7%
Dividend yield	0%	Avg. 10D Trading vol (thousand)	15,407	Hoa Sen Investment Co., Ltd	3.6%
<b>Upside</b>	<b>27.8%</b>	% Foreign float	8.41%	KIMC	2.1%

**Industry Analyst:**

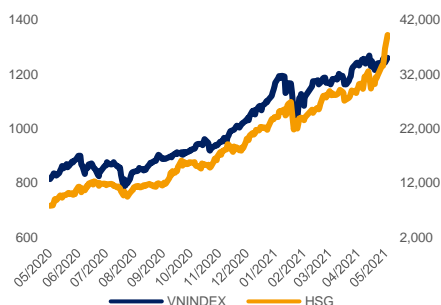
**Nguyen Thi Kieu Hanh**  
(Materials, Real Estate)  
[hanhntk@bsc.com.vn](mailto:hanhntk@bsc.com.vn)

**Technical Analyst:**

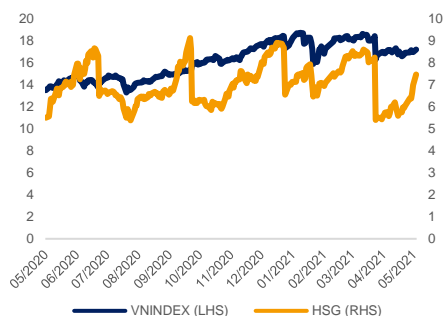
**Nguyen Tien Duc**  
[ducnt@bsc.com.vn](mailto:ducnt@bsc.com.vn)

Target price 40,500  
Stoploss price 32,800

**Price comparison between HSG and VN index**



**P/E comparison between HSG and VN index**



**VALUATION**

BSC raises HSG's target price to VND47,800/share due to (1) an 86% increase in FY2020/21 NPAT forecast after reflecting bullish momentum and HRC price outlook, however (2) lowering target P/E from 9 times to a 10-year average of 7 times to reflect our forecast of a decline in earnings in Q4 FY2020/21 and FY 2021/22 when HRC price corrects after a hot period.

**FORECAST OF BUSINESS RESULTS** (Refer to page 4 for details)

BSC raised HSG's 2020/21F net sales forecast to 43,668 billion (+58.6% YoY) and NPAT 3,129 billion (+171% YoY), up 29% and 86% respectively compared to the forecast in [Latest report](#). FY2020/21 EPS is estimated at VND6,828/share, fw P/E = 5.5 times. In FY 2021/22, we forecast HSG's revenue from traditional steel products business to reach VND 38,812 billion (-11.1% YoY), NPAT of VND 2,563 billion (-18.1% YoY), equivalent to EPS = VND 5,483/share.

**INVESTMENT THESIS**

- (1) Successful restructuring helps HSG firmly enter a new bull cycle.
- (2) Solving the problem of growth by taking advantage of the strength of the retail system.

**CATALYST**

HRC price increased sharply +25-40% YTD, inventories at the end of Q1/2021 increased accordingly to meet production demand for the peak season.

**RISKS**

- (1) Material price fluctuations, especially when HRC has increased rapidly in recent times.
- (2) Increased risks of countries's trade remedies.

**COMPANY UPDATE**

- (1) Performance results in the first half of the fiscal year 2020/21, completing 107% of the year's profit plan. Accumulated in the first half of the year 2020/21, HSG's net revenue reached 19,946 billion (+61% YoY), NPAT 1,607 billion (4.2 times higher than the same period).
- (2) HSG has deployed 02 Hoa Sen Home furniture and building materials supermarkets in Thot Not and Cai Rang, Can Tho.
- (3) HSG submits a plan to buy back 22 million shares (5% of outstanding shares) as treasury shares from now until Jan 2022.

	2020	2021F	Peer	VN-Index		2017/18	2018/19	2019/20	2020/21F
PE (x)	9.3	5.5	9.1	16.9	Net Sales	34,441	28,035	27,531	43,668
PB (x)	1.5	1.8	0.7	2.2	Gross Profit	3,977	3,199	4,627	6,987
PS (x)	0.3	0.4	0.2	1.7	NPAT	408	361	1,153	3,129
ROE (%)	19.1%	38.6%	13.6%	12.9%	EPS	-69.4%	-11.5%	219.5%	171.3%
ROA (%)	6.6%	15.7%	4.5%	2.2%	EPS Growth	925	819	2,492	6,828
EV/ EBITDA (x)	5.5	4.6	5.0	15.6	Net Debt/ Equity	2.8	1.8	1.2	0.9

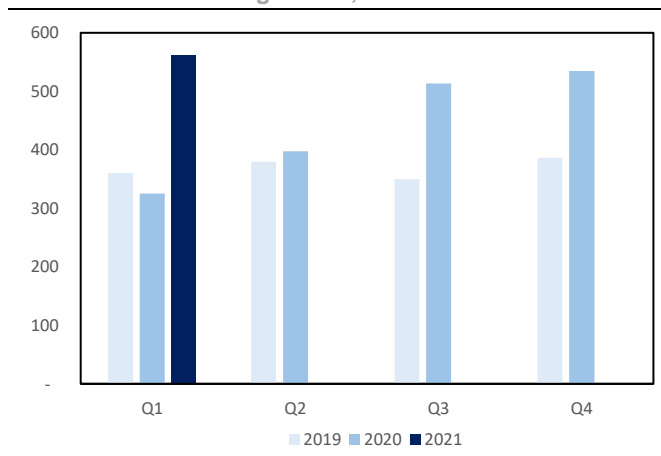
## COMPANY UPDATE

**The results of the first half of the year 2020/21 completed 107% of the year's profit plan.** Accumulated in the first half of the year 2020/21, HSG's net revenue reached 19,946 billion (+61% YoY), NPAT 1,607 billion (4.2 times higher than the same period). Business results strongly increased thanks to (1) sales volume increased by 54%, (2) average selling price +5% YoY and profit margin expansion from 16.4% to 17% following the uptrend of HRC price and (3) improved management efficiency (G&A expenses -33% YoY).

**Consumption was positive (+54.2% YoY), especially export market.** HSG's total consumption of steel products reached 1.1 million tons (+54.2% YoY), of which domestic consumption was 520.7 thousand tons (+22.9% YoY) and export doubled to 576 thousand tons. The share of exports increased from 42.8% in FY 2019/20 to 52.5% in FY2020/21. Demand for steel increased on a global scale due to (1) governments of many countries promoting infrastructure investment to promote economic recovery and (2) the process of restoring production in many countries after basically control the disease.

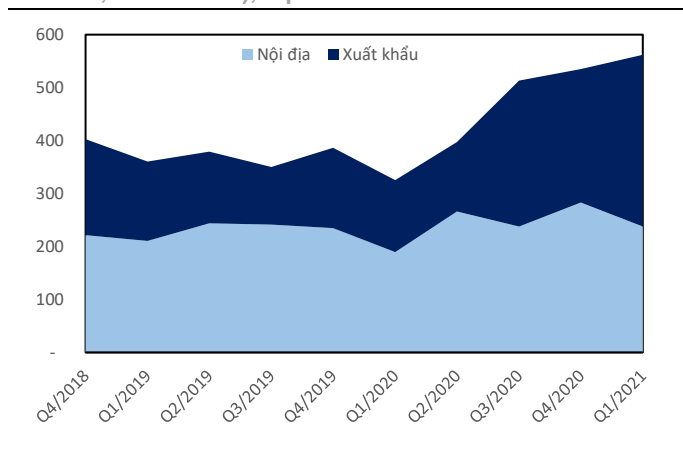
BSC believes that HSG's sales volume in Q2 will remain at a high level thanks to (1) the domestic market in buying and consuming and (2) the positive demand from the export market.

Sales volume in 1Q2021 is 64% higher than the average in 1Q, +5% QoQ



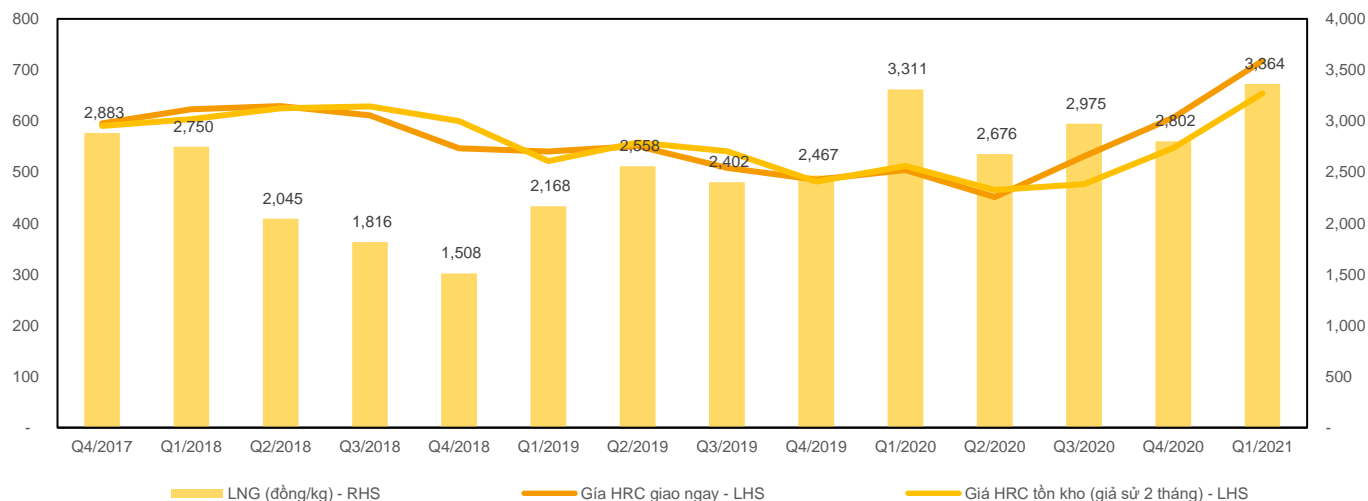
Source: VSA, BSC Research

Q1/2021 exports continued to increase strongly (+29% QoQ, +139% YoY), equivalent to 58% of total volume



Source: VSA, BSC Research

**Gross profit/ton of product increased to 3.3 million/ton, the highest in the past 5 years.** BSC assesses the possibility of increasing selling price in the context of good demand, which has helped HSG to convert the increase in input material prices (HRC) to selling prices and at the same time benefit from low-priced inventories, increasing profit margin.

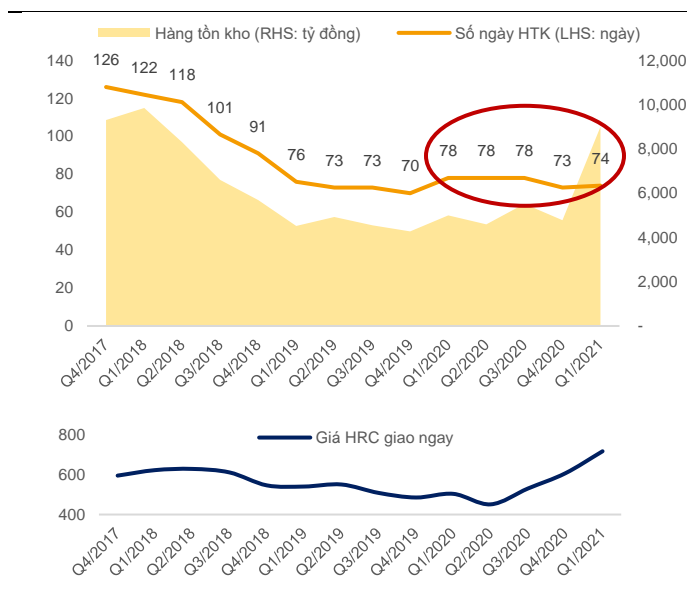


Source: Bloomberg, Company FS, BSC Research

**BSC found HSG's unit gross profit to be less volatile since the restructuring**, ranging from 2.2 to 2.7 million/ton product thanks to good management and limited material speculation. During the period of HRC's price increase and good demand, HSG can improve this profit margin (Q3/2020-Q1/2021).

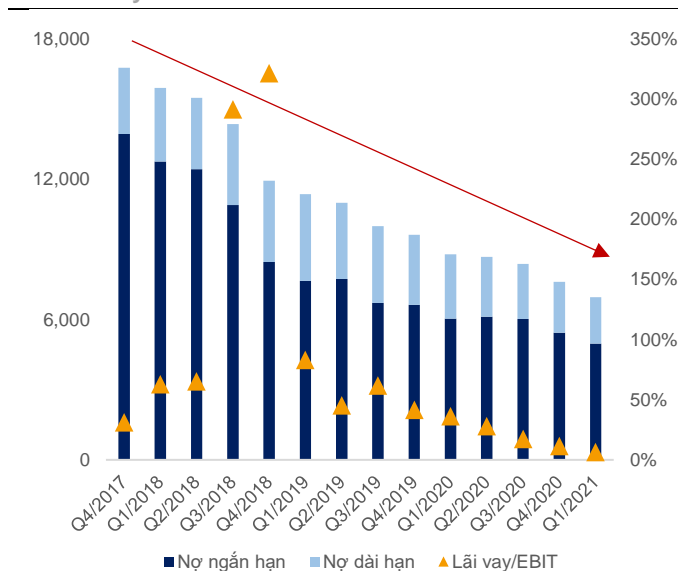
**The efficiency of inventory management continued to improve in the context of a sharp increase in HRC prices.** Inventory at the end of Q2 of FY 2020/21 was 9,002 billion (an increase of nearly 3,500 billion compared to the beginning of the period, equivalent to +63% YTD and +80% YoY). Inventories increased sharply due to (i) increase in HRC price (+20% QoQ) and (ii) increase in raw material inventory for production during peak season. Although inventories increased sharply, the number of days of inventory turnover did not increase, keeping at about 2.5 months of production according to HSG's general policy.

The number of days of inventory is maintained 70-80 days, despite the high price of HRC



Source: Bloomberg, Company FS, BSC Research

Short-term debt continuously decreased thanks to the increase in working capital management efficiency



Source: Company FS, BSC Research

**Good working capital management, the cash cycle is shortened to around 70 days, helping HSG continue to reduce short-term loans and along with interest expenses.** Interest expense in Q1/2021 decreased by 16% QoQ and 49% YoY thanks to a decrease of 1,060 billion VND in short-term loans and 373 billion VND in long-term debt compared to the beginning of the period.

**HSG has deployed 02 Hoa Sen Home furniture and building materials supermarkets in Thot Not and Cai Rang, Can Tho.** The company said that the product consumption situation is relatively good due to the purchase of construction. However, the implementation situation is slower than the plan because the company needs to balance the increased costs.

**HSG submitted a plan to buy back 22 million shares (5% of outstanding shares) as treasury shares from now until January 2022.** Previously, the company sold 327 thousand treasury shares according to regulations to be able to buy back treasury shares this time.

## FORECAST OF BUSINESS RESULTS

The results of the restructuring process along with the strong increase in HRC price have helped HSG record impressive growth in recent years.

**BSC raised HSG's 2020/21F net sales forecast to 43,668 billion (+58.6% YoY) and NPAT 3,129 billion (+171% YoY), up 29% and 86% respectively compared to the forecast in the [Latest Report](#).** In this report, we adjust our assumptions to reflect price and volume trends as follows:

- Increase sales volume assumption to 2.17 million tons (+29% YoY, +20% compared to previous forecast),
- Selling price +23% YoY to reflect the increase in selling price of HSG products according to HRC price movements
- Gross profit/ton of product was 3.2 million VND (+17% YoY) due to the demand for good galvanized steel products and HRC in an uptrend
- Costs are reduced, including administrative costs and interest expenses thanks to improved working capital management efficiency, helping to reduce short-term loans in the context of rising raw material prices

BSC assesses that the increase in the price of coated steel products in April 2021 with an increase of 2.6 million/ton has helped HSG offset the increase in raw material inventories in April (estimated 80-100 USD/ton), so HSG has ability to maintain a high profit after tax as of March 2021, about 3.2 million/ton. Given HRC's uptrend so far and HSG's price increase since the beginning of Q2 until now, we believe the company will continue to record positive profits in Q3 of FY 2020/21. Q4 business results of the year will likely be less positive than 2 quarters because we believe that HRC price will correct after a period of hot rise and supply and demand will gradually become more balanced.

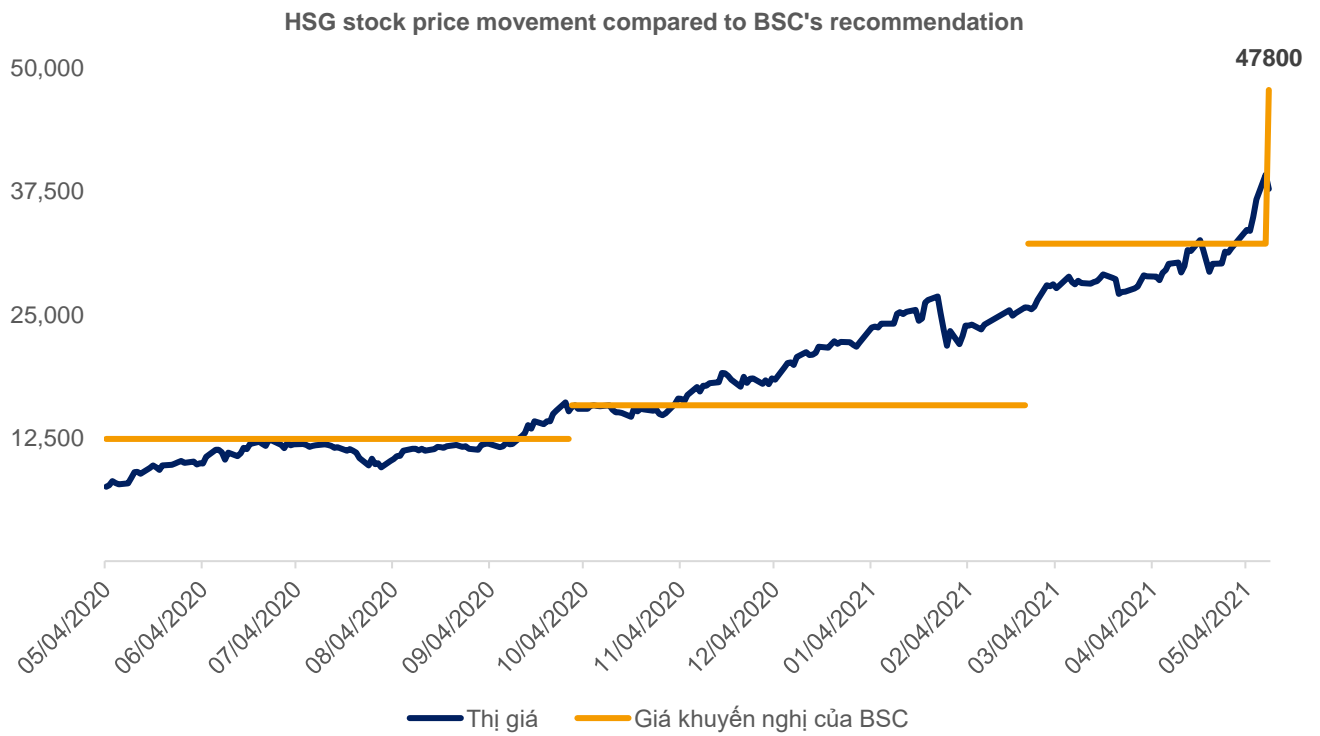
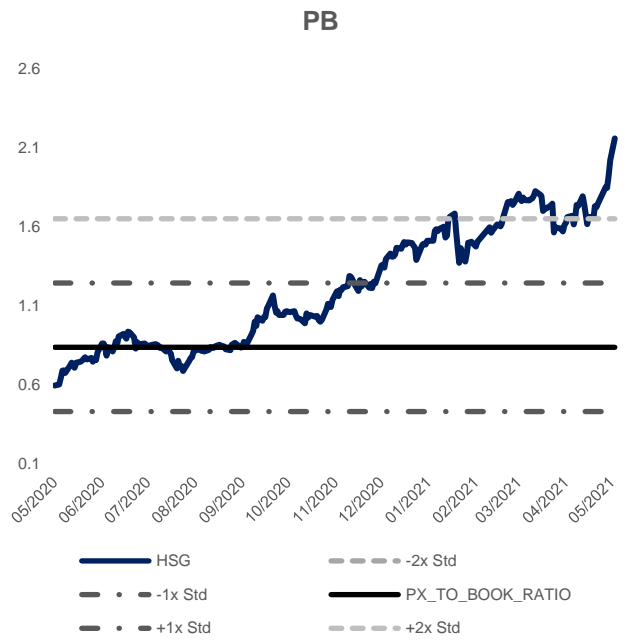
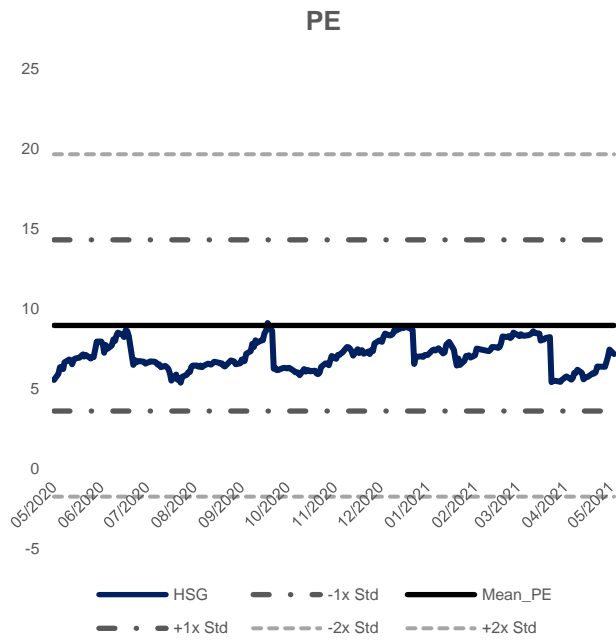
**In FY 2021/22, we forecast HSG's revenue to reach VND 38,812 billion (-11.1% YoY), and VND 2,563 billion in EAT (-18.1% YoY), equivalent to EPS = VND 5,483/share.** Our forecast only includes net profit from traditional galvanized sheet and steel pipe business, excluding profit from distribution of building materials through Hoa Sen Home channel.

## VALUATION

BBSC raises **HSG's target price to VND47,800/share** due to **(1) an 86% increase in FY2020/21 NPAT forecast** after reflecting bullish momentum and HRC price outlook, however **(2) lowering target P/E from 9x to a 10-year average of 7x** to reflect our forecast of a decline in earnings in Q4 FY2020/21 and FY2021/22 as HRC price corrects after a hot period.

		Value of a share (VND/share)				
		EPS 2020/21 (thousand VND/share)				
		6.162	6.486	6.828	7.169	7.528
	<b>47,794</b>					
P/E	5.0	30,810	32,432	34,138	35,845	37,638
	6.0	36,972	38,918	40,966	43,014	45,165
	7.0	43,134	45,404	47,794	50,184	52,693
	8.0	49,296	51,891	54,622	57,353	60,220
	9.0	55,458	58,377	61,449	64,522	67,748
	10.0	61,620	64,863	68,277	71,691	75,275

Source: BSC Research



Source: Bloomberg, BSC Research

## APPENDIX

IS (VND billion)	2018/19	2019/20F	2020/21F	2021/22F	CF (VND billion)	2018/19	2019/20F	2020/21F	2021/22F
Net revenue	28,035	27,531	43,668	38,812	Profit after tax	361	1,153	3,129	2,563
COGS	24,836	22,903	36,681	32,327	Depreciation	1,187	1,230	1,263	1,325
Gross profit	3,199	4,627	6,987	6,158	Change in NWC	3,633	-273	-3,311	3,896
Selling expenses	1,749	2,221	2,620	2,523	CF from operating activities	5,181	2,110	1,080	7,784
G&A	471	460	437	388	Fixed assets investment	-1,058	-398	-587	-776
<b>Operating income</b>	<b>979</b>	<b>1,946</b>	<b>3,930</b>	<b>3,247</b>	Other investment	272	87	0	0
Financial income	63	78	17	58	CF from investing activities	-786	-311	-587	-776
Financial expenses	803	645	471	392	Dividend paid	0	0	0	0
Interest expenses	746	560	471	392	Cash from net borrowing	-4,515	-1,448	95	-3,503
Gain/loss from affiliates	-	-	-	-	Other revenue	-81	-65	0	0
Other gain/loss	223	(3)	-	-	CF from financing activities	-4,596	-1,513	95	-3,503
Profit before tax	462	1,376	3,476	2,913	Beginning cash balance	492	289	575	1,163
Corporate tax payment	101	223	348	350	Cash in year	-2	0	0	0
<b>Profit after tax</b>	<b>361</b>	<b>1,153</b>	<b>3,129</b>	<b>2,563</b>	Ending cash balance	289	575	1,163	4,667
Minority interest	0	0	0	0	NPATMI	361	1,153	3,129	2,563
NPATMI	361	1,153	3,129	2,563					
EBITDA	2,166	3,176	5,193	4,572					
EPS	820	2,492	6,828	5,483					

BS (VND billion)	2018/19	2019/20F	2020/21F	2021/22F	Ratios (%)	2018/19	2019/20F	2020/21F	2021/22F
Cash & Short-term investment	365	575	1,163	4,667	<b>Liquidity ratios</b>				
Short-term receivables	1,339	2,024	2,665	2,399	Current ratio	0.8	1.0	1.3	1.6
Inventory	4,548	5,524	9,149	5,219	Quick ratio	0.2	0.3	0.3	0.9
Other current assets	1,104	899	1,426	1,267	<b>Solvency ratios</b>				
<b>Total current assets</b>	<b>7,356</b>	<b>9,022</b>	<b>14,402</b>	<b>13,552</b>	Current Asset/ Total assets	42.7%	50.8%	65.2%	67.1%
Tangible fixed assets	8,187	7,262	6,492	5,594	Total Liabilities/ Total assets	68.3%	62.9%	56.4%	40.3%
Intangible fixed assets	241	220	209	198	Short-term debt/ Total assets	50.9%	50.6%	51.8%	40.9%
Financial lease fixed assets	-	-	-	-	Total debt/ Total assets	56.3%	46.1%	37.5%	23.7%
Long-term incomplete assets	576	576	-	-	<b>Efficiency ratios</b>				
Long-term investment	17	26	26	26	Days of inventories	82	80	73	81
Other non-current assets	408	352	558	496	Days of receivables	18	19	19	24
<b>Total non-current assets</b>	<b>9,870</b>	<b>8,734</b>	<b>7,673</b>	<b>6,641</b>	Days of payables	18	23	19	25
<b>TOTAL ASSETS</b>	<b>17,225</b>	<b>17,756</b>	<b>22,075</b>	<b>20,194</b>	CCC	82	76	73	80
Account payables	1,379	1,455	2,330	2,054	<b>Profitability ratios</b>				
Short-term debt	6,706	6,023	6,886	4,044	Gross profit margin	11.4%	16.8%	16.0%	15.9%
Other short-term debt	682	1,513	2,211	2,155	EBIT margin	3.5%	7.1%	9.0%	8.4%
Current liabilities	8,767	8,991	11,428	8,252	Net profit margin	1.3%	4.2%	7.2%	6.6%
Long-term debt	2,986	2,163	1,395	733	ROE	6.8%	19.1%	38.6%	23.6%
Other long-term debt	4	11	(376)	(858)	ROA	1.9%	6.6%	15.7%	12.1%
Non-current liabilities	2,990	2,174	1,019	(124)	<b>Growth</b>				
<b>Total Liabilities</b>	<b>11,757</b>	<b>11,166</b>	<b>12,446</b>	<b>8,128</b>	Net revenue growth	-18.6%	-1.8%	58.6%	-11.1%
Paid-in capital	4,235	4,446	4,446	4,446	EBIT growth	-22.6%	98.8%	101.9%	-17.4%
Capital surplus	152	152	152	152	Net profit growth	-11.7%	219.4%	171.3%	-18.1%
Retained earnings	1,021	1,954	4,990	7,428	Total Assets growth	-19.0%	3.1%	24.3%	-8.5%
Other equity	61	39	42	42	Shareholder's equity growth	6.1%	20.5%	46.1%	25.3%
Minority interest	-	-	-	-					
<b>Shareholder's equity</b>	<b>5,468</b>	<b>6,591</b>	<b>9,630</b>	<b>12,068</b>					
<b>TOTAL RESOURCES</b>	<b>17,225</b>	<b>17,756</b>	<b>22,077</b>	<b>20,196</b>					

Source: BSC Research.

## Disclosure

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*

### BSC Headquarters

BIDV Tower, 10th & 11th Floor  
35 Hang Voi, Hoan Kiem, Hanoi  
Tel: +84439352722  
Fax: +84422200669

### Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor  
District 1, HCMC  
Tel: +84838218885  
Fax: +84838218510

<https://www.bsc.com.vn>  
<https://www.facebook.com/BIDVSecurities>

**Bloomberg: RESP BSCV <GO>**