

## Vietnam

**ADD** (previously HOLD)

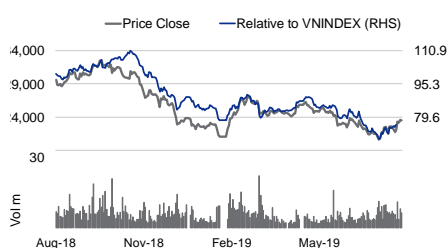
Consensus ratings\*: Buy 5 Hold 2 Sell 1

Current price:	VND23,450
Target price:	VND26,139
Previous target:	VND26,900
Up/downside:	11.5%
CGS-CIMB / Consensus:	-7.1%
Reuters:	HPG.HM
Bloomberg:	HPG VN
Market cap:	US\$2,790m
	VND64,747,188m
Average daily turnover:	US\$4.98m
	VND115,913m
Current shares o/s:	2,761m
Free float:	59.7%

\*Source: Bloomberg

**Key changes in this note**

- FY19-21F Revenue decreased by 10.3-15.8%.
- FY19-21F EPS decreased by 3.9-6.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.1	-4.9	-20.4
Relative (%)	8.1	-5.7	-19.2

Major shareholders	% held
Tran Dinh Long	25.4
Dragon Capital	7.7
Vu Thi Hien	7.3

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# Hoa Phat Group

## Earnings to rebound in FY20-21F

- We believe HPG's market share has continued to increase after the ramp-up of Dung Quat Steel Complex despite a slowdown in steel demand.
- The outlook for 2H19 is soft but we expect an earnings recovery in FY20-21F due to lower iron ore prices and positive outlook for the Dung Quat project.
- We upgrade our recommendation to Add; TP lowered to VND26,139.

**Rising market share amid demand slowdown**

In 1H19, HPG's market share in construction steel expanded to 25.1% from 23.8% last year, according to Vietnam Steel Association (VSA). We believe HPG will continue to solidify its leading position following the ramp-up of Dung Quat Steel Complex given its unique competitive advantages in Vietnam steel industry, including its cost-effective products, a strong brand name and wide distribution network.

**Weak 1H19 results due to lower steel price and higher input price**

In 1H19, HPG recorded an increase of 10.3% yoy in revenue but a drop of 12.8% yoy in net profit. Revenue was below our forecast due to slower-than-expected sales growth but net profit was relatively in line with our expectation. The revenue increase was mainly driven by higher sales volume (+22.0% yoy) while HPG's construction steel prices declined by 6.5% yoy. Meanwhile, 1H19 gross margin was hit by higher iron ore price; gross margin fell to 18.8% in 1H19 (-2.7% pts vs. 1H18).

**Dimmer 2H19F outlook because of high iron ore price**

In our view, the drop in gross margin in 1H19 did not fully reflect the surge in iron ore price. As a result, we expect the company's gross margin to decline further in 2H19 as HPG is facing difficulties in passing higher production costs to buyers while trying to expand its market share after the ramp-up of the first phase of Dung Quat Steel Complex.

**We expect better outlook in FY20-21F**

Despite the soft outlook in FY19F, we believe the long-term outlook looks positive thanks to 1) continuous market share expansion in the domestic market; 2) the likely decrease in iron ore prices to a more reasonable level over the next 2-3 years; and 3) the likely improvement in HPG's profitability after the commissioning of Dung Quat phase 2 project. We estimate HPG's net profit to grow at a CAGR of 14.4% during FY20-21F.

**Upgrade to Add with target price of VND26,139**

We upgrade our recommendation to Add from Hold, with a lower TP of VND26,139, based on an equal weighting of 1) a forward P/E of 7.2x on average EPS over FY19-20F, and 2) a DCF valuation over a 10-year projection period. The decline in TP is driven by our revised assumption of lower sales volume, translating to a slight decrease in EPS in FY19-21F. Risks to our call include: 1) a further increase in iron ore prices which could dampen HPG's profitability; and 2) slower-than-expected steel demand growth.

**Financial Summary**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (VNDb)	46,162	55,836	62,657	68,516	73,782
Operating EBITDA (VNDb)	11,417	12,524	12,688	15,923	18,618
Net Profit (VNDb)	7,826	8,392	7,087	7,605	9,444
Core EPS (VND)	2,834	3,039	2,567	2,754	3,420
Core EPS Growth	29.6%	7.2%	(15.5%)	7.3%	24.2%
FD Core P/E (x)	8.27	7.72	9.14	8.51	6.86
DPS (VND)	1.4	2.1	0.0	500.0	500.0
Dividend Yield	0.01%	0.01%	0.00%	2.13%	2.13%
EV/EBITDA (x)	5.57	6.62	7.96	5.98	4.49
P/FCFE (x)	NA	NA	210.7	23.8	57.9
Net Gearing	(3.8%)	44.5%	74.8%	54.8%	29.1%
P/BV (x)	2.01	1.60	1.34	1.17	1.01
ROE	30.1%	23.1%	16.0%	14.7%	15.9%
% Change In Core EPS Estimates			(3.91%)	(6.23%)	(3.88%)
CGS-CIMB/Consensus EPS (x)			0.81	0.76	0.80

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

## We expect earnings to recover in FY20-21F

### Gaining market share despite slower steel demand growth

#### Domestic steel demand witnessed slower growth in 1H19 ▶

Data from VSA showed a weakness in steel demand in 1H19; construction steel consumption reached 5.4m tonnes (+9.0% yoy vs. 15.6% in 1H18) while steel pipe demand reached 1.2m tonnes (+1.4% yoy vs. 15.1% in 1H18). The slower growth in steel demand was mainly driven by: 1) a slowdown in real estate supply due to the tightened regulations on new projects' approval and financial backup for property projects; and 2) low disbursement of public investment in 1H19. As a result, construction activities have been hit and negatively affected the demand for steel. As we expect Vietnam's real estate market to remain stagnant this year, we think Vietnam's steel demand growth would be lower than previous years' double-digit growth and steel producers are likely to continue to encounter stiff competition because of slower growth in steel consumption.

Figure 1: Steel demand grew at a much slower pace in 1H19



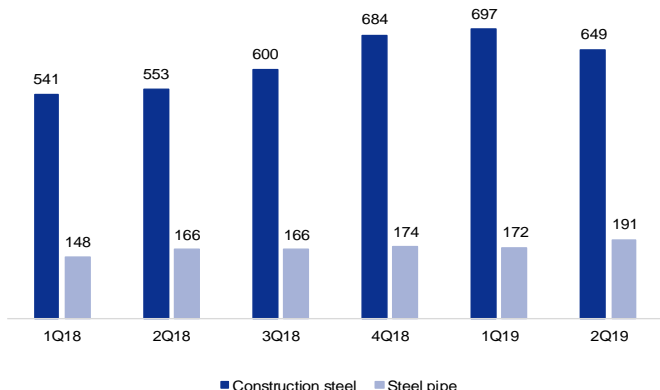
#### HPG further consolidates its market share ▶

In 2Q19, HPG's construction steel sales volume grew by 17.3% yoy, driven by the company's aggressive sales expansion in the Central and South regions as well as export market. According to VSA, HPG's construction sales volume in the Central and the South were up by 72.3% yoy and 230.5% yoy, respectively, while its export sales volume surged by 139.5% yoy in 2Q19.

In 1H19, the company's construction steel and steel pipe sales volume reached 1.35m tonnes (+22.9% yoy) and 0.36m tonnes (+15.6% yoy), respectively. These results affirm our view that HPG's leading position helped the company to outpace the industry's average growth rates of 9.0% yoy and 1.4% yoy in construction steel and steel pipe consumption respectively.

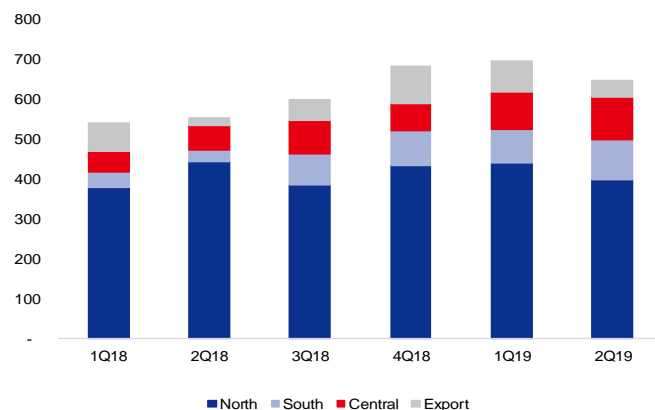
As a result, HPG's market share in construction steel expanded from 23.8% last year to 25.1% in 1H19. Similarly, its steel pipe market share rose from 27.5% to 30.3% in 1H19, according to VSA.

Figure 2: HPG's sales volume ('000 tonnes)



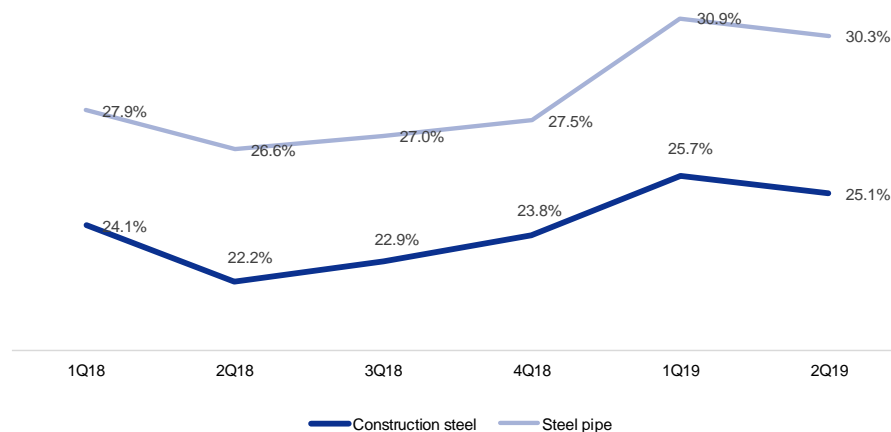
SOURCES: VNDIRECT RESEARCH, VSA

Figure 3: HPG's construction steel volume by region ('000 tonnes)



SOURCES: VNDIRECT RESEARCH, VSA

Figure 4: HPG's market share by products



SOURCES: VNDIRECT RESEARCH, VSA

## 2Q19 recap: modest revenue growth but better earnings on a qoq basis

Figure 5: Results comparison

FYE Dec (VND bn)	2Q19	2Q18	yoy% chg	1Q19	qoq % chg	1H19	1H18	yoy% chg	vs. FY19F forecast
Revenue	15,097	14,261	5.9%	14,963	0.9%	30,061	27,262	10.3%	48.0%
Steel	11,636	11,736	-0.9%	11,964	-2.7%	23,599	22,610	4.4%	
Industrial production	998	923	8.0%	809	23.3%	1,807	1,575	14.7%	
Agriculture	1,809	1,196	51.3%	1,753	3.2%	3,562	2,011	77.1%	
Real estates	656	406	61.6%	437	50.0%	1,093	1,066	2.5%	
Gross profit	3,027	2,881	5.1%	2,621	15.5%	5,648	5,847	-3.4%	
Gross profit margin (%)	20.0%	20.2%	-0.2% pts	17.5%	2.5% pts	18.8%	21.4%	-2.7% pts	50.9%
SG&A expenses	375	221	69.9%	314	19.4%	690	479	43.9%	47.9%
EBIT	2,652	2,660	-0.3%	2,707	-2.1%	4,958	5,368	-7.6%	51.3%
Interest expenses	215	135	59.3%	185	16.3%	401	253	58.2%	33.6%
EBT	2,480	2,577	-3.8%	2,171	14.2%	4,651	5,186	-10.3%	54.2%
NPAT	2,050	2,202	-6.9%	1,810	13.2%	3,860	4,425	-12.8%	52.9%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

### Weak core business growth due to steel price drop ➤

In 2Q19, HPG posted VND15,097bn in net revenue (+5.9% yoy and +0.9% qoq). However, its core business revenue (steel production) lost growth momentum

with a slide of 0.9% yoy on the back of a 16.8% increase in sales volume but a 7.2% yoy drop in steel prices.

2Q19 revenue growth was mainly attributed to a surge in HPG's agricultural and real estate businesses – revenue in these segments was up by 51.3% yoy and 61.6% yoy, respectively, thanks to increasing utilisation at the animal feed production segment and higher contribution from the industrial park segment.

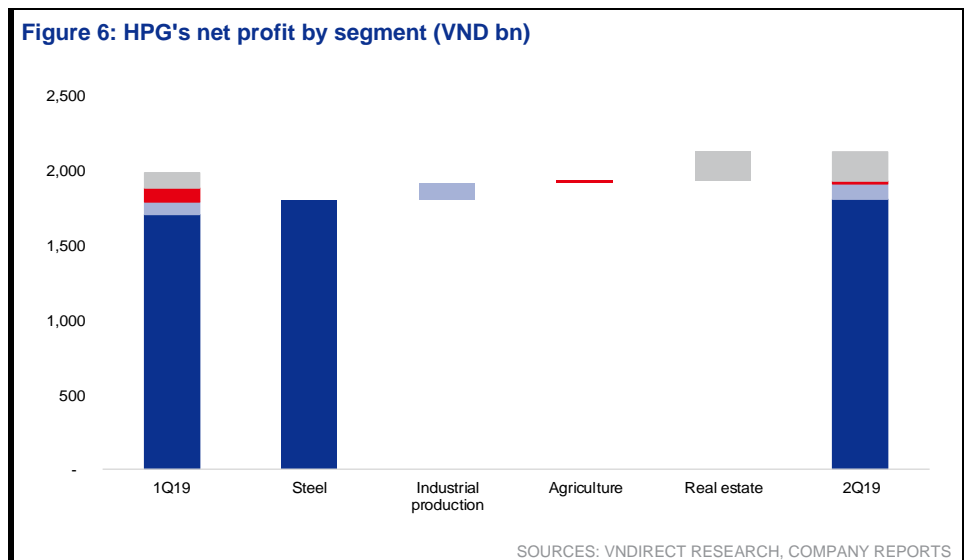
## 2Q19 gross margin bounced back despite iron ore price spike



HPG's 2Q19 gross profit margin recovered to 20.0% vs. 17.5% in 1Q19. According to the management, the company still had low-cost iron ore inventory in 2Q19; as such, we believe the impact of the sharp increase in iron ore price has not been fully reflected yet.

In 2Q19, HPG's net profit reached VND2,050bn (-6.9% yoy and +13.2% qoq). Steel production net profit grew a modest 5.6% qoq. Meanwhile, industrial production and real estate segments witnessed a sharp increase in 2Q19 net profit (+31.7% qoq and +99.4% qoq, respectively).

Figure 6: HPG's net profit by segment (VND bn)



## Cloudier outlook in 2H19

Due to a slowdown in domestic steel demand, HPG's management said it may lower its FY19F construction steel sales volume target from 3.0m-3.5m tonnes at the beginning of the year to 2.8m-3.0m tonnes. Given the company's strong track record in pushing sales to gain market share from its competitors, we expect the company's sales volume of construction steel to reach 2.84m tonnes in FY19F (+19.4% yoy). Total sales volume could reach 3.7m tonnes in FY19F (+17.1% yoy).

We observed that the weakness in domestic steel price in 1H19 was due to the fact that steel producers were unable to pass on the cost burden from iron ore prices to buyers amid fierce competition. In the first half of this year, HPG's selling price of construction steel was down by 6.5% yoy to ~VND12.5m/t. Therefore, we believe that the improvement in steel production segment's margin in 2Q19 is unsustainable and HPG's gross margin could narrow in the second half of this year due to slower steel demand growth amid rising raw material costs. We maintain our FY19F forecast for gross margin at 17.7%, as we expect HPG's gross margin in 2H19 at 16.7% (-2.1% pts vs. 1H19) assuming iron ore price at US\$90/t and selling prices to remain at current levels till the end of this year.

We think the company might miss its revenue target of VND70,000bn this year due to subdued steel prices and slower-than-expected sales volume growth. We estimate FY19F revenue at VND62,657bn (+12.2% yoy), and NPAT-MI at

VND7,270bn (-15.2% yoy) due to the impact of rising iron ore prices and higher interest expenses following the commissioning of the Dung Quat phase 1 project.

**Figure 7: Changes in our sales volume forecasts**

Sales volume	Old forecasts			New forecasts			The difference bw new and old forecasts			Comments
	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	
'000 tonnes										
Construction steel	3,508	3,841	3,941	2,841	3,241	3,441	-19.0%	-15.6%	-12.7%	We revise down our FY19-21F sales volume because the Dung Quat Phase 1 came onstream 3-month late than our previous assumption and we expect slower construction steel growth in FY19-21F.
Existing plants	2,241	2,241	2,241	2,241	2,241	2,241	0.0%	0.0%	0.0%	
Dung Quat Phase 1	1,267	1,600	1,700	600	1,000	1,200	-52.6%	-37.5%	-29.4%	
Steel pipe	719	791	870	719	791	870	0.0%	0.0%	0.0%	We expect HPG to continue gaining market share in steel pipe segment, no changes in our assumption.
Coated steel	160	200	200	151	158	166	-5.8%	-20.9%	-16.9%	We revise down sales volume of coated steel due to fierce competition in this segment.

SOURCES: VNDIRECT RESEARCH

**Figure 8: Changes in our forecasts (in VNDbn unless otherwise noted)**

	Old forecasts			New forecasts			The difference bw new and old forecasts			Comments
	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	FY19F	FY20F	FY21F	
Revenue	69,886	79,143	87,626	62,657	68,516	73,782	-10.3%	-13.4%	-15.8%	Lower sales volume due to a slowdown of steel demand, We raised our iron ore price assumption from US\$84/t to US\$90/t in FY19F, but we lowered depreciation cost as the first phase of Dung Quat Phase 1 came onstream 3-month late than our previous assumption.
Gross profit	12,393	12,857	14,876	11,097	12,498	14,589	-10.5%	-2.8%	-1.9%	
EBT	8,934	9,823	11,897	8,585	9,209	11,428	-3.9%	-6.2%	-3.9%	
Net profit	7,565	8,319	10,077	7,270	7,800	9,686	-3.9%	-6.2%	-3.9%	
No. of o/s shares (mn shares)	2,761	2,761	2,761	2,761	2,761	2,761	0.0%	0.0%	0.0%	
EPS (VND)	2,671	2,937	3,558	2,567	2,754	3,420	-3.9%	-6.2%	-3.9%	

SOURCES: VNDIRECT RESEARCH

Our sensitivity analysis in Figure 9 shows how HPG's earnings could vary based on different iron ore and domestic steel prices. Assuming unchanged domestic steel prices, every US\$10 increase in the price of iron ore from our base case assumptions would lower our FY19F net profit estimate by ~10%.

**Figure 9: Combining impacts of changes in steel price and iron ore price on HPG's FY19F net profit**

	Domestic steel price (dong/kg)	Iron ore (\$/tonne)						
		60	70	80	90	100	110	120
	11,200	8,651	7,902	7,154	6,405	5,657	4,908	4,159
	11,300	8,939	8,190	7,442	6,693	5,945	5,196	4,448
	11,500	9,227	8,479	7,730	6,982	6,233	5,484	4,736
	11,600	9,515	8,767	8,018	7,270	6,521	5,773	5,024
	11,700	9,804	9,055	8,306	7,558	6,809	6,061	5,312
	11,800	10,092	9,343	8,595	7,846	7,097	6,349	5,600
	12,000	10,380	9,631	8,883	8,134	7,386	6,637	5,888

SOURCES: VNDIRECT RESEARCH

## We expect earnings to recover in FY20-21F

### Dung Quat Steel Complex project: light at the end of the tunnel ➤

As of 30 Jun 2019, HPG had invested ~VND45,000bn (US\$1.9bn) into the Dung Quat Steel Complex project. According to the company, the first phase of this complex with 2.0m tonnes of construction steel capacity came to the test run stage in July 2019. Meanwhile, the company expects to complete the second phase with another 2.0m tonnes of hot rolled coil steel (HRC) capacity in Mar 2020.

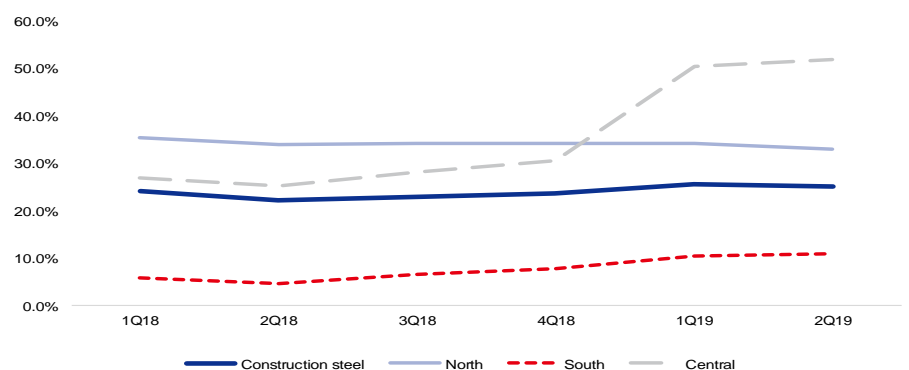
Adding huge capacities during a market slowdown has proved to be a challenge for HPG. According to the management, the company's strategy will be to dominate the South Vietnam market by enhancing its distribution network, ensuring uniform product quality and timely delivery for its customers. In 1H19, HPG successfully raised its market share in the South region from 7.8% to 10.9% (+3.1% pts). Meanwhile, the company quickly moved into the Central market following the operation of Dung Quat's first steel rolling line (Dec 2018); HPG's market share in this region surged from 30.7% last year to 51.9% in the first half of this year. With these results, we reiterate our view that HPG has proven capability of gaining market share from both domestic competitors and imported Chinese steel. We expect utilisation of the first phase of Dung Quat project to improve from 50% to 80% in FY20-23F, translating into a CAGR of 7.8% for HPG's construction steel sales volume during this period.

Figure 10: Dung Quat Steel Complex Project



SOURCES: VNDIRECT RESEARCH, HPG

Figure 11: HPG's construction steel market share by region



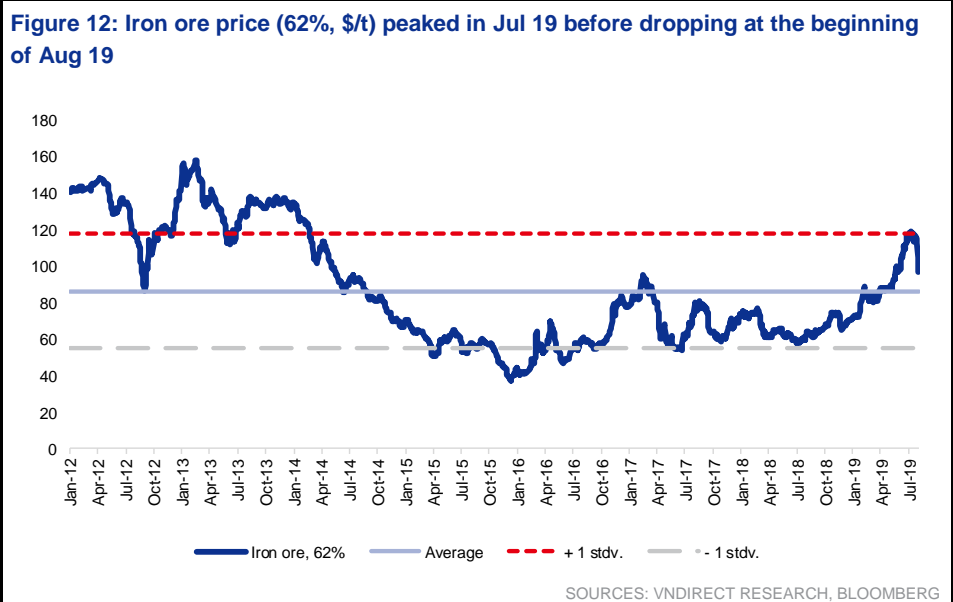
SOURCES: VNDIRECT RESEARCH, VSA

We are optimistic about the outlook of the Dung Quat Phase 2 project as we estimate HPG could use 80-90% of its HRC output to serve its steel pipe and galvanised steel production. As a result, the company could raise the profitability of its flat steel segment when the second phase of Dung Quat project comes online. Meanwhile, the remaining output could be easily consumed by domestic galvanised steel producers, in our view.

Despite the soft earnings outlook in 2019, we estimate HPG's gross margin to recover in FY20-21F and the company's net profit to register a CAGR of 14.4%.

**We expect iron ore price to decline in FY20-21F as large-scale producers ramp up their production ►**

Tighter supplies from top global producers have put pressure on the iron ore market as Vale, the world's largest iron ore producer, suspended 90m tonnes of production following Jan's dam collapse in Brazil while Western Australian output was hampered by the impact of a tropical cyclone. Iron ore price hit a five-year high of US\$119/t due to strong China stimulus amid the supply disruption in Brazil and Australia. However, the price has sharply dropped recently due to the re-escalation of the US-China trade war and rising inventory at Chinese ports.



Meanwhile, in 2Q19 Vale partially restarted operations at its Brucutu mine in late-June, which is expected to add about 5.4m tonnes of iron ore this year. Additionally, the Australian supply chain is recovering, as total iron ore shipments from Western Australian hit a record, up more than 20% yoy at the end of June. Despite these bright spots on the supply side, the iron ore market is expected to stay tight with ~60m tonnes of capacity still offline in Brazil; as such, iron ore prices are likely to average US\$90/t this year, in our view.

According to Australia's Department of Industry, Australia's iron ore exports are expected to rise from an estimated 806m tonnes in 2018-19 to 869m tonnes in 2020-21 (+7.8% yoy), driven by large scale producers ramping up their production. Meanwhile, the full recovery in Vale's production could bring 60m tonnes back to the market over the next 2-3 years. As a result, the market will return to a more balanced position from 2020 onwards. Therefore, we expect the pressure on HPG's margin to ease along with improved utilisation of the Dung Quat project in FY20-21F.

**Figure 13: Major iron ore projects in Australia (2019-22F)**

Operator	Mine	Capex (US\$ m)	Mtpa	% Fe	Start-up
Mt Gibson	Koolan Island (Restart)	97	5	65	2019
Rio Tinto	Billiard South	118	na	59	2019
BHP	Port Hedland Tug Haven	280	na	na	2019
FMG	Eliwana	1700	30	60	2020
Rio Tinto	Dampier Port Upgrades	70	na	na	2020
BHP	South Flank	4700	80	62	2021
Rio Tinto	West Valley Mesa	1300	na	62	2021
Rio Tinto	West Angelas Deposits	800	na	62	2021
Rio Tinto	Koodaideri	3500	43-70	60	2021
FMG	Iron Bridge Stage 2	3700	22	67	2022
FMG	Queens Valley	400	na	58	2022

SOURCES: VNDIRECT RESEARCH, THE AUSTRALIA'S DEPARTMENT OF INDUSTRY

## Valuation

As we mentioned above, despite a soft outlook for 2H19, the long-term outlook looks positive thanks to: 1) continuous market share expansion in the domestic market; 2) the likely decrease in iron ore prices to a more reasonable level over the next 2-3 years (US\$75-90/t); and 3) the likely improvement in HPG's profitability after the commissioning of Dung Quat phase 2 project.

Our target price of VND26,139 is based on an equal weighting of: 1) a forward P/E of 7.2x on average EPS over FY19-20F, and 2) a DCF valuation over a 10-year projection period.

Given that valuations of regional peers have declined recently due to the impact of unexpectedly high iron ore prices on steel producers' earnings outlook, we revise down our target 12M forward P/E for HPG from 8.4x to 7.2x (Figure 15). We still expect HPG to trade at a 37.0% premium over the average regional peer median as HPG is better protected from the US-China trade tensions than Chinese steel producers which make up most of HPG's peer universe.

**Figure 14: DCF model - key assumptions & input, based on our estimates**

General assumptions	
Risk free rate (10-year VGB yield)	4.4%
Equity risk premium	8.6%
Beta (source: BB, 1-y adj. beta)	1.1
Cost of equity	13.5%
Long-term growth rate	2.0%
(in VND bn, otherwise noted)	
PV of DCF (10 years)	70,593
PV of Terminal value	56,876
Enterprise value	127,469
Less: Total Debt	39,770
Plus: Cash and Cash equiv.	3,568
Less: Minority Interest	154
Implied EV	91,112
No. of o/s shares (mn shares)	2,761
Implied value per share (VND)	32,999

SOURCES: VNDIRECT RESEARCH

**Figure 15: P/E method, key assumptions, based on our estimates**

	FY19F	FY20F	Avg. CY19-20F
EPS	2,567	2,754	2,661
Industry average multiple			5.3
Premium			37.0%
Target multiple			7.2
Implied value per share (VND)			19,278

SOURCES: VNDIRECT RESEARCH

**Figure 16: Blended target price, based on our estimates**

Method	Implied value per share (VND)	Weight (%)	Weighted price (VND)
DCF	32,999	50%	16,499
P/E	19,278	50%	9,639
Target price (VND)			26,139

SOURCES: VNDIRECT RESEARCH

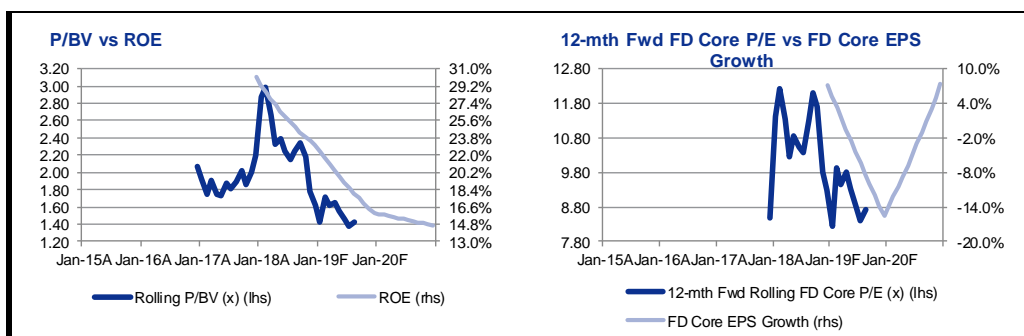


**Figure 17: Peer Comparison**

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)		3-year EPS		P/BV (x)		EV/EBITDA (x)		ROE (%)	
			LC\$	LC\$	US\$ m	CY19F	CY20F	CAGR (%)	CY19F	CY20F	CY19F	CY20F	CY19F	CY20F	
<b>Regional listed steel producers</b>															
Sansteel Minguang Co Ltd -A	002110 CH	Add	7.91	10.2	2,744	3.6	3.5	na	1.1	0.9	1.9	1.7	23.2	21.3	
Xinxing Ductile Iron Pipes-A	000778 CH	na	3.86	na	2,180	8.2	7.5	76.7	0.7	0.7	5.5	5.3	7.5	7.5	
Steel Authority Of India	SAIL IN	Add	36.35	48.2	2,106	4.5	3.9	na	0.4	0.3	5.2	4.9	8.0	7.2	
Xinyu Iron & Steel Co Ltd-A	600782 CH	Add	4.37	6.1	1,972	3.9	3.8	437.3	0.6	0.5	2.3	2.0	16.8	15.2	
Hangzhou Iron & Steel Co-A	600126 CH	Add	3.99	5.2	1,907	10.8	8.9	na	na	na	14.9	14.4	6.4	7.1	
Nanjing Iron & Steel Co-A	600282 CH	na	2.97	na	1,861	4.0	4.0	na	0.7	0.6	2.7	2.7	19.2	17.2	
Liuzhou Iron & Steel Co-A	601003 CH	Add	4.69	6.7	1,701	5.3	5.0	na	1.1	0.9	14.1	63.8	20.9	19.7	
SGIS Songshan Co Ltd-A	000717 CH	na	3.72	na	1,274	4.2	3.5	na	1.2	0.9	2.4	2.2	25.8	22.1	
<i>Average</i>					1,968	5.6	5.0		0.8	0.7	6.1	12.1	16.0	14.7	
<i>Median</i>					1,939	4.4	3.9		0.7	0.7	4.0	3.8	18.0	16.2	
<b>Hoa Phat Group</b>	<b>HPG VN</b>	<b>Add</b>	<b>23,450</b>	<b>26,155</b>	<b>2,790</b>	<b>9.1</b>	<b>8.5</b>	<b>35.8</b>	<b>1.3</b>	<b>1.2</b>	<b>8.2</b>	<b>6.3</b>	<b>16.0</b>	<b>14.7</b>	

SOURCES: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 13 AUG 2019

We upgrade our recommendation from Hold to Add as we believe FY19F earnings outlook has been priced in and we are still positive on the company's long-term outlook. Upside risks include: 1) a significant decline in iron ore price if the ramp-up of production is faster than expected; 2) stronger-than-expected sales volume combined with a recovery in steel prices. Potential re-rating catalysts include: 1) further rise in iron ore prices which could dampen HPG's profitability; and 2) slower-than-expected steel demand growth.

**BY THE NUMBERS**

**Profit & Loss**

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>Total Net Revenues</b>	<b>46,162</b>	<b>55,836</b>	<b>62,657</b>	<b>68,516</b>	<b>73,782</b>
<b>Gross Profit</b>	<b>10,626</b>	<b>11,671</b>	<b>11,097</b>	<b>12,498</b>	<b>14,589</b>
<b>Operating EBITDA</b>	<b>11,417</b>	<b>12,524</b>	<b>12,688</b>	<b>15,923</b>	<b>18,618</b>
Depreciation And Amortisation	(1,871)	(2,206)	(3,206)	(5,194)	(5,965)
<b>Operating EBIT</b>	<b>9,546</b>	<b>10,318</b>	<b>9,482</b>	<b>10,729</b>	<b>12,653</b>
Financial Income/(Expense)	(293)	(245)	(965)	(1,498)	(1,217)
Pretax Income/(Loss) from Assoc.	(0)	0	0	0	0
Non-Operating Income/(Expense)	36	(1)	68	(21)	(8)
<b>Profit Before Tax (pre-EI)</b>	<b>9,288</b>	<b>10,071</b>	<b>8,585</b>	<b>9,209</b>	<b>11,428</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>9,288</b>	<b>10,071</b>	<b>8,585</b>	<b>9,209</b>	<b>11,428</b>
Taxation	(1,274)	(1,471)	(1,288)	(1,381)	(1,714)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>8,015</b>	<b>8,601</b>	<b>7,297</b>	<b>7,828</b>	<b>9,714</b>
Minority Interests	(8)	(28)	(28)	(28)	(28)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(181)	(181)	(182)	(196)	(243)
<b>Net Profit</b>	<b>7,826</b>	<b>8,392</b>	<b>7,087</b>	<b>7,605</b>	<b>9,444</b>
Recurring Net Profit	7,826	8,392	7,087	7,605	9,444
<b>Fully Diluted Recurring Net Profit</b>	<b>7,826</b>	<b>8,392</b>	<b>7,087</b>	<b>7,605</b>	<b>9,444</b>

**Cash Flow**

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>EBITDA</b>	<b>11,417</b>	<b>12,524</b>	<b>12,688</b>	<b>15,923</b>	<b>18,618</b>
Cash Flow from Inv. & Assoc.	(0)	0	0	0	0
Change In Working Capital	(3,149)	(2,766)	(4,376)	(4,606)	(2,136)
(Incr)/Decr in Total Provisions	(11)	(73)	0	0	0
Other Non-Cash (Income)/Expense	0	0	0	0	0
Other Operating Cashflow	4	(86)	(8)	(134)	(128)
Net Interest (Paid)/Received	(480)	(540)	(1,194)	(1,715)	(1,444)
Tax Paid	(1,724)	(1,416)	(1,288)	(1,381)	(1,714)
<b>Cashflow From Operations</b>	<b>6,058</b>	<b>7,642</b>	<b>5,822</b>	<b>8,086</b>	<b>13,196</b>
Capex	(8,875)	(27,594)	(13,443)	(2,188)	(800)
Disposals Of FAs/subsidiaries	7	65	0	0	0
Acq. Of Subsidiaries/investments	(9,182)	6,148	2,980	0	0
Other Investing Cashflow	124	849	0	0	0
<b>Cash Flow From Investing</b>	<b>(17,926)</b>	<b>(20,533)</b>	<b>(10,463)</b>	<b>(2,188)</b>	<b>(800)</b>
Debt Raised/(repaid)	6,520	11,137	4,948	(3,173)	(11,277)
Proceeds From Issue Of Shares	5,057	11	0	0	0
Shares Repurchased					
Dividends Paid	(4)	(6)	0	(1,381)	(1,381)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>11,574</b>	<b>11,143</b>	<b>4,948</b>	<b>(4,553)</b>	<b>(12,658)</b>
Total Cash Generated	(294)	(1,748)	307	1,345	(262)
<b>Free Cashflow To Equity</b>	<b>(5,347)</b>	<b>(1,754)</b>	<b>307</b>	<b>2,725</b>	<b>1,119</b>
<b>Free Cashflow To Firm</b>	<b>(11,388)</b>	<b>(12,351)</b>	<b>(3,447)</b>	<b>7,613</b>	<b>13,840</b>

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	14,201	6,240	3,568	4,913	4,651
Total Debtors	6,555	3,210	3,433	5,808	7,075
Inventories	11,749	14,115	16,245	18,024	19,574
Total Other Current Assets	562	1,743	1,956	2,139	2,303
<b>Total Current Assets</b>	<b>33,068</b>	<b>25,309</b>	<b>25,202</b>	<b>30,884</b>	<b>33,604</b>
Fixed Assets	18,672	50,852	70,990	68,595	63,129
Total Investments	17	67	67	67	67
Intangible Assets	186	217	206	195	183
Total Other Non-Current Assets	1,079	1,778	1,995	2,182	2,350
<b>Total Non-current Assets</b>	<b>19,954</b>	<b>52,914</b>	<b>73,258</b>	<b>71,038</b>	<b>65,728</b>
Short-term Debt	11,329	11,495	20,705	18,643	10,227
Current Portion of Long-Term Debt					
Total Creditors	4,226	8,707	6,906	7,727	8,081
Other Current Liabilities	2,965	2,435	2,732	2,987	3,217
<b>Total Current Liabilities</b>	<b>18,520</b>	<b>22,636</b>	<b>30,343</b>	<b>29,357</b>	<b>21,525</b>
Total Long-term Debt	1,651	12,811	19,065	16,574	13,041
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	453	2,153	627	685	738
<b>Total Non-current Liabilities</b>	<b>2,105</b>	<b>14,964</b>	<b>19,692</b>	<b>17,259</b>	<b>13,779</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>20,625</b>	<b>37,600</b>	<b>50,035</b>	<b>46,616</b>	<b>35,304</b>
Shareholders' Equity	32,287	40,496	48,270	55,123	63,819
Minority Interests	111	127	154	182	210
<b>Total Equity</b>	<b>32,398</b>	<b>40,623</b>	<b>48,425</b>	<b>55,305</b>	<b>64,028</b>

### Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	38.7%	21.0%	12.2%	9.4%	7.7%
Operating EBITDA Growth	25.0%	9.7%	1.3%	25.5%	16.9%
Operating EBITDA Margin	24.7%	22.4%	20.3%	23.2%	25.2%
Net Cash Per Share (VND)	442	(6,543)	(13,112)	(10,975)	(6,743)
BVPS (VND)	11,694	14,667	17,482	19,964	23,114
Gross Interest Cover	19.90	19.11	7.94	6.26	8.76
Effective Tax Rate	13.7%	14.6%	15.0%	15.0%	15.0%
Net Dividend Payout Ratio	0.0%	0.1%	NA	15.4%	12.4%
Accounts Receivables Days	35.38	31.92	19.35	24.68	31.87
Inventory Days	113.0	106.9	107.5	112.0	115.9
Accounts Payables Days	40.88	53.44	55.26	47.80	48.74
ROIC (%)	38.5%	27.9%	13.3%	10.7%	12.5%
ROCE (%)	27.2%	19.2%	12.7%	12.2%	14.5%
Return On Average Assets	21.7%	15.4%	10.4%	10.3%	12.1%

### Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% Change)	13.4%	8.0%	-7.0%	-5.0%	-2.0%
Unit Sales Growth (%)	19.2%	6.4%	17.1%	13.3%	9.4%
Utilisation Rate (%)	100.0%	84.7%	88.5%	77.0%	81.7%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

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<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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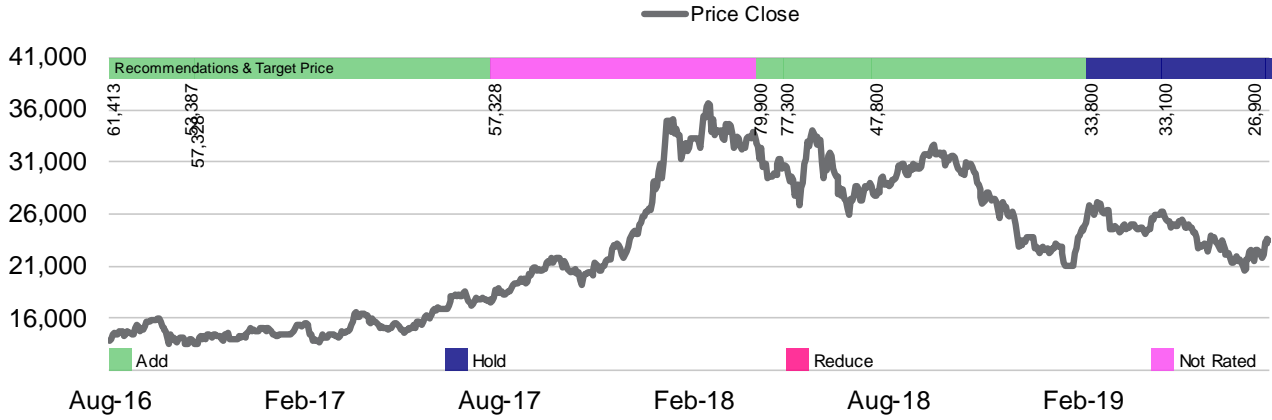
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2019		
791 companies under coverage for quarter ended on 30 June 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.9%	4.2%
Hold	26.5%	1.8%
Reduce	15.5%	0.4%

Spitzer Chart for stock being researched ( 2 year data )

Hoa Phat Group (HPG VN)



## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD\*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **JWD** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **S** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

\* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

### RECOMMENDATION FRAMEWORK

#### Stock Ratings

##### Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

##### Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

##### Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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