

## HOASEN GROUP (HSG)

**HOLD (Maintained)**

### BASIC MATERIALS

Current Price	VND18,400
52Wk High/Low	VND25,350/18,250
Target Price	VND19,100
Previous TP	VND22,000
TP vs Consensus	5.0%
Upside	3.8%
Dividend Yield	0.0%
Total stock return	3.8%

Growth rating	Neutral
Value rating	Neutral
ST Technical Analysis	Negative

Market Cap	USD0.50bn
3m Avg daily value	USD6.1mn
Avail Foreign Room	USD178.4mn
Outstanding Shares	621mn
Fully diluted O/S	621mn

	HSG	Peers	VNI
P/E TTM	20.7x	13.8x	13.1x
P/B Current	1.0x	0.9x	1.7x
ROA	2.5%	1.2%	2.1%
ROE	4.6%	3.4%	12.5%

\*as of 10/1/2025

### Share Price performance



Share price (%)	1M	3M	12M
Ordinary share	-3.7%	-4.5%	65.4%
Relative to index	-8.1%	0.0%	12.9%

### Ownership

Le Phuoc Vu	17.0%
Dragon Capital	8.0%
Others	75.0%

### Business Description

HSG is leading the galvanized steel sheet segment in Vietnam with 28% market share and 2.2 million tonnes of designed capacity. HSG also aims to diversify its sector to construction material retailing and property investment.

### Analyst(s):



**Quynh Phuong Nguyen**

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## Steel prices will continue to struggle

- We maintain a HOLD rating for HSG with 3.8% upside. We cut our TP 15% to VND19,100 while the share price has decreased 8% since our last report.
- We lower our TP because we reduced our FY24-25 earnings forecast by 52%/64% to VND601bn (USD24mn) and VND677bn (USD27mn), reflecting -26%/13% YoY growth. This is mainly due to a lower-than-expected EBITDA margin in 3Q24.
- HSG is trading at a current P/B of 1.0x from 1.3x at YE23, which is consistent with peers. FY25 ROE of 6% and downward pressure on steel prices should keep this valuation multiple around this level or lower.

### Financial Highlights

- 3Q24 revenue increased 24% YoY to VND11tn (USD440mn), driven by a 29% increase in sales volume.
- 3Q24 net loss was VND186bn (USD6.6mn) compared to last year's net profit of VND440bn (USD18mn), while dropping 14% QoQ on extremely low EBITDA margin of 0.2%.
- By the end of 3Q24, net D/E improved to 0.43x, down from 0.52x at end-1Q24, indicating a stronger balance sheet position.

### Investment Thesis

#### Weak Chinese property market depresses global steel prices

As the Chinese government plans to shift its economic growth away from property development, we believe it is unlikely they will inject substantial funds into this sector again, which will hurt steel demand.

#### Net neutral impact from potential Vietnamese tariffs on imported steel

A higher HRC price thanks to new tariffs would lead to higher input costs for galvanized steelmakers. However, in the short term, higher HRC prices will raise ASP as costs will be converted to buyers and will improve investor sentiment as HRC price is the leading indicator for steel share prices.

#### 2025 volume growth moderates as capacity peaks

We forecast sales volume to increase 29% for FY24, including a 36% increase in exports. However, this will achieve a 90% capacity utilization rate, which will likely moderate sales volume growth to single digits in 2025. Hence, we forecast 3%/3% volume in FY25/26, respectively.

#### Global geopolitical trends maintain HRC price volatility

HSG margins have been extremely volatile due to the high fluctuation of HRC input price and HSG inventory management. HSG expects GM will bounce back to 1H24 levels in 4Q24 and 2025 as there will be no more provisions and the HRC price will be more stable while there are still be wild cards to watch for from Trump 2.0 trade policies, China's new stimulus package and geopolitics tensions.

	2023	2024E	2025F	2026F
Revenue growth	(19%)	21%	4%	3%
Gross margin	9%	11%	11%	11%
Net profit (VNDbn)	808	601	677	915
Net profit growth	-176%	-26%	13%	35%
Net profit margin	2%	1%	2%	2%
P/E	506.7	18.4	16.7	12.3
P/B	1.3	1.0	0.9	0.9
ROAE	0.3%	5.5%	5.8%	7.4%
Net D/E (x)	0.27	0.45	0.28	0.22

Source: VNDIRECT RESEARCH

## Company Profile: Hoa Sen Group

Hoa Sen Group is leading the galvanized steel sheet segment in Vietnam with 28% market share. HSG accounted for 26% of domestic and 30% of export market share at the end of 2023.

Hoa Sen Group is the top company in manufacturing and trading steel sheet in Vietnam and the leading exporter of steel sheet in Southeast Asia. They own 10 factories in the North, Central and South regions to produce and quickly supply products of Corrugated iron, Galvanized steel, Steel pipes, Hot-dip galvanized pipes, and Plastic pipes for each regional market.

**Figure 1: HSG factories**

#	Name	capacity (tonnes/year)	Type
1	Hoa Sen Yen Bai Galvanized Steel Pipes Plant	82,800	Steel pipe
2	Hoa Sen Nghe An Plant	700,000	Galvanized
		800,000	
		240,000	
3	Hoa Sen Nam Cam Plant	120,000	Steel pipe
4	Hoa Sen Binh Dinh Galvanized Steel Pipes - Plant	100,000	Steel pipe
		12,000	Plastic pipe
5	Hoa Sen Binh Duong Steel Sheet Plant	800,000	
6	Hoa Sen Ha Nam Plant	217,800	Steel pipe
		19,800	Plastic pipe
7	Hoa Sen Nhon Hoi - Binh Dinh Plant	350,000	
		430,000	Galvanized
		195,000	
8	Hoa Sen Phu My Construction Materials Plant	332,040	Steel pipe
		97,891	Plastic pipe
9	Hoa Sen Phu My Hot Dip Galvanized Steel Pipes Plant	85,000	Steel pipe
10	Hoa Sen Phu My Steel Sheet Plant	1,200,000	Galvanized
		330,000	

Source: Company reports, VNDIRECT Research

HSG also owns its distribution channel by having more than 500 branches – retail stores spread across the country. For Hoa Sen Home, HSG currently operates 110 retail stores selling construction materials and home equipment yet does not have any plans to further invest.

**Figure 2: HSG Board of Directors and management team**

Name	Title	Note
<b>Board of directors</b>		
Mr Le Phuoc Vu	HSG founder, Chairman	23 years of experience in the steel industry. Established HSG in 2001
Mr Tran Ngoc Chu	Executive Vice Chairman	Joined HSG close to inception
Mr Tran Quoc Tri	Executive Member of BoD Cum General Director	Joined HSG in 2004
Mr Ly Van Xuan	Non Executive Member of BoD	HSG long-term investor
Mr Dinh Viet Duy	Independent member of BoD	
Mr Nguyen Van Luan	Independent member of BoD	
<b>Management team</b>		
Mr Tran Quoc Tri	Executive Member of BoD Cum General Director	Joined HSG in 2004
Mr Hoang Duc Duy	Deputy General Director	Joined HSG in 2001
Mr Vu Van Thanh	Deputy General Director	Joined HSG in 2008
Me Tran Ngoc Pham	Deputy General Director	
Mr Nguyen Ngoc Huy	Deputy General Director	
Mr Tran Thanh Nam	Deputy General Director	
Mr Nguyen Minh Phuc	Acting Deputy General Director	

Source: Company reports, VNDIRECT Research

## 9M24 Results Recap: High costs offset volume growth – [Missed]

**Figure 3: 3Q24 net loss of VND186bn (USD6.6mn) compared to last year's net profit of VND440bn (USD18mn)**

(VNDbn)	3Q24	3Q23	YoY	9M24	9M23	YoY	9M24/FY24E	9M23/FY23A	FY24E	FY23A
Revenue	10,223	8,235	24%	30,691	24,142	27%	75.7%	72.3%	40,547	33,392
Gross profit	849	1,075	(21%)	3,302	2,871	15%	74.3%	75.1%	4,445	3,820
SG&A expenses	(1,058)	(636)	66%	(3,001)	(2,108)	42%	76.2%	71.5%	(3,937)	(2,947)
Net financial income	31	54	(42%)	93	1	10,614%	87.8%	-17.6%	106	(5)
							0.0%	0.0%	-	-
PBT	(176)	498	(135%)	425	808	(47%)	65.7%	87.5%	646	923
NPAT-MI	(186)	440	(142%)	406	705	(42%)	67.6%	-0.2%	601	808
GPM	8.3%	13.1%	(4.8%) pts	10.8%	11.9%	(1.1%) pts			11.0%	11.4%
NPM	(1.8%)	5.3%	(7.2%) pts	1.3%	2.9%	(1.6%) pts			1.5%	2.4%

Source: VNDIRECT Research

### 3Q24 sales volume growth driven by exports

3Q24 sales volume increased by 29% YoY, reaching 500,000 tonnes, despite a slight seasonal decline of 3% QoQ. The domestic market experienced a 22% YoY rise in galvanized steel, totalling 168,000 tonnes, while exports surged by 31% to 231,000 tonnes. Export revenue, which represents 50% of total revenue, is well-balanced across key regions, including Asia, the EU, and the Americas.

### Gross margin decreased due to rising input costs

The weighted average galvanized steel price fell 4% YoY in 3Q24, setting at around VND21mn/tonne (USD860/tonne). This was influenced by higher-than-expected input HRC prices, which rose by 2% YoY to USD592/tonne. Additionally, the inventory loss provisions of VND122bn (USD4.9mn) contributed to a slight decline in gross margin to 8%.

### SG&A expenses rose despite revenue growth

3Q24 SG&A expenses increased by 66% YoY, primarily due to higher office and export costs, while revenue rose by only 24% YoY. This, coupled with elevated input HRC costs, compressed the core EBITDA margin to 0.2%.

### Improvement in net gearing ratio

By the end of 3Q24, net D/E improved to 0.43x, down from 0.52x at end-1Q24, indicating a stronger balance sheet position as the company paid down ~VND400bn (USD16mn) of debt.

**Figure 4: Improving net gearing ratio**

VNDbn (otherwise noted)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Cash + Short term investment	351	739	623	1,710	394	504	633
A/R Days	20	23	24	24	26	26	28
Inventory Days	76	78	82	92	117	123	111
A/P Days	23	19	23	30	35	33	24
Capex	-80	13	-178	13	-57	-35	-642
Depreciation	284	276	276	266	251	241	232
Fixed Assets	5,474	5,225	5,020	4,764	4,516	4,283	4,111
Net Debt / Equity (x)	0.31	0.35	0.21	0.27	0.52	0.49	0.43

Source: VNDIRECT Research

## FY24-25 Outlook: Lack of major catalysts

**Figure 5: HSG earnings forecast and key assumptions**

VNDbn, otherwise noted	Actual	Old			New			% Change		
	FY23A	FY24E	FY25F	FY26F	FY24E	FY25F	FY26F	FY24E	FY25F	FY26F
Total revenue	33,392	40,590	41,310	46,685	40,547	41,983	43,080	-0.1%	1.6%	-7.7%
YoY Growth	-19%	22%	2%	13%	21%	4%	3%			
Gross profit	2,976	5,090	6,134	7,147	4,445	4,754	4,855	-12.7%	-22.5%	-32.1%
GPM	9%	13%	15%	15%	11%	11%	11%	-1.6% pts	-3.5% pts	-4.0% pts
SG&A expense	(2,947)	(3,585)	(3,927)	(4,413)	(3,546)	(3,988)	(4,093)	-1.1%	1.6%	-7.3%
SG&A as % of revenue	9%	9%	10%	9%	9%	10%	10%			
<b>EBITDA</b>	<b>1,751</b>	<b>2,496</b>	<b>3,450</b>	<b>4,116</b>	<b>1,496</b>	<b>1,743</b>	<b>2,030</b>	<b>-40.1%</b>	<b>-49.5%</b>	<b>-50.7%</b>
EBITDA margin	5%	6%	8%	9%	4%	4%	5%	-2.5% pts	-4.2% pts	-4.1% pts
Interest expense	(173)	(126)	(124)	(124)	(147)	(142)	(127)	16.9%	14.3%	2.4%
<b>Pretax profit</b>	<b>923</b>	<b>1,337</b>	<b>2,153</b>	<b>2,659</b>	<b>646</b>	<b>769</b>	<b>1,040</b>	<b>-51.7%</b>	<b>-64.3%</b>	<b>-60.9%</b>
<b>NPAT-MI</b>	<b>808</b>	<b>1,240</b>	<b>1,894</b>	<b>2,340</b>	<b>601</b>	<b>677</b>	<b>915</b>	<b>-51.5%</b>	<b>-64.3%</b>	<b>-60.9%</b>
Net margin	2%	3%	5%	5%	1%	2%	2%	-1.6% pts	-3.0% pts	-2.9% pts
YoY Growth	-176%	53%	53%	24%	-26%	13%	35%			
<b>Steel volume (tonnes)</b>	<b>1,498,209</b>	<b>1,930,770</b>	<b>1,985,000</b>	<b>2,080,000</b>	<b>1,930,770</b>	<b>1,985,000</b>	<b>2,040,000</b>	<b>0.0% pts</b>	<b>0.0% pts</b>	<b>-1.9% pts</b>
Pipe	286,690	345,000	380,000	400,000	370,770	375,000	400,000	7.5% pts	-1.3% pts	0.0% pts
<b>Total galvanized steel</b>	<b>1,211,519</b>	<b>1,580,000</b>	<b>1,560,000</b>	<b>1,680,000</b>	<b>1,560,000</b>	<b>1,610,000</b>	<b>1,640,000</b>	<b>-1.3% pts</b>	<b>3.2% pts</b>	<b>-2.4% pts</b>
Galvanized steel- domestic	527,941	623,000	760,000	880,000	631,000	760,000	800,000	1.3% pts	0.0% pts	-9.1% pts
Galvanized steel - export	683,578	958,000	800,000	800,000	929,000	850,000	840,000	-3.0% pts	6.3% pts	5.0% pts
HRC (USD/tonne)	634	570	569	600	586	590	590	2.8% pts	3.7% pts	-1.7% pts
YoY Growth	-25%	-10%	0%	5%	-8%	1%	0%			
Weighted Galvanized steel (VNDm/tonne)	23,100	21,600	22,000	23,300	21,800	22,000	22,000	0.9% pts	0.0% pts	-5.6% pts
YoY Growth	-17%	-6%	2%	6%	-6%	1%	0%			

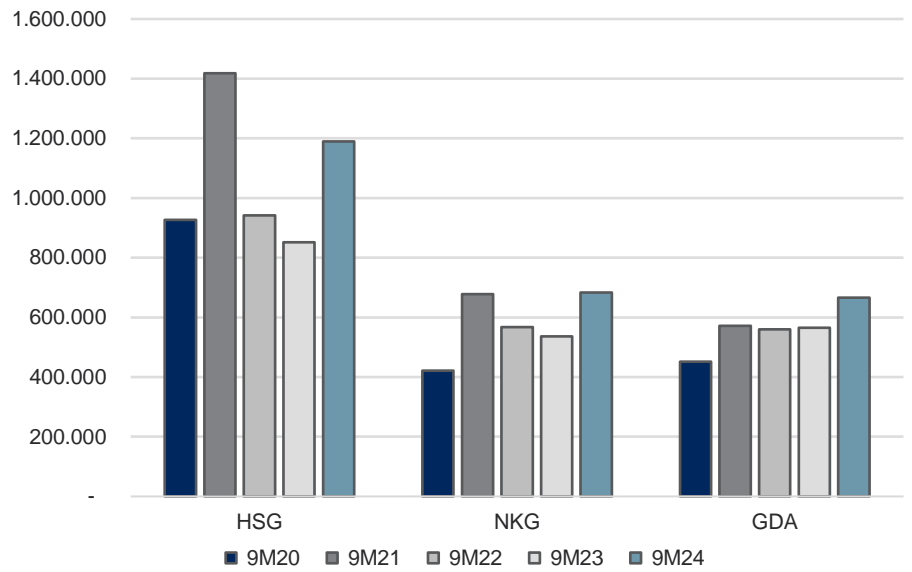
Source: VNDIRECT Research

We have adjusted our 2024-2025 forecast as follows:

1. EBITDA Margin: Lowered by 1.6 and 3.5 percentage points, respectively, to account for weaker-than-expected performance in 3Q24, a higher drop in ASP vs HRC input cost, inventory loss provisioning and the firm's more cautious outlook for the coming year.
2. Interest Expense: Increased by 17% for 2024 and 14% for 2025, reflecting higher-than-anticipated results for 9M24 and an updated projection for the 2025 debt balance.

**2025 volume growth will moderate from 2024's high base**

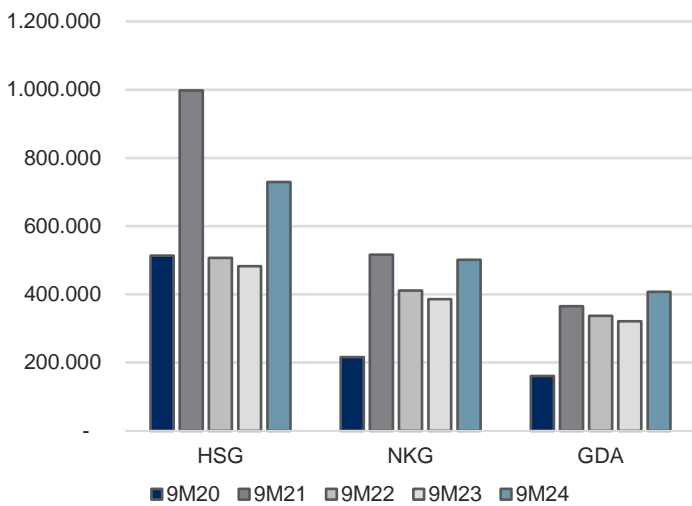
**Figure 6: 9M galvanized steel sales volume over last five years (tonnes)**



Source: Fiingroup, VNDIRECT Research

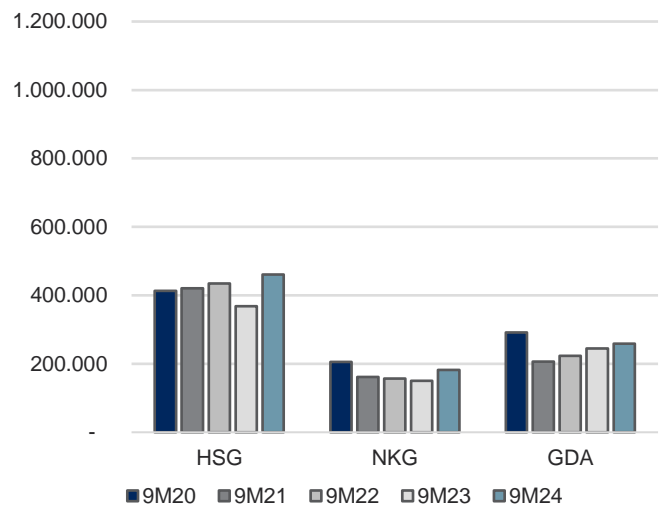
9M24 sales volume of the three biggest galvanized steel firms reflected a strong performance: while the sector grew 16% YoY, HSG volume growth outperformed with a 40% YoY rise, and after two consecutive years of growth declines, NKG volume rose 27% YoY while GDA increased 18% YoY.

**Figure 7: Galvanized steel export sales volume over last five years (tonnes)**



Source: Fiingroup, VNDIRECT Research

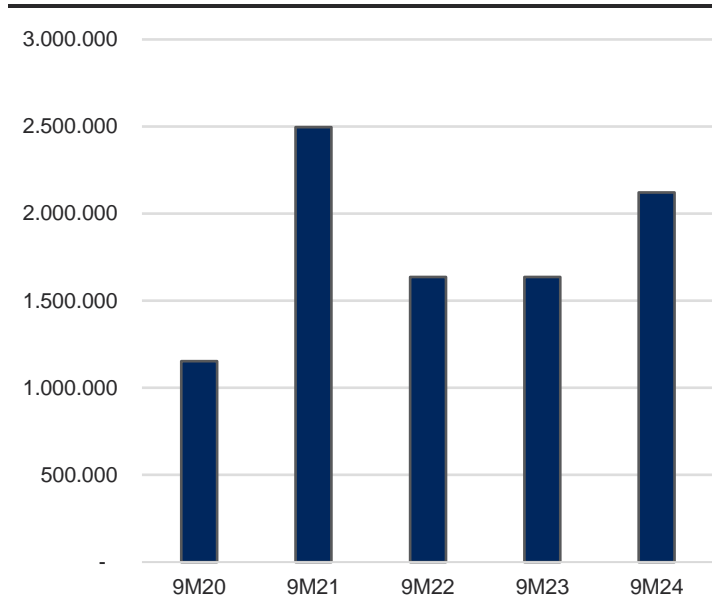
**Figure 8: Galvanized steel domestic sales volume in five years (tonnes)**



Source: Fiingroup, VNDIRECT Research

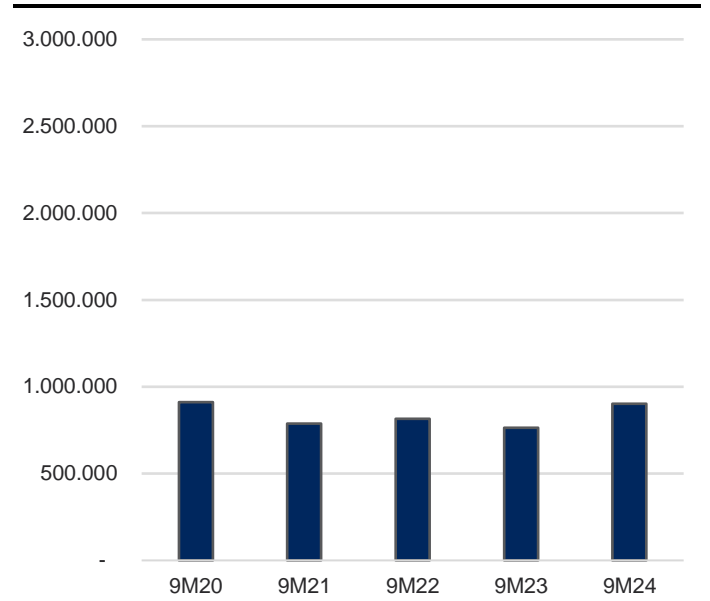
While the sector's exports grew 30% YoY, HSG volume growth outperformed with a 51% YoY rise, NKG volume rose 30% YoY while GDA increased 27% YoY, which slightly underperformed overall market growth.

**Figure 9: Sector export sales volume over last five years (tonnes)**



Source: Fiingroup, VNDIRECT Research

**Figure 10: Sector domestic sales volume over last five years (tonnes)**



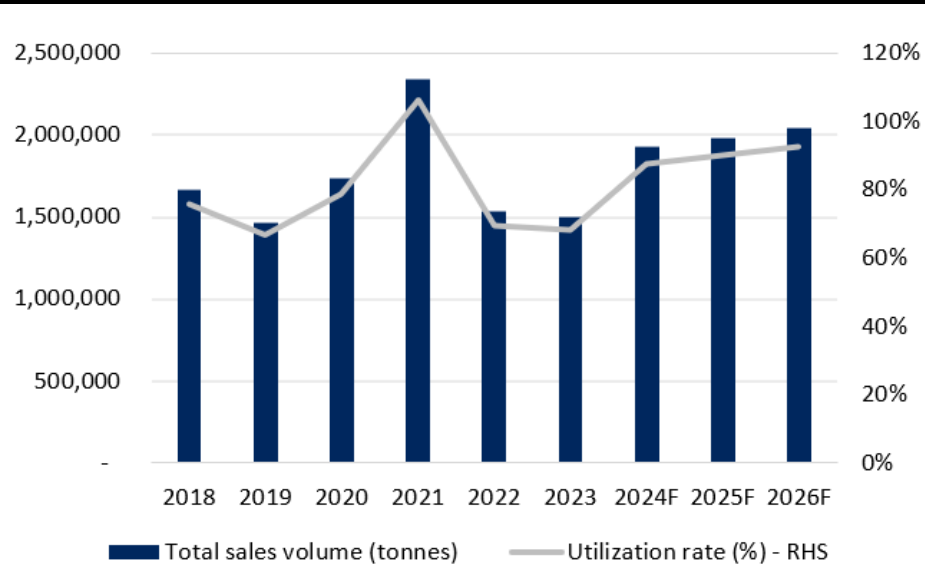
Source: Fiingroup, VNDIRECT Research

**Figure 11: Sales volume assumptions**

HSG	FY23A	FY24E	FY25F	FY26F	FY24E	FY25F	FY26F
<b>Steel volume (tonnes)</b>	<b>1,498,209</b>	<b>1,930,770</b>	<b>1,985,000</b>	<b>2,040,000</b>	<b>29%</b>	<b>3%</b>	<b>3%</b>
Pipe	286,690	370,770	375,000	400,000	29%	1%	7%
Total gavanized steel	1,211,519	1,560,000	1,610,000	1,640,000	29%	3%	2%
Galvanized steel- domestic	527,941	631,000	760,000	800,000	20%	20%	5%
Galvanized steel - export	683,578	929,000	850,000	840,000	36%	-9%	-1%

Source: Fiingroup, VNDIRECT Research

**Figure 12: HSG sales volume and utilization rate expectation**



Source: Fiingroup, VNDIRECT Research

As 9M24 total sales volume surged 35% YoY, we expect FY24 sales volume to grow 29% YoY, driven by a 36% increase in galvanized steel exports. However, we think sales volume growth will moderate to a single-digit number in 2025 from the high base in 2024, as HSG has reached a 90% capacity utilization rate.

**Margins likely to remain volatile**

**Figure 13: Scales and margins of leading galvanized steel firms in Vietnam in normal periods**

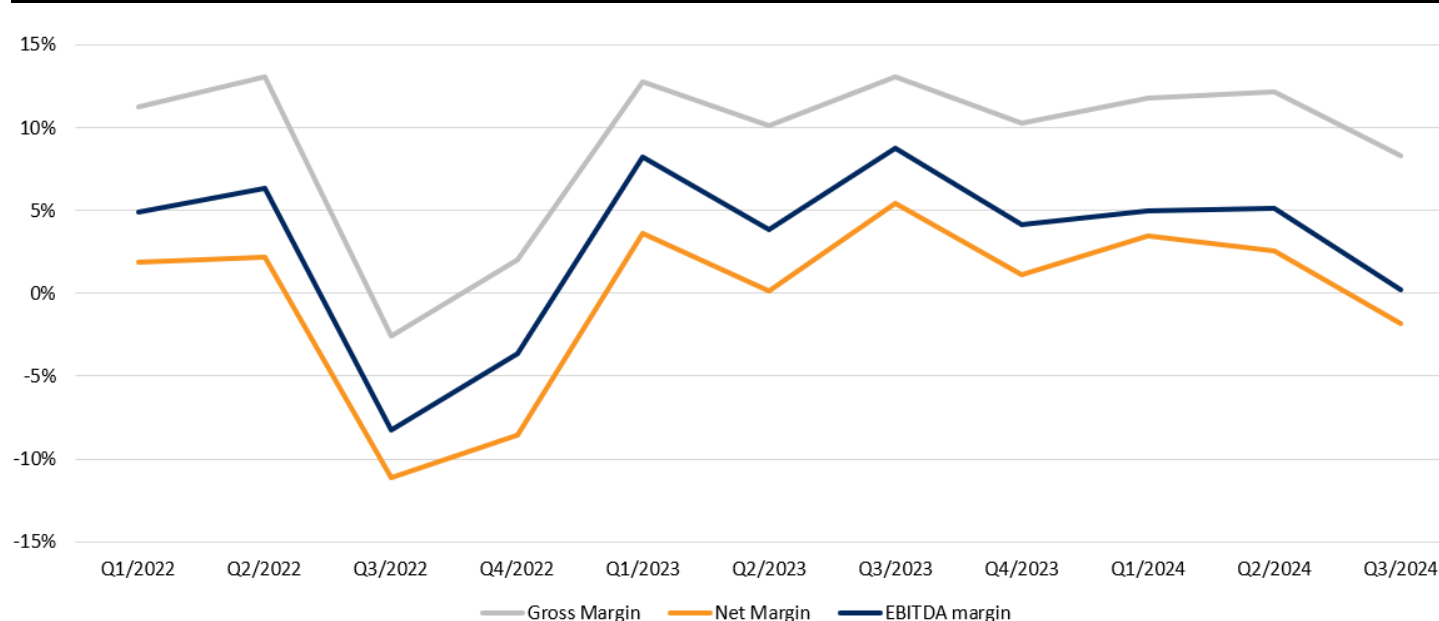
Firm	Current capacity (mn tonnes)	New capacity in 2026-2027 (mn tonnes)	Current cash margin	SG&A % of sales	EBITDA margin	Comment
HSG	2.2		10-20%	8-9%, stable	6-12%	HSG will diversify sectors to construction material retail and property which are unclear for now
NKG	1.1	0.5-1	8-16%	3-6%, more volatility due to export logistics cost	5-10%	NKG will have better economy of scale when raising the production capacity to equal to HSG (2026 onwards story) and at near-port position
GDA	0.8	0.3-0.6	6-13%	3-6%	3-7%	GDA will have better economy of scale thanks to new factory with near port position

Source: VNDIRECT Research

The weighted average galvanized steel price fell 4% YoY in 3Q24 to around VND21mn/tonne (USD860/tonne) with a higher-than-expected input HRC price increasing 2% YoY to USD592/tonne including the inventory loss provisions of VND122bn (USD4.9mn), which slightly drove down the gross margin to 8%, only higher than in 2H22. 3Q24 SG&A expenses increased by 66% YoY, primarily driven by higher office and export costs, while revenue rose by only 24% YoY. This, along with elevated input HRC costs, compressed core EBITDA margin to 0.2%.

HSG's margins have been extremely volatile due to the high fluctuation of HRC input price and inventory management. The company expects profit margin (GPM) will bounce back to the 1H24 level in 4Q24 and 2025 as no more provisions are needed and HRC prices stabilize. However, the potential impact from Trump 2.0 trade policies, China's new stimulus package and geopolitical tensions remain concerns.

**Figure 14: HSG margins**



Source: VNDIRECT Research, Bloomberg

**HSG's future growth is not visible for now**

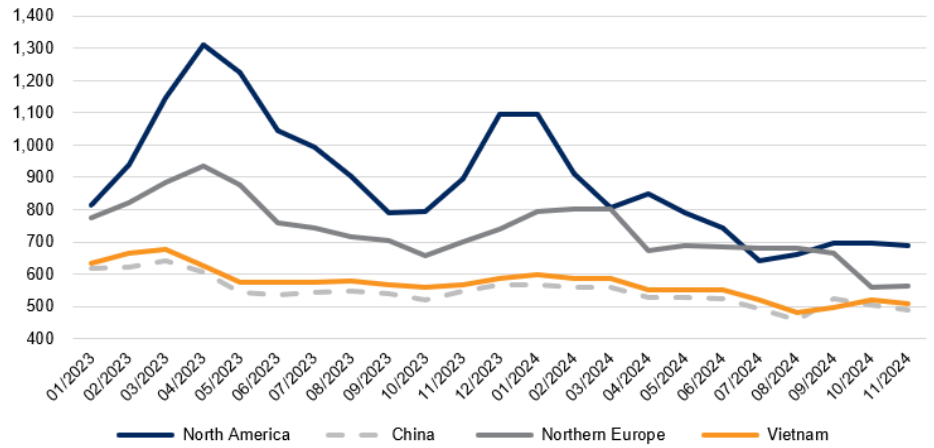
At the 2024 HSG AGM, the company approved its long-term expansion to seek investment in various business sectors including real estate and finance with a maximum investment capital of VND5tn (USD200mn). Based on the retail earnings forecast for the next three years, we think HSG may not need to raise

new capital for these expansions, although further updates are needed for clarity.

**Steel prices will likely struggle amid weak Chinese property activity**

Significant oversupply pushed China HRC spot prices down to USD465/tonne in November, marking a -9% MoM and -20% YTD drop to below pre-Covid levels. In Vietnam, HRC prices are following China's trend, while domestic construction steel prices are more stable with a -4% MoM and -5% YTD decrease.

**Figure 15: HRC price movement (USD/tonne)**

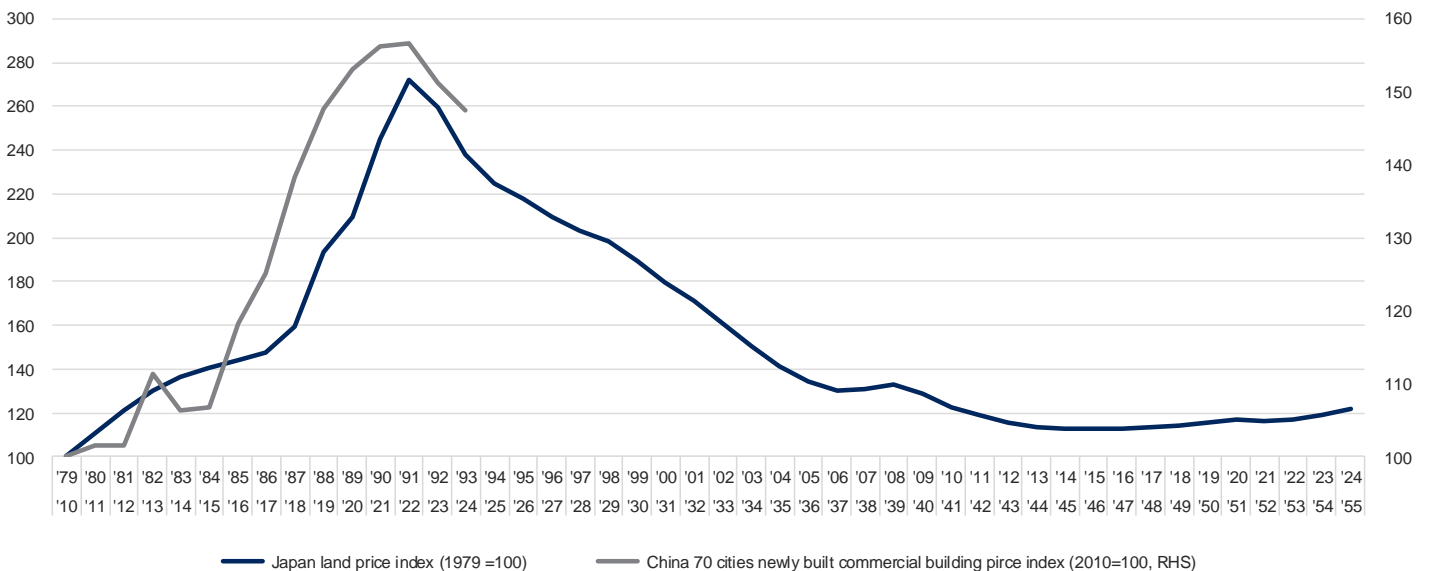


Source: VNDIRECT Research

**Weak Chinese property construction likely to continue**

China accounts for around 50% of total global steel demand, and its demand ramped up in the last decade as China aggressively pushed construction activity in the residential market and public infrastructure. In terms of global steel end use, 50% of steel demand comes from the property and infrastructure market, 20% from electronics and home appliances, 20% from industrial machinery, and 10% from the automobile industry. Therefore, we keep a close eye on the Chinese property market to form our steel price outlook.

**Figure 16: Japanese land price index vs Chinese condo price index**



Sources: VNDIRECT RESEARCH, Bloomberg

Chinese house prices surged for decades and then declined in the last three years, reminding us of the path that Japan went through 30 years ago.

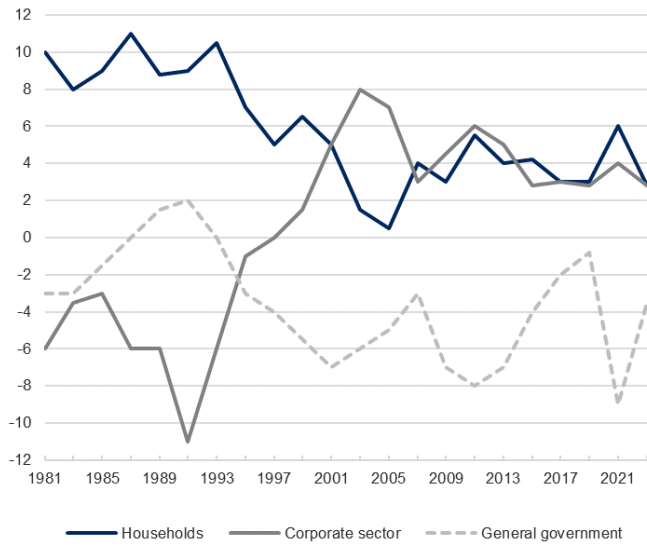
Japan's property prices soared 5x from 1980 to their peak in 1990, then crashed over the next 25 years until around 2014. The 1980s property bubble in Japan started when the corporate sector took on debt to invest in commercial real estate as shown by its growing net financial deficit as a percentage of nominal GDP. Post-bubble in the 1990s, both Japanese households and corporations took major de-leveraging actions by paying down debt as shown by a decreasing net financial surplus over 25 years. Even with the BOJ lowering interest rates to zero percent, private sector and consumer confidence did not improve and spending remained muted. The Japanese government had to borrow aggressively to prevent the economy from falling into recession. Japan also did not experience a demographic challenge until the 2000s.

China's household and corporate sectors started to de-leverage in 2015, which was offset by the government expanding its borrowing to largely invest in solar panels, electric vehicles, steel mills, and public infrastructure. As a result, the Chinese economy and property sector remained robust until around 2021. Property developers struggled under debt-tightening rules, leaving unfinished housing construction, which led households, already financially strained by Covid, to aggressively cut debt. China now has millions of unsold house units and empty houses. The Chinese government must now not only manage deteriorating consumer confidence levels but also structural demographic decline and growing trade friction from advanced economies against Chinese products. Yet the Chinese central government's solutions so far, such as lower interest rates, smaller down payments, pumping more than a thousand trillion CNY worth of loans into the economy, or requesting local governments to buy back unsold houses have not yet shown any impact.

Therefore, unless the Chinese government borrows heavily to invest in productive manufacturing projects and property again, we think China's economy is vulnerable to a similar crisis that condemned Japan to decades of deflation and stagnant growth following the bursting of its asset bubble in the early 1990s.

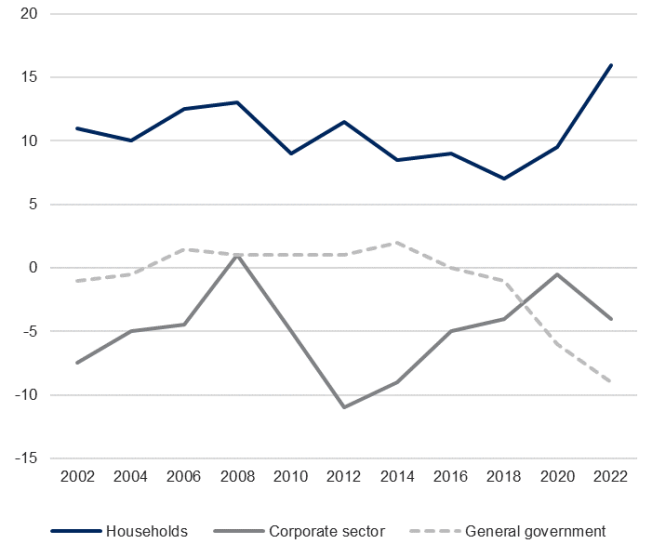
And as the Chinese government has the intention to shift its economic growth drivers away from property development, we do not think it will pump a significant amount of money into this sector again. Even if the Chinese government successfully finds more profitable investments to push GDP growth, it cannot offset the loss of domestic steel demand from less investment in the property sector where most steel is consumed. Consequently, in 2025, we expect China's steel selling prices to continue to drop further.

**Figure 17: Financial surplus or deficit by sector in Japan since 1981 (% of nominal GDP)**



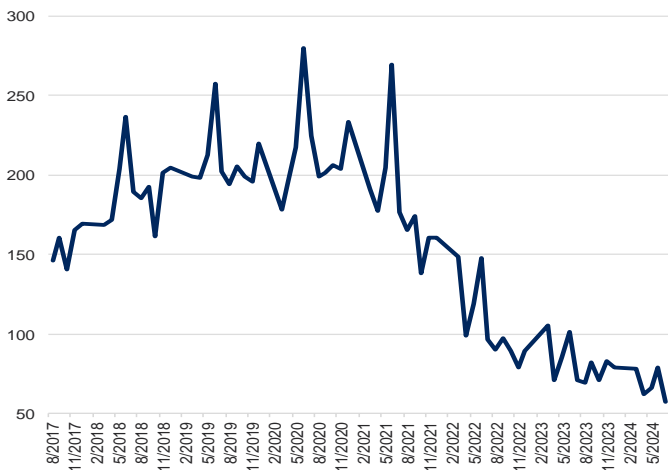
Source: Nomura Research

**Figure 18: Financial surplus or deficit by sector in China since 2002 (% of nominal GDP)**



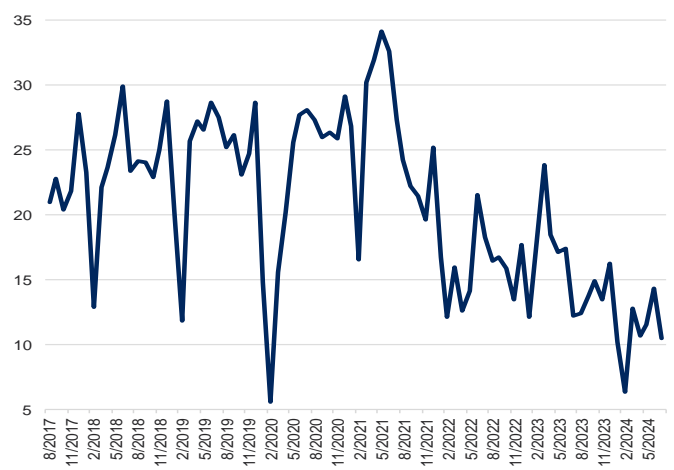
Source: Nomura Research

**Figure 19: Floor space of houses (volume/million sqm)**



Source: Bloomberg

**Figure 20: Chinese sales volume by GFA (million sqm) - residential sales for 30 key cities**

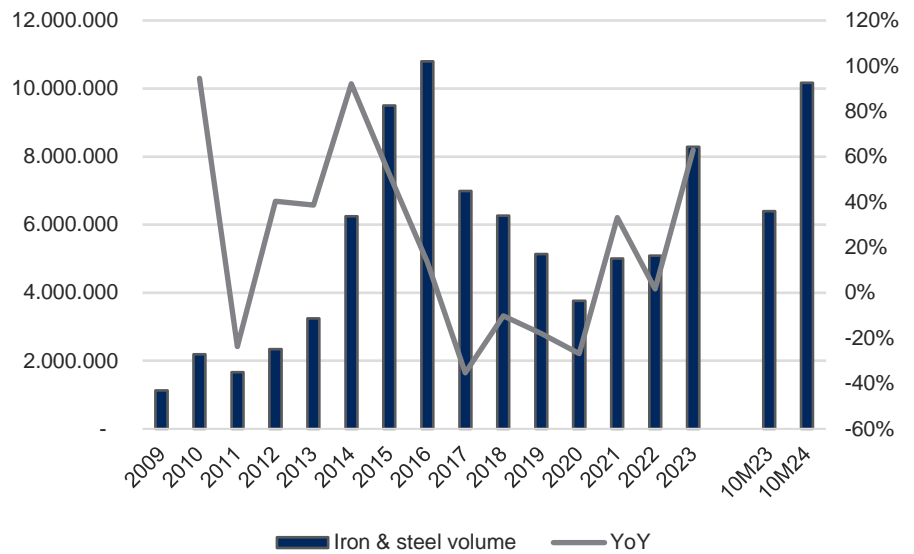


Source: Bloomberg

**Potential tariffs imposed by Trump on China, US neighbors**

Chinese imported steel flooded the Vietnamese market with 10M24 volume growth of 60% YoY to around 10 million tonnes.

**Figure 21: Chinese imported iron and steel volume (tonnes) into Vietnam**



Sources: General Department of Vietnam Customs, VNDIRECT RESEARCH

US President-elect Donald Trump said recently that he will levy tariffs of 25 percent on all imports from Canada and Mexico, and an extra 10% tariff on Chinese goods, accusing the countries of permitting illegal immigration and drug trafficking.

In 2023, the US imported 25.6 million tonnes of steel, with Canada, Mexico and Brazil being the biggest sources, accounting for 24%, 15% and 14%, respectively, of total US steel imports. Meanwhile, both the Biden and incoming Trump administrations have accused these countries of serving as a gateway for cheap steel products entering the US.

If the tariffs are implemented, we think that Chinese steel producers will export less to Canada, Mexico, and the US and re-route this steel flow away from North America/Latin America to other regions like ASEAN and India, where domestic steel consumption growth continues to be solid. Without more domestic market protection measures by Vietnamese authorities, imported steel flooding into Vietnam is likely to increase.

However, we need more clarity as Trump's announcement did not clarify how the proposed import tax would align with the existing Section 232 tariffs on steel and aluminum, which were implemented during his first term in 2018 and are still applied now. Canada, Mexico, and a few other key countries have remained exempt from the Section 232 tariffs, while other countries have seen tariffs removed and a non-tariffed quota system imposed. Similarly, if the US implemented tariffs on imports from Canada and Mexico, it would be in violation of the US-Mexico-Canada Agreement (USMCA) that was also put in place by Trump's first administration in 2020.

**Net neutral impact from potential tariffs on imported steel**

**Figure 22: Past investigations of the steel industry by the Trade Authority of Vietnam**

No	Case number	Products	Initiator	Country under investigation	Current Status	Investigati on notice/ Mid-term/ Final check	Temporary solution notice	Official AD/SG solution notice	Days of waiting 1	Days of waiting 2	Years of applying AD/SG solutions	Importing tax	Final AD tax/ SG tax
1	AD01	CRC	Posco VST, Inox Hoa Binh	China, Indonesia, Malaysia, Taiwan	Expired	7/02/2013	12/25/2013	9/5/2014	176	254	5	0-10%	3%-37%
	ER01.A D01			China, Indonesia, Malaysia, Taiwan	Active	10/02/2018		10/21/2019			5		
2	AD02	Galvanized steel	NKG, GDA, Ton Phuong Nam, China Steel Sumikin	China, South Korea	Expired	3/03/2016	9/1/2016	3/30/2017	182	210	5		3-38%
3	AD03	H shaped steel		China	Expired	10/05/2016	3/21/2017	8/21/2017	167	153	5		20%-29%
	ER01.A D03			China	Active	10/13/2021		8/19/2022			5		
4	AD04	Some G/GLs	NKG, Ton Phuong Nam, Dai thien Loc, TVP	China, South Korea	Expired	10/15/2018	6/18/2019	10/24/2019	246	128	5		2.5%-34%
	AR01.A D04			China, South Korea	Active			4/20/2021			Until next notice		
5	AD08	CRC		China	Active	9/03/2019		12/21/2020		475	5		4%-25%
6	AD12	H shaped steel		Malaysia	Active	8/24/2020	4/2/2021	8/18/2021	221	138			10.64%
7	SG04	Billet and long steel		Global	Expired	12/25/2015	3/7/2016	7/18/2016	73	133	4		Billet: 23.3%, Long steel 14.2%, Annual decline by 2%, After 2020 0%
	ER02.S G04	Long steel		Global	Active	11/04/2022		3/21/2023			3	15%	6%
8	SG05	Galvanized steel		Global	Expired	7/06/2016		6/15/2017			3		Average maximum 420,000 tonnes annually, SG tax of 19% applied to amount beyond that
9	AD17	PC bar steel		China, Thailand, Malaysia	Pending	7/05/2023							
10	AD19	Galvanized steel	HSG, NKG, GDA, Ton Phuong Nam, China Steel & Nippon Steel	China, South Korea	Pending	6/14/2024							
11	AD20	HRC	HPG, Formosa	India, China	Pending	7/26/2024							

Sources: VNDIRECT research, Trade remedies authority of Vietnam

Chinese steel has garnered significant attention from the Vietnamese Government:

1. Galvanized Steel Investigation: The Ministry of Industry and Trade (MoIT) is investigating galvanized steel to decide whether to impose an anti-dumping tax on some Chinese and South Korean galvanized steel. If this materializes, all galvanized steel producers, including HSG, NKG, HPG, and GDA, will benefit. We think this is very likely given that Vietnam suffers from galvanized steel oversupply and Vietnam's trade remedy authority applied self-defense and anti-dumping taxes on imported galvanized steel in 2016 during a previous Chinese steel crisis.

2. HRC Investigation: The MoIT is investigating HRC imported from certain Chinese and Indian firms, and the outcome will likely take three to five months to finalize. From what we observe, all past steel investigation cases have been finalized by imposing an anti-dumping/self-defense price tax, but the impacts were different based on the timing and magnitude. However, this case is quite tough due to Vietnam's current HRC undersupply. If this materializes, we think that it will start when Dung Quat 2 operates (which will fill the HRC undersupply

gap in Vietnam) and will apply to only some HRC codes with a range of prices far below domestic prices or to some amount beyond specific imported volume levels set by the authority.

As we expect a prolonged struggle for global steel prices, we think these potential new tariffs will raise the domestic steel HRC price from imported Chinese steel with distressed prices. Through our channel checks, industry experts view that in the long term, higher HRC prices will lead to higher galvanized steelmaker input costs. However, in the short term, higher HRC prices will raise the average selling price (ASP) as costs will be converted to buyers and will improve investor sentiment as the HRC price is the short-term leading indicator for steel share prices.

Past cases show that it takes the Vietnam Trade Remedies Authority 180 days on average to impose a temporary AD/SG tax notice and 150 days after that to announce an official tax solution, with the official tax possibly adjusted from the temporary version. If the official tax rate is lower than the temporary tax rate, importers will be refunded the difference. On the other hand, if the official tax rate exceeds the temporary tax rate, importers are not required to pay the additional amount. We expect that we will see results for these current cases by early 2025.

Vietnam lifting anti-dumping duties on imported cold-rolled stainless steel whose code is used to produce Inox has no impact on HPG or galvanized steel players as these firms do not operate in this segment of the Inox production chain.

## Valuation: Maintain a HOLD for HSG with a TP of VND19,100

We maintain with a HOLD rating for HSG with a TP of VND19,100 using three methods: P/E, P/B and DCF valuation.

**Figure 23: Target price (VND/share)**

Method	Target Multiple (x)	Implied share price	Weight	Weighted target price
P/E	20.0x	22,000	33%	7,333
P/B	1.0x	20,000	33%	6,667
DCF		15,200	33%	5,067
Target Price				19,100
Upside				3.8%

	2024	2025	2026
FW P/E	18.4x	16.7x	12.3x
FW P/B	1.0x	0.9x	0.9x

Source: VNDIRECT Research

HSG's TTM P/B ratio is 1.0x and its P/E is 22.1x, both of which are consistent with peer averages. We expect the valuation multiple will continue to be around this level or downgraded as the steel price continues to struggle in our long-term view, Trump trade policies will be more aggressive and we have medium confidence in our 2025F earnings growth forecast given the risks from wild cards we have discussed throughout the report.

**Figure 24: P/B valuation**

P/B	2024F	2025F
Book Value (VNDbn)	11,652	12,393
BVPS (VND)	18,800	20,000
ROE	6%	6%
Outstanding shares (Mn)	621	621
Target Multiple (x)	1.0x	1.0x
Target Price (VND)	18,800	20,000

Source: VNDIRECT RESEARCH

**Figure 25: P/E valuation**

P/E	2024F	2025F
Group NPATMI (VNDbn)	601	677
EPS (VND)	1,000	1,100
EPS growth	-24%	14%
Outstanding shares (Mn)	621	621
Target Multiple (x)	16.0x	20.0x
Target Price (VND)	16,000	22,000

Source: VNDIRECT RESEARCH

**Figure 26: P/B of steel sector and steel firms vs China HRC price**



Source: Bloomberg

**Figure 27: Peer comparison**

Ticker	Name	Country	(USDmn) Mkt Cap	(%) Net Debt /Equity	(x) EV /EBITDA T12M	(%) ROE TTM	(x) P/B current	(x) P/E T12M
HPG VN EQUITY	Hoa Phat Group JSC	VIETNAM	6,658	30.1	10.3	11.5	1.5	13.9
NKG VN EQUITY	Nam Kim Steel JSC	VIETNAM	201	68.1	10.3	8.0	0.9	11.3
GDA VN EQUITY	Ton Dong A Corp	VIETNAM	122	69.0	8.3	8.0	0.9	10.9
VGS VN EQUITY	Vietnam Germany Steel Pipe JSC	VIETNAM	71	72.4	28.4	6.2	1.8	29.5
600019 CH Equity	Baoshan Iron & Steel Co Ltd	CHINA	20,068	4.6		4.8	0.7	15.3
600010 CH Equity	Inner Mongolia BaoTou Steel Union Co Ltd	CHINA	12,083	77.0		(0.9)	1.7	
000932 CH Equity	Hunan Valin Steel Co Ltd	CHINA	4,153	56.8		5.2	0.6	11.0
000629 CH Equity	Pangang Group Vanadium Titanium & Resources Co Ltd	CHINA	3,653	(11.3)		3.1	2.1	69.9
600282 CH Equity	Nanjing Iron & Steel Co Ltd	CHINA	3,511	81.0		8.5	1.0	11.5
000709 CH Equity	Hesteel Co Ltd	CHINA	3,164	181.7		1.9	0.5	27.1
600808 CH Equity	Maanshan Iron & Steel Co Ltd	CHINA	2,217	77.5		(8.6)	0.7	
600022 CH Equity	Shandong Iron and Steel Co Ltd	CHINA	2,183	55.6		(7.4)	0.8	
600782 CH Equity	Xinyu Iron & Steel Co Ltd	CHINA	1,670	39.0		(2.1)	0.5	
600894 CH Equity	Guangzhou Guangri Stock Co Ltd	CHINA	1,489	(44.2)		9.1	1.2	13.2
601003 CH Equity	Liuzhou Iron & Steel Co Ltd	CHINA	1,085	129.2		(9.0)	0.9	
600569 CH Equity	Anyang Iron & Steel Inc	CHINA	745	195.7		(54.9)	1.4	
697 HK Equity	Shoucheng Holdings Ltd	HONG KONG	899	(18.2)	21.9	3.7	0.7	19.0
2002 TT Equity	China Steel Corp	TAIWAN	10,518	67.1	17.5	1.3	1.1	85.2
5401 JP Equity	Nippon Steel Corp	JAPAN	21,730	41.9	6.4	9.8	0.6	5.8
5411 JP Equity	JFE Holdings Inc	JAPAN	7,225	62.5	7.4	5.3	0.4	8.4
5406 JP Equity	Kobe Steel Ltd	JAPAN	4,049	55.1	4.7	8.1	0.6	7.1
005490 KS Equity	POSCO Holdings Inc	SOUTH KOREA	17,479	15.0	7.3	2.4	0.4	17.0
004020 KS Equity	Hyundai Steel Co	SOUTH KOREA	2,102	34.6	7.6	(1.0)	0.2	
<b>Average</b>			<b>5,314.2</b>	<b>57.6</b>	<b>11.9</b>	<b>0.7</b>	<b>0.9</b>	<b>22.3</b>
<b>Median</b>			<b>2,690.6</b>	<b>56.2</b>	<b>9.3</b>	<b>4.2</b>	<b>0.8</b>	<b>13.9</b>
HSG VN EQUITY	Hoa Sen Group	VIETNAM	465	43.4	12.7	4.7	1.1	22.9

Source: Bloomberg, VNDIRECT RESEARCH

Our DCF cost of equity uses an equity risk premium of 7.8% based on the [NYU Stern model](#) and a risk-free rate of 2.8%, which was the yield on the Vietnamese 10-year Government bond yield on September 30.

**Figure 278: Cost of Equity and WACC**

Risk free rate	2.7%
Risk premium	7.8%
Beta	1.50
Cost of equity	14.4%
Cost of debt (post tax)	6%
Equity (VNDbn)	11,426
Net Debt (VNDbn)	4,731
Equity/(Debt+Equity)	70.7%
Debt/(Debt+Equity)	29.3%
WACC	12.1%
Perpetual growth rate	3.0%

Source: VNDIRECT Research

**Figure 289: DCF valuation (VNDbn)**

Unlevered Free Cash Flows							
Fiscal year ended	Actual		Forecasts				
	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
Revenue	40,695	32,806	40,547	41,983	43,080	43,942	44,820
% growth			23.6%	3.5%	2.6%	2.0%	2.0%
EBITDA	419	1,751	1,496	1,743	2,030	2,070	2,112
% margin	1%	5%	3.7%	4.2%	4.7%	4.7%	4.7%
EBIT	(741)	934	540	775	931	950	969
% margin	-2%	3%	1.3%	1.8%	2.2%	2.2%	2.2%
Tax on EBIT	(148)	187	108	155	186	190	194
Tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
NOPAT (aka EBIAT)	(593)	747	432	620	745	760	775
Depreciation & amortization	1,160	817	956	969	1,099	1,099	1,121
Changes in net working capital	0	(2,740)	(3,345)	574	(810)	(214)	(66)
Capital expenditures	(379)	(244)	(700)	(441)	(462)	(462)	(471)
as % of revenue	0.9%	0.7%	1.7%	1.1%	1.1%	1.1%	1.1%
Unlevered free cash flows (UFCF)			(2,657)	1,721	572	1,183	1,359
Net working capital (WC Assets - WC liabilities)	5,280	8,020	11,365	10,791	11,601	11,814	11,880
as % of revenue	13.0%	24.4%	28.0%	25.7%	26.9%	26.9%	26.5%
Present value of UFCF on Dec 18, 2024 valuation date							
		Val date	Yr 1 - Stub	Year 2	Year 3	Year 4	Year 5
Date for discounting cash flows		12/18/2024	12/24/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
Unlevered free cash flows (UFCF) stub adjusted	3.6%		(96)	1,721	572	1,183	1,359
Present value of of unlevered free cash flows			(96)	1,619	480	886	909
Terminal value - growth in perpetuity approach							
Long term growth rate	3%						
2028 FCF x (1+g)	1,400						
Terminal value in 2028	15,452						
Present value of terminal value	10,332						
Present value of stage 1 cash flows	3,799						
Total enterprise value (TEV)	14,131						
Terminal value as % of TEV	73.1%						
Stage 1 cash flows as % of TEV	26.9%						
Implied TV exit EBITDA multiple	7.3x						
<b>Valuation</b>							
		Perpetuity					
Enterprise value	14,131						
Net debt	4,731						
Equity value	9,399						
Shares outstanding	621						
<b>Equity value per share</b>	<b>15,200</b>						

Source: VNDIRECT RESEARCH

**Figure 30: WACC & long-term growth rate (g) sensitivity test**

		Long term growth rate (g):				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC	13.1%	11,600	12,300	13,000	13,800	14,800
	12.6%	12,400	13,200	14,100	15,000	16,000
	12.1%	13,400	14,300	15,200	16,300	17,500
	11.6%	14,500	15,500	16,500	17,700	19,100
	11.1%	15,700	16,800	18,000	19,400	20,900

Source: VNDIRECT Research

**Upside catalysts**

- A short-term re-rating could come from the announcement from Vietnam's MoIT to impose tariffs on imported steel or the Chinese government announcing a new stimulus package to push its economy.

**Downside risks**

- Lower-than-expected steel demand due to prolonged slow property market recovery, protectionist measures in export markets.
- Higher-than-expected HRC price due to escalating war or anti-dumping tax imposed on imported HRC.

**Income statement**

(VNDbn)	2019A	2020A	2021A	2022A	2023A	2024E	2025F
Net revenue	27,074	30,054	56,561	40,695	32,806	40,547	41,983
Cost of sales	(23,530)	(24,882)	(47,056)	(37,741)	(28,956)	(36,102)	(37,229)
<b>Gross Profit</b>	<b>3,545</b>	<b>5,172</b>	<b>9,505</b>	<b>2,954</b>	<b>3,850</b>	<b>4,445</b>	<b>4,754</b>
Gen & admin expenses	(2,349)	(3,976)	(3,272)	(2,543)	(3,937)	(3,988)	(4,093)
Selling expenses	(447)	(455)	(488)	(412)	0	0	0
<b>Operating EBIT</b>	<b>749</b>	<b>741</b>	<b>5,745</b>	<b>(1)</b>	<b>(87)</b>	<b>457</b>	<b>661</b>
Operating EBITDA	1,968	1,965	6,922	1,159	730	1,412	1,630
D&A	1,220	1,223	1,177	1,160	817	956	969
Financial income	46	85	503	252	245	383	252
Financial expense	(778)	(608)	(598)	(572)	(250)	(277)	(258)
Net other income	11	(8)	1	65	38	32	9
Income from associates	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>588</b>	<b>1,846</b>	<b>4,980</b>	<b>(1,061)</b>	<b>929</b>	<b>646</b>	<b>769</b>
Tax expense	(99)	(302)	(601)	(7)	(115)	(45)	(92)
<b>NPAT</b>	<b>490</b>	<b>1,543</b>	<b>4,379</b>	<b>(1,068)</b>	<b>814</b>	<b>601</b>	<b>677</b>
NPAT-MI	490	1,543	4,379	(1,068)	814	601	677

**Balance sheet**

(VNDbn)	2019A	2020A	2021A	2022A	2023A	2024E	2025F
Cash and equivalents	432	491	1,018	647	1,686	376	852
Short term investments	76	6	13	26	24	24	24
Accounts receivables	1,318	2,795	2,678	1,655	2,415	3,110	3,221
Inventories	4,271	4,775	10,212	5,981	8,025	10,880	10,200
Other current assets	1,002	811	1,193	728	807	997	1,033
<b>Total current assets</b>	<b>7,099</b>	<b>8,878</b>	<b>15,114</b>	<b>9,037</b>	<b>12,957</b>	<b>15,388</b>	<b>15,329</b>
Fixed assets	8,334	7,380	6,408	5,716	4,764	4,008	3,240
Total investments	671	586	759	600	538	1,038	1,279
Other long-term assets	621	508	651	611	539	539	539
<b>Total assets</b>	<b>16,725</b>	<b>17,351</b>	<b>22,932</b>	<b>15,964</b>	<b>18,798</b>	<b>20,973</b>	<b>20,387</b>
<b>Short-term debt</b>	<b>6,625</b>	<b>5,437</b>	<b>4,956</b>	<b>2,694</b>	<b>4,684</b>	<b>5,682</b>	<b>4,316</b>
Accounts payable	822	1,038	3,260	1,759	2,225	2,374	2,374
Other current liabilities	877	1,798	2,401	1,324	1,002	1,249	1,288
<b>Total cur. liabilities</b>	<b>8,325</b>	<b>8,273</b>	<b>10,617</b>	<b>5,777</b>	<b>7,912</b>	<b>9,305</b>	<b>7,978</b>
Total long-term debt	2,754	1,982	1,012	-	-	-	-
Other liabilities	4	11	15	16	16	16	16
Share capital	4,386	4,598	5,092	6,138	6,317	6,367	6,367
Retained earnings	1,252	2,473	6,183	4,019	4,556	5,157	5,834
<b>Shareholders' equity</b>	<b>5,643</b>	<b>7,085</b>	<b>11,289</b>	<b>10,170</b>	<b>10,871</b>	<b>11,652</b>	<b>12,393</b>
Minority interest	-	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>16,725</b>	<b>17,351</b>	<b>22,932</b>	<b>15,964</b>	<b>18,798</b>	<b>20,973</b>	<b>20,387</b>

**Cash flow statement**

(VNDbn)	2019A	2020A	2021A	2022A	2023A	2024E	2025F
<b>Pretax profit</b>	<b>573</b>	<b>1,848</b>	<b>4,980</b>	<b>(1,058)</b>	<b>631</b>	<b>646</b>	<b>769</b>
Depreciation & amortisation	1,220	1,223	1,177	1,160	817	956	969
Interest paid	719	494	339	233	116	0	0
Other adjustments	25	42	14	428	(11)	0	0
Change in WC	885	(1,287)	(4,403)	2,435	(1,026)	(3,259)	545
<b>CFO</b>	<b>3,422</b>	<b>2,320</b>	<b>2,107</b>	<b>3,197</b>	<b>527</b>	<b>(1,658)</b>	<b>2,283</b>
Capex	(705)	(387)	(391)	(379)	(244)	(700)	(441)
Proceeds from assets sales	69	7	1	24	20	0	0
Others	(18)	85	188	11	3	0	0
<b>CFI</b>	<b>(653)</b>	<b>(295)</b>	<b>(202)</b>	<b>(345)</b>	<b>(220)</b>	<b>(700)</b>	<b>(441)</b>
New share issuance	0	0	53	49	0	50	0
Shares buyback	(1)	(1)	0	0	0	0	0
Net borrowings	(2,696)	(1,911)	(1,401)	(3,324)	1,107	998	(1,366)
Dividends paid	(0)	(0)	(0)	(0)	(0)	0	0
<b>CFF</b>	<b>(2,769)</b>	<b>(1,966)</b>	<b>(1,400)</b>	<b>(3,275)</b>	<b>1,107</b>	<b>1,048</b>	<b>(1,366)</b>
Beginning cash and equivalents	424	432	491	1,018	325	1,686	376
<b>Total cash generated</b>	<b>8</b>	<b>59</b>	<b>528</b>	<b>(371)</b>	<b>1,360</b>	<b>(1,310)</b>	<b>476</b>
<b>Ending cash and equivalents</b>	<b>432</b>	<b>491</b>	<b>1,018</b>	<b>647</b>	<b>1,686</b>	<b>376</b>	<b>852</b>

**Key ratios**

	2019A	2020A	2021A	2022A	2023A	2024F	2025F
<b>Growth ratio</b>							
Revenue	(21%)	11%	88%	(28%)	(19%)	24%	4%
COGS	4%	46%	84%	(69%)	30%	15%	7%
Operating profit	(3,117%)	221%	169%	(123%)	(179%)	-31%	24%
EBIT	29%	79%	114%	(115%)	(226%)	-42%	43%
EBITDA	21%	41%	74%	(93%)	318%	-15%	17%
EBT	157%	214%	170%	(121%)	(188%)	-30%	19%
PAT-MI	259%	215%	184%	(124%)	(176%)	-26%	13%
<b>Margin ratio</b>							
Gross margin	13.1%	17.2%	16.8%	7.3%	11.7%	11.0%	11.3%
Operating margin	2.1%	6.2%	8.8%	-2.8%	2.7%	1.5%	1.8%
EBITDA margin	9.4%	11.9%	11.1%	1.0%	5.3%	3.7%	4.2%
EBIT margin	4.9%	7.9%	9.0%	-1.8%	2.8%	1.3%	1.8%
Net margin	1.8%	5.1%	7.7%	-2.6%	2.5%	1.5%	1.6%
PAT-MI margin	1.8%	5.1%	7.7%	-2.6%	2.5%	1.5%	1.6%
Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Selling expenses margin	6.5%	7.8%	7.0%	8.0%	7.8%	9.7%	9.5%
G&A expenses margin	1.7%	1.5%	0.8%	1.2%	1.3%	0.0%	0.0%
<b>Earnings ratio</b>							
ROE	24%	48%	-10%	8%	5%	6%	7%
Tax burden	84%	88%	101%	88%	93%	88%	88%
ROA	9.1%	21.7%	-5.5%	4.7%	3.0%	3.3%	4.4%
<b>Activity ratio</b>							
Days of sales outstanding	22	25	18	19	23	28	28
Days of inventory on hand	77	66	58	78	88	110	100
Days payables outstanding	21	13	15	27	23	24	23

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## 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.*

### Growth Ratings Definition:

Positive	We forecast the company to have stronger earnings growth than peers over the investment horizon.
Neutral	We forecast the company's earnings growth to be in line with peers over the investment horizon.
Negative	We forecast the company to have weaker earnings growth than peers over the investment horizon.

### Value Ratings Definition:

Positive	The current share price is lower than peers on the basis of historical P/E, P/B or another ratio specified.
Neutral	The current share price is in-line with peers on the basis of historical P/E, P/B or another ratio specified.
Negative	The current share price is higher than peers on the basis of historical P/E, P/B or another ratio specified.

### Sector Ratings Definition:

Overweight	Stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	Stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	Stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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