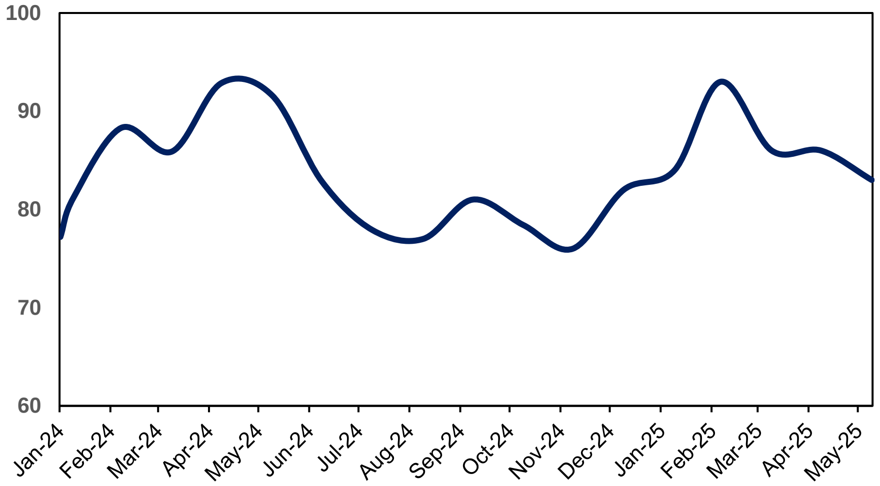
Underpinned by the uptrend of steel price

- We expect domestic steel prices to recover in 3Q25, supported by Chinese steel prices reaching the highest YTD due to production cuts. During 2025-26, we forecast construction steel prices to rise 6%/7% YoY, while HRC prices are expected to increase 3%/4% YoY.
- Raw material prices such as coal and iron ore are projected to decline 4%/5% YoY in 2025 amid abundant supply, which will support gross margin (GPM) of producers. For coated steel enterprises, the upward trend of HRC will help improve gross margins thanks to low-cost inventory. Accordingly, the steel sector's earnings in 2025–26 could grow 47%/32% YoY.
- In terms of valuation, the P/B of enterprises would be valued at higher levels during the growth cycle of steel prices, supported by a positive earnings growth outlook. We maintain an Outperform recommendation for HPG, HSG, and VGS.

Domestic steel prices recover amid positive demand and cooling Chinese prices pressure

In 7M25, domestic steel consumption grew 16% YoY, driven by the positive impact of recovering real estate supply and accelerating public investment disbursement. Specifically, consumption of construction steel and HRC rose 14%/26% YoY, supported by gaining market share from Chinese steel.

Figure 1: Declining production volume of China (Unit: Million tons)



Source: Bloomberg, WSA

The downward pressure from Chinese steel prices has eased as the Chinese government strictly implements production cut measures. In July, production output declined 4% YoY, and YTD output dropped 3% YoY. We forecast China's steel production will be reduced by 3.5–4% YoY this year, reaching 960 mn tons. In 2026, with the strategy of shutting down outdated plants, production output is projected to decrease by around 3% YoY.

We assess that the cooling of Chinese steel has become a key factor for the recovery of domestic price. Construction steel and HRC prices recovered since July, rising about 3% and 4% to USD 560/530 per ton. In addition to the positive impact from Chinese steel, the second half of the year is the peak season for, supported by real estate supply recovery and accelerated public investment disbursement. Accordingly, construction steel and HRC prices are expected to

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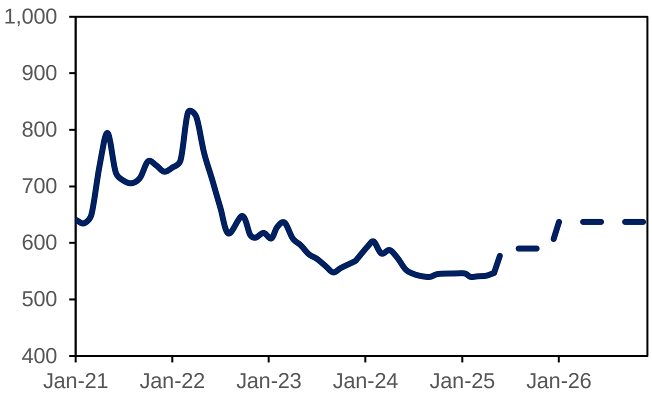
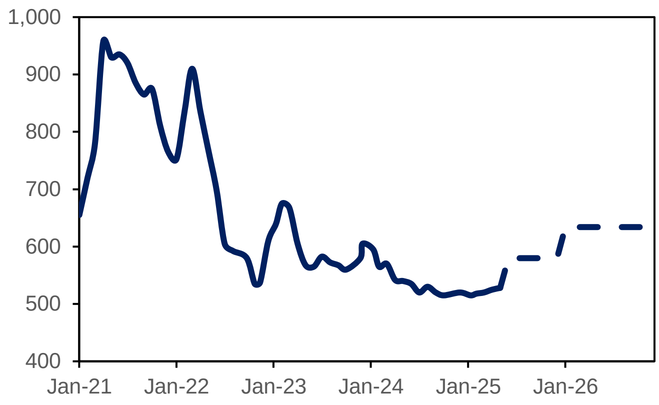
grow from 3Q25, with construction steel reaching USD 594/635 per ton (+6%/7% YoY) and HRC reaching USD 575/605 per ton (+4%/3% YoY) during 2025–26.

Figure 2: Forecast of construction steel prices (Unit: USD/ton)



Source: Bloomberg, MBS Research

Figure 3: Forecast of HRC prices in 2025–2026 (Unit: USD/ton)



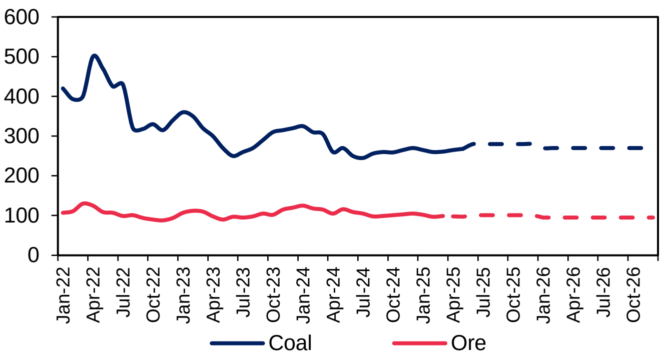
Source: Bloomberg, MBS Research

Cooling raw material prices have a positive impact on gross margins

Coal and iron ore prices are cooling amid oversupply in Australia and Brazil, as these countries ramp up mining output under favorable weather conditions. Specifically, during 2025–26, coal supply is forecast to grow 1.5%/2% YoY, while iron ore supply is expected to remain high with growth of 2%/3% YoY, according to our projections.

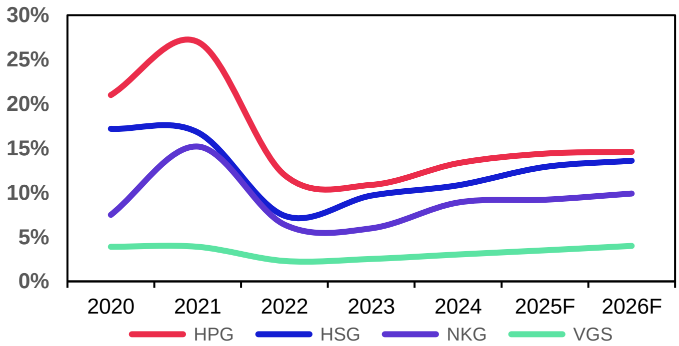
In addition, input material demand has weakened due to China's steel production cuts. With supply increasing and demand declining 3%/2% in 2025–26 as steel output falls, we forecast coal prices could drop 4%/2% YoY, while iron ore prices may decrease 5%/4% YoY during 2025–26.

Figure 4: Forecast of coal and iron ore prices (Unit: USD/ton)



Source: Bloomberg, MBS Research

Figure 5: Forecast gross margins of enterprises in the sector



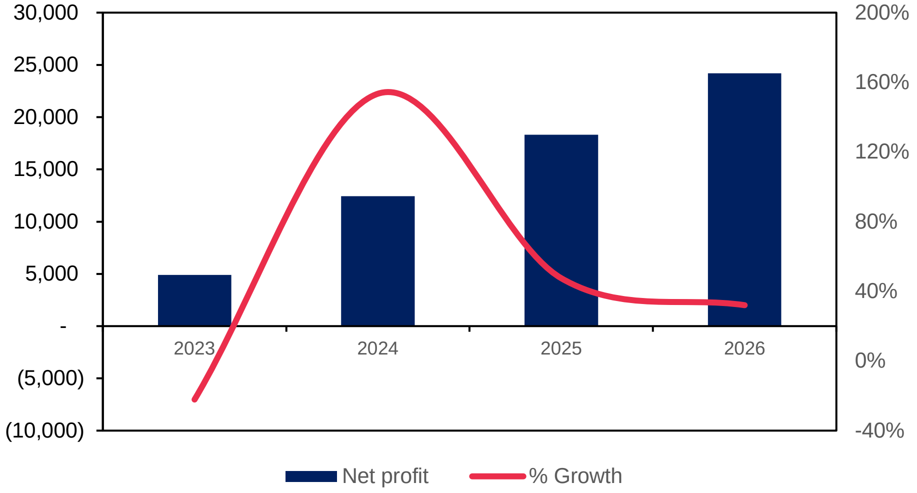
Source: FinproX, MBS Research

Amid positive steel prices and declining raw materials such as coal and iron ore YoY, the gross margin of producers like HPG is projected to continue rising by 1.1 and 0.2 % pts YoY during 2025–26. For coated steel enterprises such as HSG, NKG, and GDA, with HRC prices expected to recover from late 3Q25, coated steel selling prices will benefit as they are anchored to HRC. In addition, low-cost HRC inventory stockpiling will enable coated steel enterprises to expand gross margins by around 0.7–1 % pts YoY in 2025–26. Overall, the sector's GPM is forecast to increase by 1 and 0.5 % pts YoY during 2025–26.

The sector's net profit is expected to grow 47%/32% YoY, driven by higher consumption volumes and expanding gross margins

We forecast the steel sector's earnings to grow 47%/32% YoY during 2025–26, driven by (1) rising consumption volumes supported by domestic market demand, and (2) recovering gross margins thanks to improving selling prices and easing raw material cost pressures.

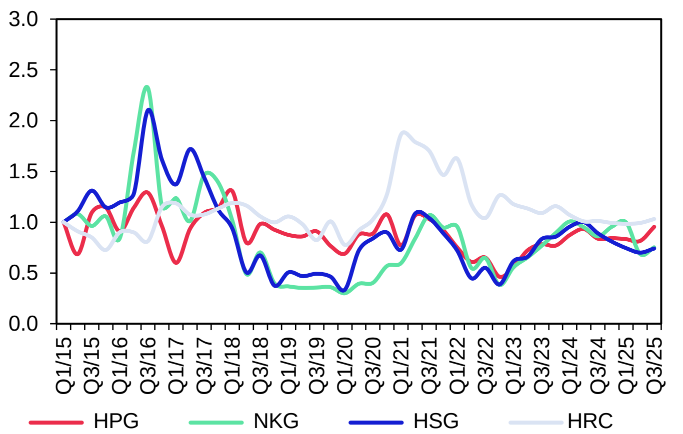
Figure 6: Net profit and sector growth (Unit: USD/ton)



- The consumption volume of listed enterprises is expected to grow 17%/14% YoY in 2025–26 as they focus on expanding the domestic market, supported by anti-dumping duties on coated steel and HRC. Specifically, enterprises focusing on domestic growth such as HPG are projected to achieve 19%/24% growth, driven by strong construction steel and HRC. For coated steel enterprises such as HSG, NKG, and GDA, consumption is expected to improve slightly by 5%–10% YoY as domestic demand offsets exports.
- The sector's gross margin is projected to increase by 1 % pt/0.5 % pt YoY to 13.9%/14.4%, supported by higher selling prices and cooling raw material costs.

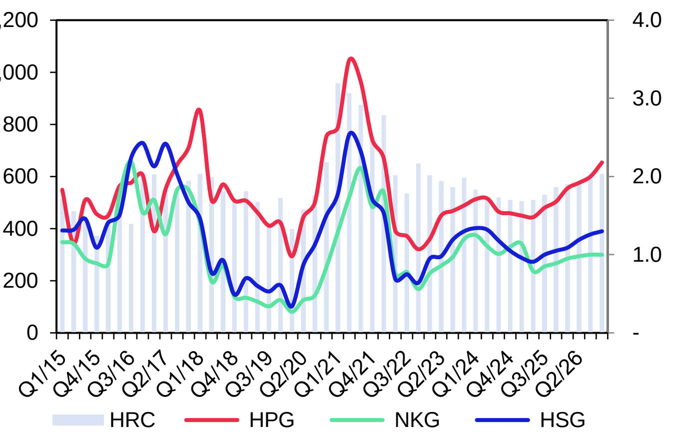
Steel enterprises are valued higher during the upcycle of the steel industry.

Figure 7: Correlation between HRC prices and steel enterprises since 2015



Source: Bloomberg, FinproX, MBS Research

Figure 8: Forecast of HRC prices and enterprises' P/B valuation (Unit: USD/ton)



Source: Bloomberg, MBS Research forecasts

We assess that the P/B of steel enterprises has a strong correlation with the steel price cycle. During 2020–2021, when construction steel and HRC prices surged 120% and 118%, the sector's P/B valuation rose from 0.4–1.0 to 1.1–3.2, driven by the positive impact of higher steel prices on gross margins and earnings growth. Therefore, in a steel upcycle, the P/B of steel enterprises is expected to improve significantly compared to periods of price stagnation. We believe that steel prices in 2025–26 have passed the bottom and mark the beginning of a new upcycle amid robust domestic demand growth. We expect the sector's P/B valuation to rise to 1.4–2.8 (around 30% higher than current levels). In addition, the book value of steel enterprises will also increase strongly thanks to solid profit recognition. Leading players such as HPG will benefit from this trend first, followed by smaller steel enterprises such as HSG, VGS.

Investment strategy: We prefer HPG, HSG, and VGS

Ticker	Recommend	Target price	Investment thesis
HPG	Positive	32,000	HPG benefits from the positive outlook for construction steel and HRC consumption, supported by domestic market growth. Steel production volume and prices are expected to improve in the second half of the year, driven by rising demand from infrastructure and residential construction. Total consumption volume is expected to grow 19%/24% in 2025–2026, mainly driven by a sharp increase in HRC output (+50% YoY) from DQ2. Net profit in FY2025–2026 is projected to grow 42% and 31% YoY, respectively, supported by strong consumption growth and improved gross margins. We value HPG using both FCFF and P/B methods, with the 2026 forward P/B expected to reach 2.0, in line with the sector's average during its growth phase (40% higher than the current forward P/B).
HSG	Positive	23,000	We expect domestic and export hot-dip galvanized (HDG) steel prices to recover from 2025, supported by growing demand. Anti-dumping duties on HDG help narrow the price gap between Chinese and Vietnamese steel, enabling HSG to gain market share. We forecast HSG's market share to increase to 30%/31% (from 29% in 2024) during 2025–26. Net profit is expected to grow 32%/52% YoY, driven by volume growth (6%/8% YoY) and higher gross margins (+0.4/+0.6 % pts YoY) supported by the imposition of anti-dumping duties. We value HSG using both FCFF and P/B methods, with the 2026 target P/B set at 1.4, in line with the sector's average across two growth cycles (around 30% higher than the current P/B).
NKG	Neutral	17,000	NKG's business activities are negatively impacted as key export markets such as the US and EU implement safeguard measures. Consequently, NKG's output may decline 10% and then slightly increase 3% YoY in 2025–26, as export volumes are expected to fall around 20%. NKG's net profit is forecast to decline 31% YoY in 2025 due to lower volumes and shrinking gross margins. In 2026, we expect earnings performance to improve as the consumption structure shifts toward the domestic market. Accordingly, net profit could grow 11% YoY in 2026. Currently, NKG is actively seeking new export partners in Asia; however, new markets may take 2–3 quarters to impact. Therefore, we may revise our valuation after we observe some positive signals from this process. We value NKG at a P/B of 1.0, in line with the 3-year average of 1.0, as we have yet to see positive signals in its business activities.
VGS	Positive	35,000	VGS benefits from the recovery in steel pipe consumption. Steel pipe prices are forecast to rebound 6%/7% YoY, supported by the recovery of HRC prices from 3Q25. Total consumption volume is expected to grow 8%/7% in 2025–2026, supported by improving domestic demand. In addition, VGS plans to launch the Viet Duc City real estate project, which could contribute to earnings performance next year. We value VGS at a P/B of 1.6 during the steel industry's growth phase, while the company's current P/B remains 20% below its fair value.

Earnings forecasts of enterprises in the sector

Figure 9: Earnings forecasts of the steel sector for 2024–2026

VNDbn	HPG			HSG			NKG			VGS		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Revenue (VNDBn)	138,855	170,480	223,820	39,272	39,950	43,054	20,609	22,822	24,741	7,322	8,640	9,245
% Growth	16.70%	22.80%	31.30%	0%	2%	8%	11%	11%	8%	-3%	18%	7%
Gross profit	18,498	24,577	32,549	4,253	4,977	5,938	1,832	1,229	1,482	222	285	361
Gross margin	43%	33%	32%	11%	12%	13.80%	9%	5%	6%	3.0%	3%	4%
EBITDA	22,253	30,566	38,191	1,401	1,559	2,311	1,133	962	1,154	170	225	316
EBITDA margin (%)	16%	18%	17%	41%	11%	48%	5%	4%	5%	2%	4%	5%
Net profit	12,021	17,036	22,313	510	805	1,141	453	312	346	110	186	266
% Growth	76%	42%	31%	103%	58%	42%	154%	-31%	11%	90%	69%	43%
EPS (VND/share)	1,969	2,660	3,488	473	1,145	1,480	1,050	850	920	2,003	2,150	2,360
BVPS (VND/share)	17,930	19,550	20,900	17,721	18,600	19,590	18,600	17,500	18,200	19,392	19,560	19,850
Net cash/Share	-5,240	-4,950	-4,985	-3,890	-4,060	-4,250	18,577	19,240	20,120	-13,417	-13,120	-12,850
D/E	72%	74%	66%	49%	47%	42%	101%	66%	79%	72%	71%	70%
Dividend %	0%	0%	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%
ROAE (%)	11.10%	15.10%	18.90%	5%	7%	9%	8%	5%	5%	10%	15%	17%
ROAA (%)	5.80%	7.60%	9.70%	3%	4%	5%	3%	2%	3%	5%	6%	8%

Source: MBS Research, FinproX

Figure 10: Comparison with peers in the sector

	Ticker	Current	Target	Recommendation	Capitalization	P/E (x)		P/B (x)		ROA%		ROE (%)	
Company	**Bloomberg**	**VND/CP**	**VND/CP**		**VNDbn**	**2025F**	**2026F**	**2025F**	**2026F**	**2025F**	**2026F**	**2025F**	**2026F**
Hoa Phat Group	HPG VN	26,000	32,000	ADD	199,200	12.4	9.9	1.4	1.3	7.6%	9.7%	15.1%	18.9%
Hoa Sen Group	HSG VN	18,000	23,000	ADD	11,500	14.2	12.1	1.0	0.9	4.2%	5.1%	7.1%	9.2%
Nam Kim Group	NKG VN	15,300	17,000	HOLD	6,870	19.1	16.1	0.9	0.8	2.3%	3.4%	5.6%	6.2%
Viet–German Steel Pipe Joint Stock Company	VGS VN	28,600	35,000	ADD	1,750	9.4	8.2	1.5	1.4	6.2%	8.4%	12.5%	13.6%
Dong A Steel Sheet Joint Stock Company	GDA VN	23,500	N/A	N/A	2,680	7.3	6.5	0.9	0.8	5.4%	6.2%	7.1%	8.5%
Mean						**12.5**	**10.6**	**1.1**	**1.0**	**5.1%**	**6.6%**	**9.5%**	**11.3%**

Source: Bloomberg, MBS Research

DISCLAIMER

MBS RECOMMENDATION FRAMEWORK

Stock Ratings

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.

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

Sector Ratings

POSITIVE - Stocks in the segment have, on a market cap-weighted basis, a positive absolute recommendation
NEUTRAL - Stocks in the segment have, on a market cap-weighted basis, a neutral absolute recommendation
NEGATIVE - Stocks in the segment have, on a market cap-weighted basis, a negative absolute recommendation

ABOUT MBS

Founded in May 2000 by the Military Commercial Joint Stock Bank (MB), MB Securities Joint Stock Company (MBS) is one of the first six securities companies in Vietnam. After years of development, MBS has grown into one of the premier brokerage houses in the country. In two consecutive years between 2009 and 2010, MBS leads the brokerage house in terms of market share on both Hanoi Stock Exchange (HNX) and HCMC Stock Exchange (HOSE) and continuously ranked among the Top 5 of market share at both stock exchanges.

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