

Steel sector: The recovery prospect of domestic steel price

- Over supply and low demand were main drivers for the downtrend of China steel price in 9M24. But the pressure could be eased since 4Q thanks to cut off production.
- We project the recovery of domestic steel price would start in 4Q24 thanks to (1) lower pressure from China and (2) growth of domestic demand in high construction season.
- We chose **HPG, HSG, NKG** given their positions as the beneficiaries of the recovery cycle.

The China steel price could recover since 4Q24 supported by lower supply

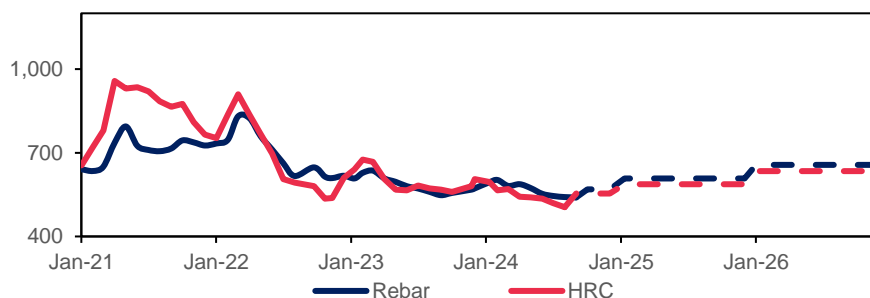
In 8M24, the price of rebar and HRC dropped 32% and 28% yoy respectively due to oversupply and low demand. This situation came from the stagnation of domestic steel demand in China, primarily due to the ongoing property crisis. However, we project the China steel price could recover driven mainly by tight supply since 4Q24. China government limited for approval of new coal – based steel since 2024 to protect the environment and minimized the new supply. Furthermore, several steel manufacturers in Heibei and Jiangsu reduced the production to 72% capacity (as compared to 78% in 2023), so in September 2024, the China production decreased 10% yoy. In term of demand, steel consumption may recover in short term as some cities as Shanghai and Jangsu plan to reconstruct infrastructure.

Domestic price could recover since 4Q24 due to lower pressure of China and improved demand

The recovery of China price could narrow the spread and diminish the pricing advantage of China imported steel. In term of demand, the bright future would be witnessed driven by the growth of housing supply and public investment disbursement. Domestic rebar consumption accelerated 25% yoy in 8M24 thanks to demand growth. Since 4Q24, we expect domestic rebar price could recover 5% as compared with the bottom in August. In our estimation, rebar price could reach average 571 USD/ton (+4% yoy) and HRC drop 7% yoy to 556 USD/ton due to serious pressure of China steel in 1H24. But in 2025 - 2026, we expect rebar and HRC could rise 7%/7% and 6%/8% yoy thanks to demand growth and lower pressure.

We chose HPG, HSG, NKG based on following rationales: 1) Domestic consumption is the main driver for the growth cycle in next 2 years and price could recover since 4Q24. 2) Domestic manufacturer would be able to gain market share thanks to Anti – dumping (AD) tax which would be enacted since December 2024. 3) The multiple of steel company is still below the average in the growth phase of steel cycle.

Figure 1: Price of VN rebar and HRC forecast (Unit: USD/Ton)



Sources: Bloomberg, MBS Research

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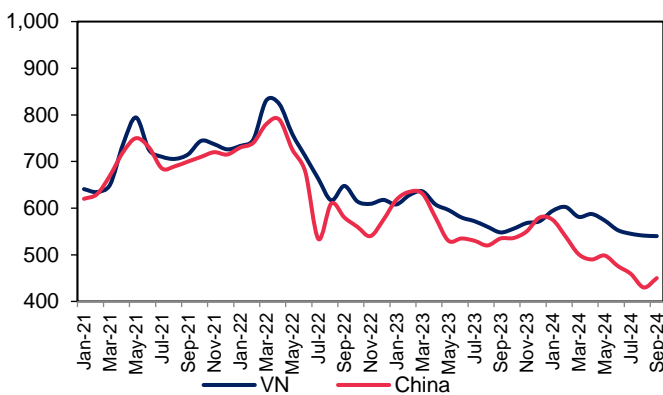
The potential of domestic steel price

China steel price could recover due to lower supply

Although the downtrend of China steel is serious due to crisis of real estate....

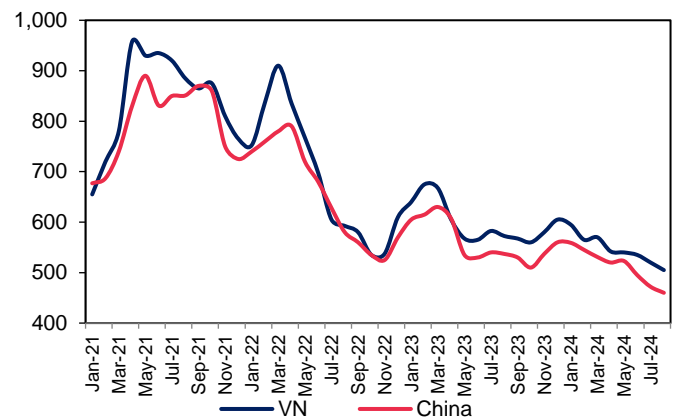
Over supply and low demand are main distributor for the fall of China steel. The rebar and HRC price recorded 5 – year low with the drop of 24% and 21% YTD respectively. In term of demand, the recession of real estate has been worsened despite several stimulus policy from government. In July 2024, China's home-price slump deepens to new 9-year low with the decrease of 5% (more than 4.5% of June). We project the real estate would continue to be in crisis until the end of 2024 and potential of steel price depend on the supply when steel mills participate in cut off production.

Figure 2: Price of VN and China rebar



Sources: Bloomberg, MBS Research

Figure 3: Price of VN and China HRC



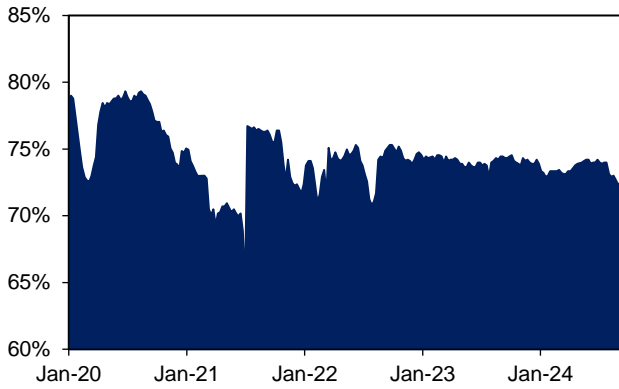
Sources: Bloomberg, MBS Research

The pressure of China steel would be eased in Q4

According to Reuters, China government postponed the approval of new coal – based steel since 2024 to protect the environment and limit the new supply. Furthermore, major steel – manufacturing provinces such as Heibei, Jiangsu cut off 20% - 30% production when the gross profit hit minus 4% (lowest in 5 years). So the China volumes in July decreased 9% yoy. Tight supply could bring positive impact on steel price. In September, the China rebar price has climbed 4% as compared to the bottom in August so we expect the rebar would recover since 4Q24 thanks to eased pressure of oversupply.

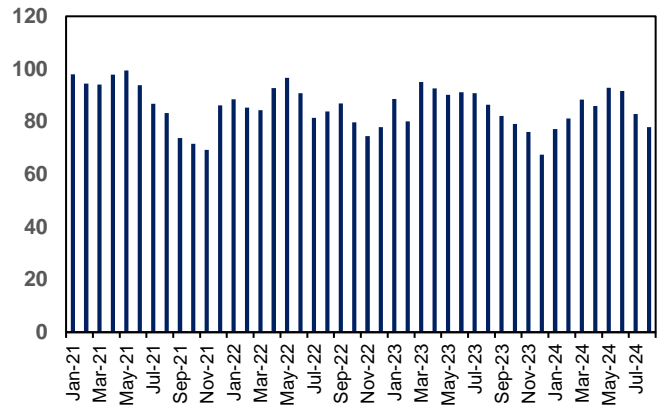
Furthermore, we also notice that China has just suffered the Benica storm (the strongest storm recorded in 70 years), which destroyed several public infrastructure projects in Shanghai and Jiangsu. So, the China steel demand would rise in the short term thanks to steel consumption for reconstructive plan for housing and infrastructure.

Figure 4: Efficiency of China blast furnance decreased to 72% (as compared with 78% in 2023)



Sources: Bloomberg, MBS Research

Figure 5: China steel production dropped 10% yoy in August 2024 (Unit: Million Tons)



Sources: Bloomberg, MBS Research

Domestic price would recover since 4Q24 thanks to lower pressure of China

Unlike China, the potential of VN steel has been witnessed due to the bright outlook of real estate. The growth of housing supply and public investment have driven the recovery of rebar. According to CBRE, the apartment supply in HN and HCM will climb 30% yoy and 20% yoy respectively. Moreover, Public investment disbursement plan continues to grow by 12% yoy with a value of about 638 trillion VND when the Government focuses on promoting the construction of transportation infrastructure to serve economic development

We forecast VN rebar and HRC prices would have positive growth since Q4/24 when the pressure of China has been eased. Therefore, in our estimation, the rebar price could reach average 571 USD/ton (+4% yoy) and HRC drop 7% yoy to 556 USD/ton due to serious pressure of China steel in 1H24. But in 2025, we expect rebar and HRC could rise 7% and 6% to hit 611 USD and 590 USD/ton. In 2025 - 2026, we expect rebar could rise 7% and 8% to hit 608 USD and 657 USD/ton.

Figure 6: Price of VN rebar forecast (Unit: USD/Ton)



Source: Bloomberg, MBS Research

Figure 7: Price of VN HRC (Unit: USD/Ton)



Source: Bloomberg, MBS Research

Figure 7: FY24-26F business results projection under MBS steel sector coverage

VNDbn	HPG			HSG			NKG		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Revenue (VNDbn)	132,638	166,735	219,776	38,765	40,577	41,654	21,916	23,714	24,584
% Growth	12%	26%	32%	21%	5%	3%	20%	8%	4%
Gross profit	18,402	26,038	33,737	3,057	4,862	5,324	1,664	2,270	1,878
Gross margin (%)	14%	16%	15%	8%	12%	13%	8%	10%	8%
EBITDA	22,393	32,118	39,477	1,630	1,658	1,780	1,116	1,688	1,417
EBITDA margin	17%	19%	18%	4%	4%	4%	5%	7%	6%
Net Profit (VNDbn)	11,864	18,035	23,577	820	850	824	465	907	862
% Growth	74%	52%	31%	2230%	4%	-3%	278%	95%	-5%
EPS (VND/share)	1,943	2,820	3,686	1,331	1,380	1,338	1,765	3,826	2,894
BVPS (VND/share)	16,132	16,950	17,630	16,800	18,200	19,000	21,707	24,571	27,506
Net cash/share	(3,548)	(6,524)	(4,578)	(4,578)	(5,869)	(5,324)	(4,667)	(5,842)	(6,584)
D/E	23%	24%	25%	24%	25%	26%	20%	18%	17%
Divident yield (%)	0%	4%	8%	0%	2%	7%	0%	3%	5%
ROAE (%)	12%	17%	21%	7%	12%	14%	4%	8%	5%
ROAA (%)	6%	9%	11%	4%	9%	10%	3%	7%	4%

Sources: MBS Research

We choose HPG, HSG, NKG

Stock	Rating	Target price (VND/share)	Investment thesis
HPG	Add	33,500	<ul style="list-style-type: none"> Leading company of steel sector and gain beneficiary from the recovery of domestic price. So as our estimation, the net profit in FY24-25F could grow 74% and 51% yoy due to the growth of volumes and rise of GPM. In 2026, with the contribution of 3 million tons HRC, NP could reach 23,576 billion VND (+31% yoy). HPG could gain market share thanks to AD tax for HRC narrow the spread of China and VN steel and production of DQ2. The P/B valuation is below average of growth cycle.
HSG	Add	24,000	<ul style="list-style-type: none"> Leading company of Hot Dipped Galvanized (HDG) sector and gain beneficiary from the recovery of domestic demand. So as our estimation, the net profit in FY24-25F could grow 2,330% and 6% yoy due to the growth of volumes and rise of GPM. HSG could gain market share thanks to AD tax for HDG narrow the spread of China and VN steel. The P/B valuation is below average of growth cycle.
NKG	Add	30,000	<ul style="list-style-type: none"> The export and domestic steel industry are expected to enter a recovery cycle from 2024 when demand recovers. With a positive market outlook of EU and US, NKG will benefit with one of the advantages of leading enterprise in the industry. NKG's net profit will enter a recovery cycle with growth strong growth of 287%/111% in 2024 - 2025 thanks to (1) Increased revenue growth of 20%/17% in the context of output and selling prices recovering export demand improved and (2) Gross profit margin increased sequentially 7.5% and 8.7% thanks to a stronger increase in selling price than HRC raw material price. P/B valuation is below average of 2 cycles in growing phase.

Figure 8: Peer comparison

Ticker	(Million US\$)	P/E (x)		P/B (x)		ROA (%)		ROE (%)		
		2024	2025F	2024	2025F	2024	2025F	2024	2025F	
Hoa Phat Group	HPG VN	6,660	23.4	13.5	1.7	1.6	3.8%	6.6%	7.2%	12.5%
Hoa Sen Group	HSG VN	610	130.2	23.8	1.3	0.2	3.5%	9.4%	5.2%	12.5%
Nam Kim Group	NKG VN	270	50.1	25.1	1.2	1.1	2.9%	7.2%	4.1%	8.3%
VN - Germany Steel Pipe JSC	VGS VN	110	18.3	9.5	1.3	1.5	5.4%	6.2%	7.1%	8.5%
Nippon Steel	5401 JP Equity	19,800	19.8	16.8	0.6	0.5	12.1%	11.8%	18.1%	17.6%
Valin Steel Group	000932 CH Equity	4,750	13.2	19.3	0.9	0.9	5.6%	6.3%	8.9%	9.6%
Kobe Steel	5406 JP Equity	4,100	8.8	8.2	0.7	0.08	7.7%	7.5%	8.5%	8.3%
Average		5,186	37.6	16.6	1.1	0.9	5.6%	6.4%	6.0%	8.7%

Sources: Bloomberg, MBS Research

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ADD	The stock can generate a profitability of 15% or more
HOLD	The stock can generate a profitability of between -15% and 15%
REDUCE	The stock can generate a loss of 15% or more

Sector rating

POSITIVE	Industry stocks have Add recommendations on a weighted market capitalization basis
HOLD	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

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