Steel sector: In “steel” we trust

- We expect world steel demand to recover 1.2% yoy in 2025 driven by the growth of India and EU while the supply remains stable due to cut down of China.
- Domestic market demand forecasted to climb 10% yoy in 2025 supported by growth of housing supply and public investment.
- We prefer HPG, HSG and NKG thanks to benefit from recovery phase; growth of net profit (NP) and attractive valuation.

Global demand may recover 1.2% yoy while supply expected to stay flat in 2025F

According to the World Steel Association, global demand is expected to rise 1.2% yoy to reach 1.77 billion mt thanks to strong demand of India and recovery of EU, Asean. However, the decline of China demand would be serious risk which might result in a 1.7% drop. While the supply could stay flat due to cut down manufacturing in China.

Rise of housing supply and public investment are driver for growth of domestic volume and price

In 2025, domestic market could be witnessed a bright signal due to the rise of real estate supply and public investment. In term of housing supply, HN and HCM forecasted to climb 10% and 30% yoy because major legal barriers would be resolved by application of Land Law (Amended), Housing Law and Real Estate Business Law. Furthermore, some projects would be improved the constructional process such as North – South Express and Long Thanh Airport result in total public investment reach 790,000 billion VND (+24% yoy). So that, total consumption volume in 2025 could reach 21.8 million tons (+10% yoy).

Regard to price, lower pressure from China steel due to cut down supply and Anti-Dumping tax (AD tax) would have positive impact on domestic price. We expect AD tax would be launched since Q2/24 as domestic share of HRC and Hot Dipped Galvanized (HDG) were dominated by imported product. We assume that thanks to AD tax, the spread of VN and China HRC could decrease 25% yoy to 60-70 USD/ton. So that, we forecast rebar and HRC price could recover 7% and 6% yoy.

Better gross profit margin (GPM) in 2025 thanks to constant input and higher price

The production of iron ore and coal forecasted to grow 3% and 4% yoy in 2025. Persistent supply in Australia and weak input demand in China are key drivers for lower pressure of input price. Therefore, we assess that raw materials may decrease slightly before increasing again in 2025 when the world steel industry recovers, positively impacting raw material prices. The ore prices are expected coking coal output is expected to grow by 4% yoy in 2025 while ore prices may increase slightly by 2% yoy to reach 121 USD/ton. The growth of input is lower than selling price (7% yoy) so GPM forecasted to rise 1% pts yoy to reach 14%.

Our stock picks are HPG, HSG and NKG

We prefer HPG, HSG and NKG based on following rationale: 1) take advantage from recovery phase of cycle; 2) GPM would rise thanks to higher growth of selling price than input; 3) attractive valuation by the current PB is lower than last cycle. Downside risks to the sector include: 1) the steel demand growth could be lower the expected and 2) Crisis in China real estates have negative impact on domestic price.

Analyst

Lê Hải Thành

Thanh.LeHai@mbs.com.vn

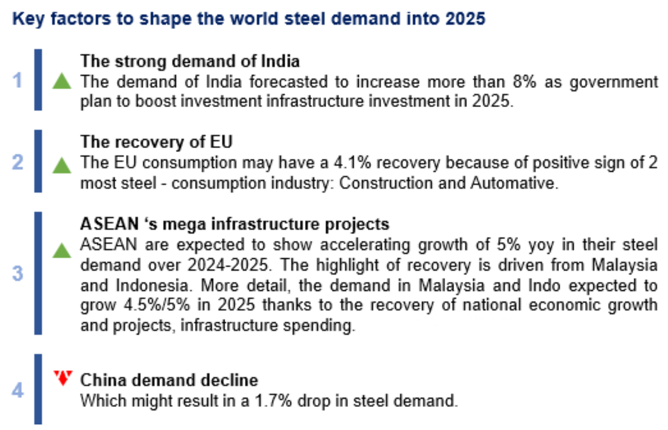
The world demand expected to grow while supply remain stable

World steel demand is expected to recover 1.2% yoy in 2025

According to the World Steel Association, demand expected to decrease 0.9% yoy in 2024 dominated by the downturn of China due to real estate crisis. The China consumption forecasted to decline by 3% to 883 mt. Moreover, some major – country such as USA, Japan and Korea reported the negative growth because of difficulty of construction sector. India remain bright spot of global steel when the consumption grow 8% to 138 mt.

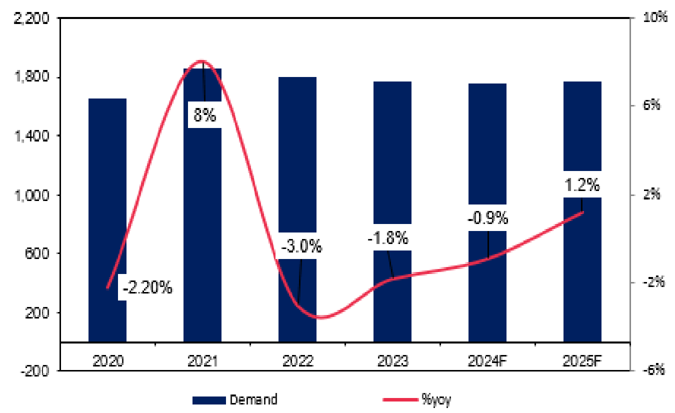
In 2025, WSA remain the forecast that the crisis in China real estate still have negative impact on steel demand which would continue to decrease 1% yoy. While others as Japan, Korea and USA manage to improve thanks to lower level of interest rate. India and EU expected to grow 8% yoy and 4.1% yoy thanks to stimulus on construction and manufacturing.

Figure 1: Key factors to shape the world steel demand into 2025



Sources: Bloomberg, MBS Research

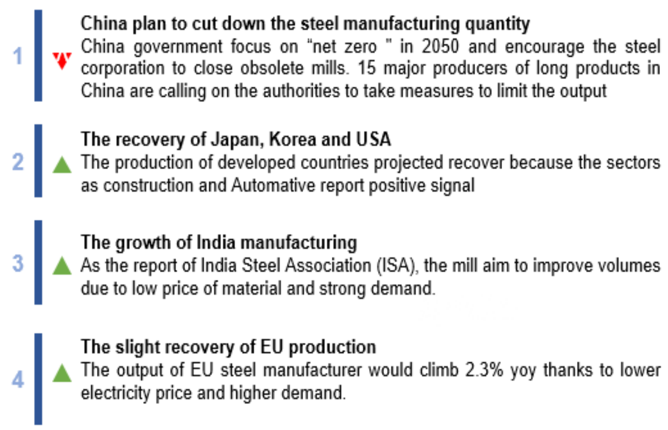
Figure 2: Forecasted world steel demand (unit: Million tons)



Sources: WSA, MBS Research

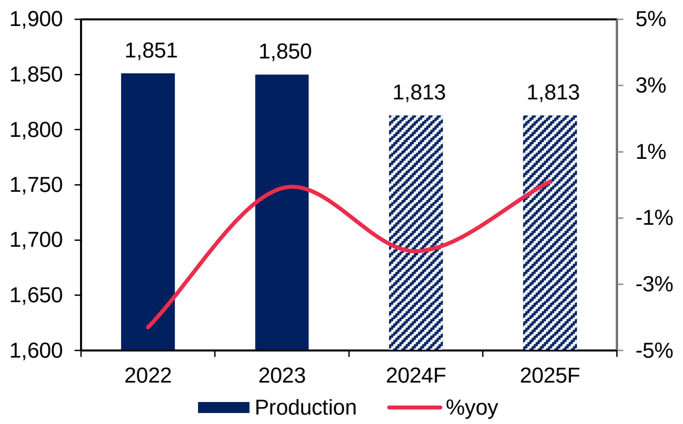
World steel supply deteriorate 2% yoy in 2024 and stay flat in 2025

Figure 3: Key factors to shape the world steel supply into 2025



Sources: WSA, MBS Research

Figure 4: The supply remains stable in 2025 (Unit: mt)



Sources: WSA, MBS Research

According to the World Steel Association, 10M24 the overall manufacturing contracted 1.6% yoy due to the cut off in China (-3% yoy). The decrease of China outweighted the growth of India (5.6%) and Turkie (+12% yoy). China blast furnace capacity reached 79% in average this year (down from 83% in 2023) to deal with the oversupply and loss in manufacturing. Furthermore, China government focus on "Net Zero" in 2050 so some large manufacturers minimize the production.

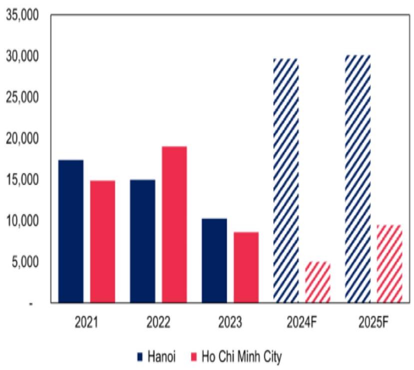
In 2025, WSA report the supply could remain constant thanks to the production of India expected to climb 7% yoy and some developed countries as Japan, Korea and USA recover 1%-2%yoy thanks to positive signal in lower level of interest rate. In contrast, China continue to decline the production 1.5% yoy following the plan of China government because of environmental issues.

Vietnam steel market outlook: Sales volume expected to increase 21%/10% in 2024 - 25 supported by growth of housing supply and public investment

In 10M24, domestic total sales volume reach 17 mt (+18% yoy) supported by growth of rebar and Hot-Dipped galvanized (HDG). In term of rebar, the consumption accelerated 17% yoy to 8.3 mt and HDG increased by 30% yoy to 2.1 mt. The recovery is mainly contributed from rise housing supply (+40% yoy in HN and 45% in HCM). Moreover, HRC volume climb 15% yoy to 3.4 mt despite of the overwhelming of imported from China and India.

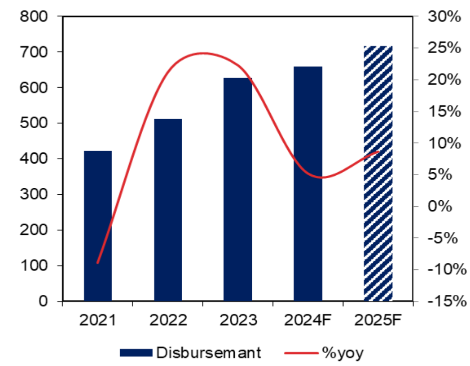
In 2025, we expect the increase of housing supply and public investment are key point for the growth of consumption volume. According to CBRE, both apartment and land property could climb since 2025 thanks to legal issues resolved by new Laws as land Law,.. In term of public investment, some projects would be improved the constructional process such as North – South Express and Long Thanh Airport. So, the total consumption volume in 2024 and 2025 could reach 19.8 mt (+21% yoy) and 21.8(+10% yoy).

Figure 5: The housing supply in HN and HCM



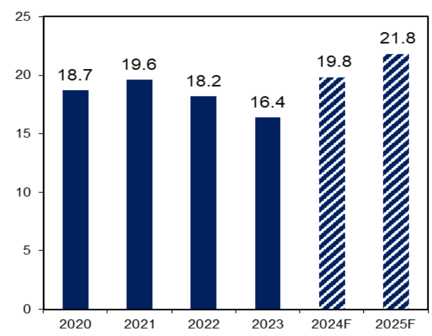
Source: CBRE

Figure 6: Disbursement of public investment in 2024 - 25



Sources: Minsitry of Finance, MBS Research

Figure 7: Domestic sales volume (Unit: mt)



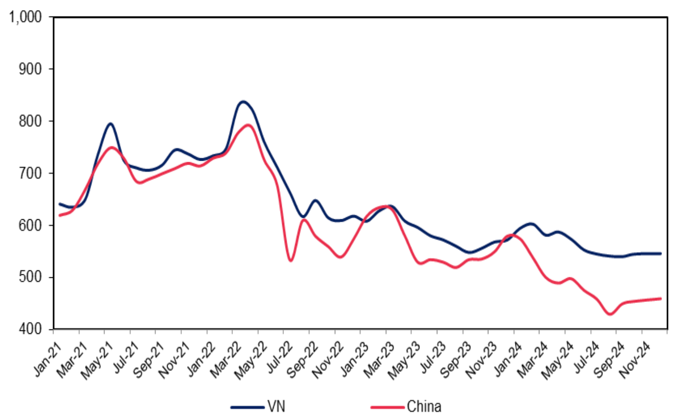
Source: VSA, MBS Research

Steel price outlook: The price of VN rebar could climb 7%/8% in 2025/2026 thanks to lower China pressure

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 October 2024, China's home-price slump deepens to new 9-year low with the decrease of 5% (more than 4.5% of September). 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 mill participating in cut off production. In 2025, We forecast the China price could be supported by lower supply when China government plan to ban new – coal blast furnance since Q4/24, so that we forecast the oversupply issue would be minimized.

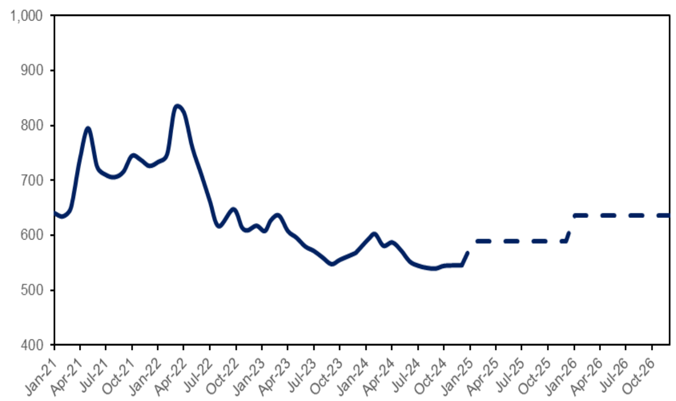
Unlike China, the potential of VN steel has been witnessed due to the bright outlook of real estate. The growth of housing supply and public investment have driven the recovery of rebar. We forecast VN rebar would have positive growth since Q4/24 when the pressure of China has been minimized. Therefore, in our estimation, the rebar price could reach average 551 USD/ton (-2% yoy) due to serious pressure of China steel in 1H24. In 2025 - 2026, we expect rebar could rise 7% and 8% to hit 590 USD and 637 USD/ton.

Figure 8: Vietnam rebar price has been negatively impacted by the downtrend in China



Sources: WSA, MBS Research

Figure 9: Price of VN rebar forecast in 2024 - 2026

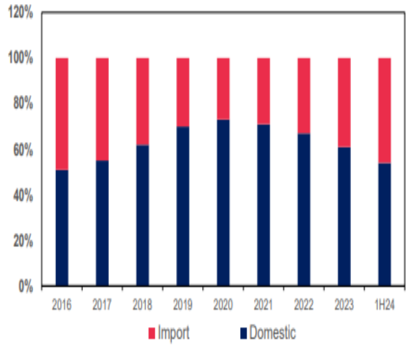


Sources: Bloomberg, MBS Research

Domestic manufacturer could gain more market share thanks to AD tax

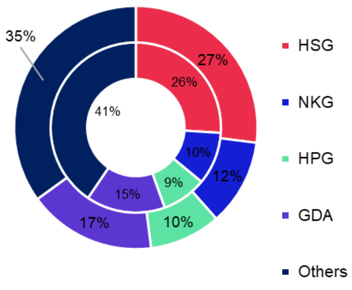
Due to the overwhelming of imported HRC and Hot Dipped Galvanized (HDG) in 2024, Ministry of Industry and Trade (MOIT) have investigated the product particularly from China, Korea and India. MOIT initiated the investigation on imported HDG from China and Korea (AD19) and HRC from China and India (AD20) and we expect both of AD tax could be surpassed in 2025 to protect domestic production. In case this would be implemented, the spread of domestic and imported HRC, HDG could decrease to 45 USD/ton and 60 USD/ton (-20%/-24% as compared with in 2024).

Figure 10: Market share of domestic improved since applying AD tax



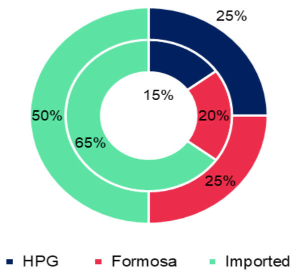
Source: VSA

Figure 11: Market share of HDG segment in 10M24 (inside) and forecast 2025 (outside)



Sources: VSA, MBS Research

Figure 12: Market share of HRC segment in 10M24 (inside) and forecast 2025 (outside)



Source: VSA, MBS Research

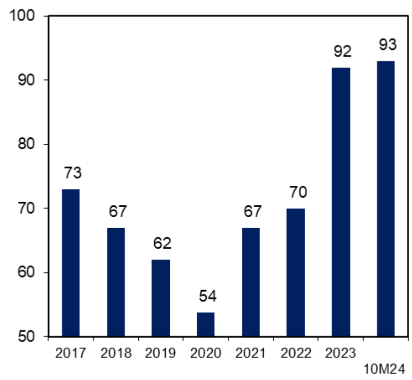
Lower spread could have positive impact on domestic company which could deal with the pricing competition of imported product. This can be witnessed that the market share of domestic HDG increased to 65% from 45% after applying AD tax in 2017. In 2025, the market share of local may improve driven by the contribution of tax. We expect the market share of HPG about HRC segment could reach 25% thanks to AD tax on China and India. In term of HDG, key players such as HSG, NKG would account for nearly 40% sales volume.

Price of HRC could recover thanks to strong demand and Anti – Dumping (AD) tax

China export volume in 10M24 climb by 23% yoy to reach 93 mt, which already exceeds the total exports of 2023 and is the highest since 2016. Thus, this year's figure may exceed 110 million tons according to WSA. In 10M24, domestic HRC market has been dominated by the imported from China and Korea. The imported volume accelerated to reach 3.5 mt (+33% yoy) because China improved exporting to deal with the oversupply. Furthermore, foreign manufacturer claim their price decrease about 18% - 20% as compared to domestic so this accounted for 65% total consumption, that is key reason why AD tax would be applied since 2025 to protect local manufacturing.

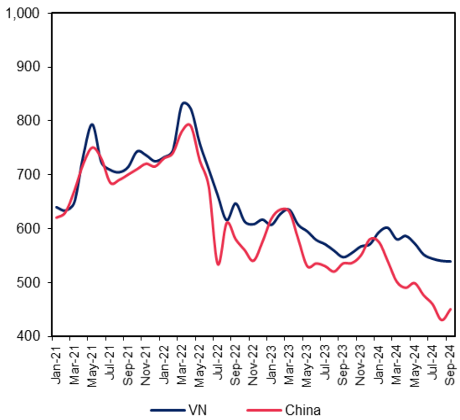
In case the tax is effective, the pricing pressure could be decreased so that the spread of local and import could range 40 – 60 USD/ton (-20% yoy. We forecast average price of HRC reached 556 USD/ton (-7% yoy). In 2025 – 2026, thanks to AD tax applying help pressure cool down, the average price would reach 590/634 USD/ton (+6%/8% yoy).

Figure 13: The export volume of China (Unit: mt)



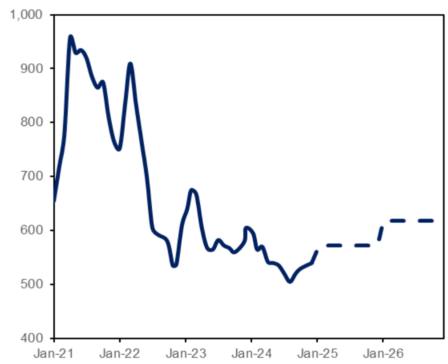
Source: VSA

Figure 14: The export volume of China (Unit: mt)



Sources: VSA, MBS Research

Figure 15: Price of VN HRC forecast in 2024 – 2026 (USD/ton)



Source: VSA, MBS Research

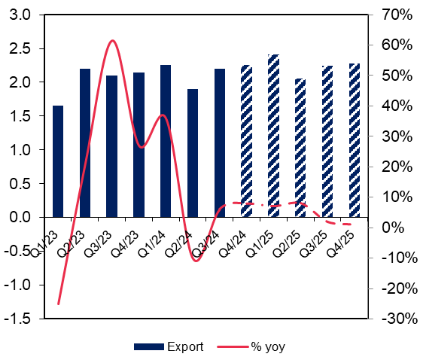
Export volume slightly to grow 8%/5% yoy in 2024/25 thanks to demand recovery

In 10M24, export volume reach 7.1 mt (+6% yoy) thanks to the growth of rebar (20% yoy) and HDG (44% yoy) while HRC volume reported 2.1 mt (-26% yoy). Although, the volume increased the export price dropped 17% yoy to 650 USD/ton due to intense competition with China export product. Moreover, the demand of EU have decreased slightly in 2024 because of major sectors such as Construction (30%) and Automative (17%) reported minus 3% and 4.5% yoy, respectively. Moreover, the export volume has been negatively impact by the intense competition of China export.

We forecast export volume would have potential to grow moderately in 2025 but we notice this could be minimized by the AD tax on HRC product from EU. In term of demand, according to The European Steel Association (Eurofer), construction and automative are key contributor for the growth. More detail, sector possibly report the growth of 4% and 3% yoy because lower level of interest support the demand. Due to both positive and negative impact on export market, the total sales volume could accelerate 8%/5% in 2024 – 2025. For each segment, HDG forecasted to grow strongest in 2024 (35% yoy) to reach 3.2 mt.

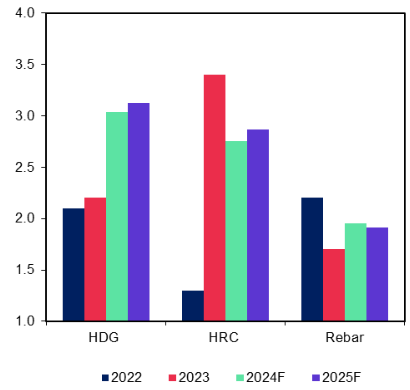
Inspite of the slight growth of demand in EU, we forecast due to the AD tax, the export volume of VN could rise from the low base 2024 but could not back to the high base 2021 – 2022.

Figure 16: Vietnam 's steel export volume (Unit: mt)



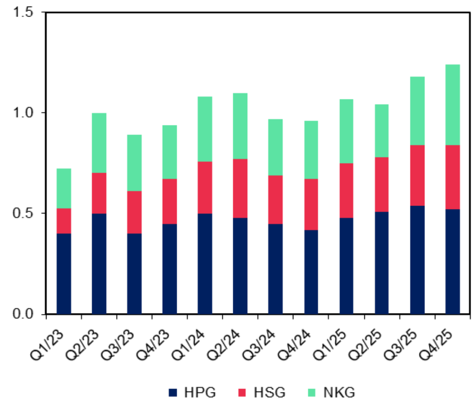
Source: VSA

Figure 17: Export volume break down by product (Unit: Mt)



Sources: VSA, MBS Research

Figure 18: Export volume of listed steel manufacturers

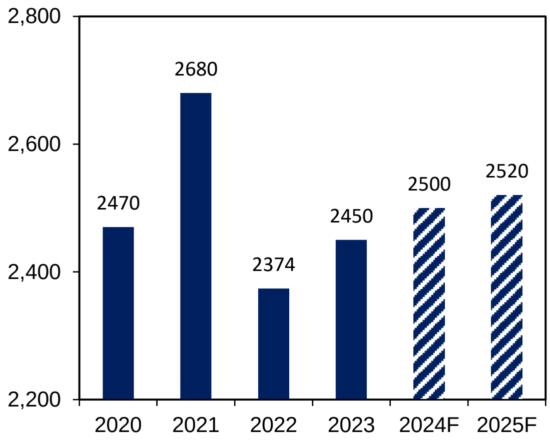


Source: VSA, MBS Research

Higher growth of selling price than inputs might boost gross margin of steel manufacturers

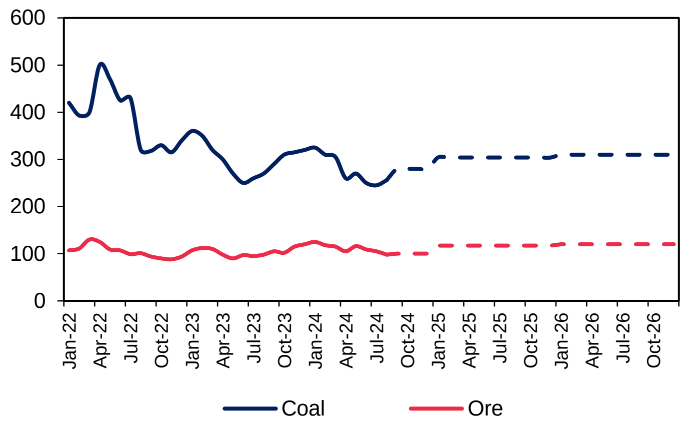
According to S&P Global's assessment, the world supply of coal and ore is expected to remain stable in the context of large mining enterprises in Australia, Brazil, and India continuing to increase output. Furthermore, according to the China Association of Steel and Mining Enterprises, coal and ore output continues to improve to stabilize prices and support the recovery of the steel industry. Therefore, we assess that raw materials may decrease slightly before increasing again in 2025 when the world steel industry recovers, positively impacting raw material prices.

Figure 19: The stable of ore production



Sources: Bloomberg, MBS Research

Figure 20: 3Q24 earnings of listed banks increased to 17.6% yoy, lower than growth of 2Q24 by 21.6% yoy



Sources: Bloomberg, MBS Research

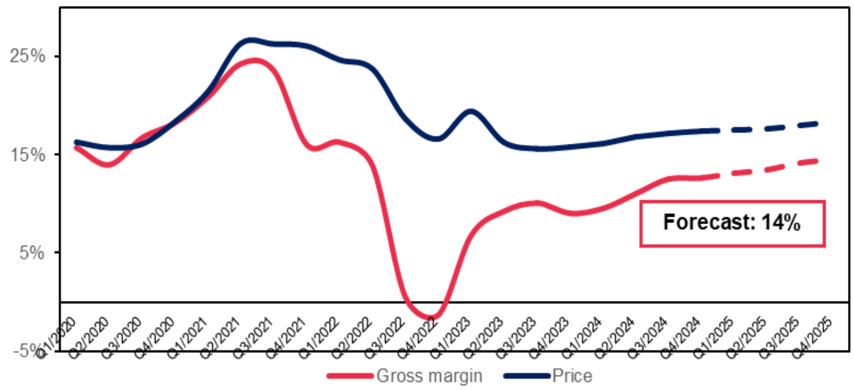
Global iron ore output is expected to increase slightly by 2%, reaching 2.5 billion tons. Thanks to stable supply and reduced demand for steel production in China, ore prices are expected coking coal output is expected to grow by 4% in 2024 when stable weather in Australia has a positive impact on the mining process.

Coal prices are forecast to cool down to 300 USD/ton (-7% yoy) and 340 USD/ton (+5% yoy) in 2024 and 2025. In 2026, we forecast ore could remain stable and coal could increase 3% yoy to 314 USD/toned to reach 117 USD/ton (-4% yoy) in 2024.

By 2025, ore prices may increase slightly by 2% yoy to reach 121 USD/ton and remain high base in 2026

Despite of the partial rise of ore and coal price, we expect the growth of domestic price could outweight the pressure of input material. The higher climb of HRC and rebar (7% and 6% yoy) than ore and coal (2% and 5% yoy) would improve the GPM of steel manufacter. So that, GPM of steel listed company expected to increase 1% pts to 14% in 2025.

Figure 21: GPM of steel industry improved



Sources: Bloomberg, MBS Research

FY24-26F key financial metrics of stock under our coverage

VND billion	HPG			HSG			NKG		
	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F
Revenue	139,409	172,225	225,524	39,272	45,760	51,477	22,860	25,402	26,192
% yoy	*17.5%*	*23.7%*	*30.8%*	*24.0%*	*16.5%*	*12.5%*	*22.9%*	*11.1%*	*3.1%*
Gross profit	19,858	26,184	34,317	4,253	5,141	6,080	1,867	1,821	2,022
Gross profit margin (%)	*14.2%*	*15.2%*	*15.3%*	*10.8%*	*11.2%*	*11.8%*	*8.2%*	*7.2%*	*7.7%*
EBITDA	22,393	32,118	39,477	2,906	2,379	2,821	1,412	1,381	1,629
EBITDA margin (%)	*16.8%*	*19.2%*	*17.9%*	*7.4%*	*5.2%*	*5.5%*	*6.2%*	*5.4%*	*6.2%*
Net profit	12,930	17,995	23,903	510	869	1,324	606	657	836
% yoy	*90.5%*	*39.0%*	*32.7%*	*1600.0%*	*70.3%*	*52.4%*	*254.3%*	*9.30%*	*27.3%*
EPS (VNĐ/share)	2,224	3,095	3,795	828	1,376	1,949	2,302	2,495	3,175
BVPS (VNĐ/share)	16,132	16,952	17,638	17,687	18,731	18,888	22,300	23,690	23,975
Net cash/share (VNĐ/share)	(12,477)	(12,818)	(13,094)	(2,500)	(2,350)	(2,250)	(2,541)	(2,257)	(2,346)
Debt/Equity	71.6%	72.7%	71.9%	49.2%	46.7%	41.0%	96.9%	97.7%	95.8%
Dividend yield (%)	1.8%	2.1%	2.4%	2.5%	3.50%	4.1%	4.0%	4.1%	2.6%
ROAE (%)	11.5%	15.0%	18.3%	4.7%	7.1%	9.8%	10.3%	10.4%	11.7%
ROAA (%)	6.1%	8.8%	11.0%	2.6%	4.1%	5.9%	4.6%	5.1%	4.7%

Sources: MBS Research

Investment strategy: We prefer leading companies HPG, HSG and NKG

Stock	Rating	Target price (VND/share)	Investment thesis
HPG	**ADD**	33,500	• HPG is beneficiary of recovery cycle driven by the strong demand of rebar and HRC segment. The growth phase expected to start since 2025 with the contribution from the positive signal of construction sector. The increase of housing supply and public investment would bring positive impact on rebar sales. In term of HRC volume, we project thanks to AD tax and Dung Quat 2 Complex, the volume could grow 40% yoy to 4.4 million tons. • As the result of lower pressure from China export and strong domestic demand, the price of rebar and HRC would recover 7%/6% in 2025. Thanks to the growth of price more than input material, gross profit margin (GPM) forecasted to improve 1% pts to 15.2%. So, the net profit (NP) could reach 17,995bn VND (+39% yoy). • HPG is valuated lower than average multiple: The forward PB and PE currently reach 1.6 and 10.2 (below to the average in 2 cycle about 2.2 and 12.5).
HSG	**ADD**	24,800	• HSG is beneficiary of recovery cycle driven by the strong demand of domestic market. Sales volume could rise 6% yoy to reach 2.1 mt thanks to domestic growth and AD tax. • As the result of lower pressure from China export and strong domestic demand, the price of HDG would recover 6% yoy in 2025 and reach 984 USD/ton. Thanks to the growth of price more than input material, gross profit margin (GPM) forecasted to improve 0.4% pts to 11.2%. So, the net profit (NP) could reach 869bn VND (+70% yoy). • HSG is valuated lower than average multiple: The forward PB and PE currently reach 0.9 and 10.5 (below to the average in 2 cycle about 1.2 and 12.0).
NKG	**ADD**	24,500	• HSG is beneficiary of recovery cycle driven by the strong demand of domestic market. Sales volume could rise 6% yoy to reach 2.1 mt thanks to domestic growth and AD tax. • As the result of lower pressure from China export and strong domestic demand, the price of HDG would recover 6% yoy in 2025 and reach 984 USD/ton. Thanks to the growth of price more than input material, gross profit margin (GPM) forecasted to improve 0.4% pts to 11.2%. So, the net profit (NP) could reach 869bn VND (+70% yoy). • HSG is valuated lower than average multiple: The forward PB and PE currently reach 0.9 and 10.5 (below to the average in 2 cycle about 1.2 and 12.0).

Figure 22: Peer comparison

	Ticker	Current price	Target price	RCM	MV of equity	P/E (times)		P/B (times)		ROA%		ROE (%)	
Company	Bloomberg	VND/share	VND/share		VND bn	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Hoa Phat Group	HPG VN	27,600	33,500	ADD	19,880	23.4	13.5	1.7	1.6	3.8%	6.6%	7.2%	12.5%
Hoa Sen Group	HSG VN	18,800	24,800	ADD	16,676	130.2	23.8	1.3	0.2	0.5%	3.4%	1.2%	4.5%
Nam Kim Group	NKG VN	19,500	24,600	ADD	250	50.1	25.1	1.2	1.1	0.9%	3.2%	3.11	7.3%
VN - Germany Steel Pipe JSC	VGS VN	32,800	N/A	KKN	185	29.3	27.5	1.9	1.7	2.4%	4.2%	4..1%	5.5%
Dong A Group	GDA VN	27,200	N/A	KKN	150	7.3	6.5	0.9	0.8	5.4%	6.2%	7..1%	8.5%
Average						**37.6**	**16.6**	**1.1**	**0.9**	**5.6%**	**6.4%**	**6.0%**	**8.7%**

Sources: Bloomberg, MBS Research

DISCLAIMER

MBS INVESTMENT RECOMMENDATION

Stock rating

Our investment recommendations are based on the expected profitability of the stock, calculated as the sum of (i) the percentage difference between target price and market price at the time of publication, and (ii) expected dividend yield. Unless otherwise stated in the report, investment recommendations have an investment horizon of 12 months.

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
NEUTRAL	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

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.

Address:
MB Building, 21 Cat Linh, Dong Da Dist., Hanoi
Tel: + 8424 7304 5688 - Fax: +8424 3726 2601
Website: www.mbs.com.vn

MBS RESEARCH TEAM

Director, Head of Research
Hien Tran

Deputy Head of Equity Research
Dzung Nguyen

Macro & Market Strategy
Cuong Nghiem
Hung Ngo
Anh Dinh
Anh Vo

Banking – Financial Services
Luyen Dinh
Hao Nguyen

Real Estate
Duc Nguyen
Thanh Le

Energy - Industrials
Tung Nguyen
Huyen Pham

Consumer - Retail
Ly Nguyen
Associate: Anh Nguyen