

HOA PHAT GROUP JSC (HPG) – UPDATE

October 2009

OVERVIEW

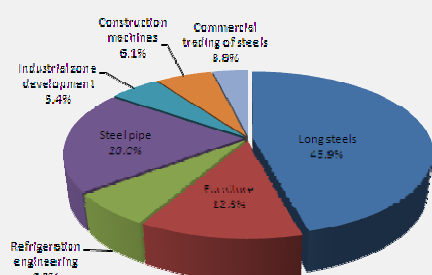
Hoa Phat Group JSC (HPG) was initially established in 1992 and restructured into a holding company on Sep 1, 2007. It is one of the leading multi-field industrial private corporations in Vietnam. Hoa Phat group currently consists of 11 subsidiaries and 5 allied companies.

The company's main business activities include manufacturing and trading steel, steel pipe, furniture, refrigeration engineering, equipment and accessories, and urban plus industrial zone development and construction. HPG was listed on HOSE in November 2007, with current chartered capital of VND 1,963.6bn.

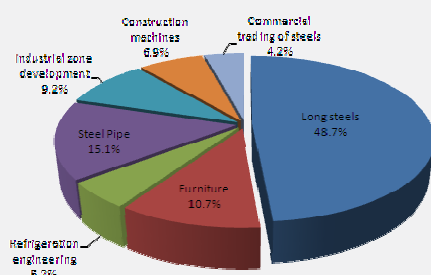
COMPANY INFORMATION

Industry	Basic materials
Listed	HOSE
Ticker	HPG
Charter Cap (VND bn)	1,964
52-week highest price (VND)	74,000
52-week lowest price (VND)	23,700
Avg trading vol in 10 days	1,862,837

1H-2009 REVENUE STRUCTURE



1H-2009 NET PROFIT STRUCTURE



Source: HPG's 1H 2009 audited FS

COMPANY HIGHLIGHT

Hoa Phat Group JSC has recently announced impressive 8M2009 financial performance with VND 5,105bn revenue and VND 940bn net income. Accordingly, HPG achieved 72.9% adjusted revenue plan and 102.2% adjusted net income plan for the year. Steel and furniture segments are still key drivers for revenue and profit. Our analysis below will provide investors more information and deeper understanding behind those figures.

Sales of steel products were maintained at high level in July and August – usually the low season of construction segment – coupled with slight increase in selling price were key factors supporting 8M-2009 financial result.

Steel segments including long steels and steel pipes, and trading other kinds of steel accounted for 70% revenue and 68% net income of the group in 1H-2009. Sales volume of HPG's long steel products reached 74,454 tons in Q1 and increased 23.5% to 91,948 tons in Q2. Quarter 3 is often a low season for steel business due to the rainy season, leading to lower consumption level than Q2. However, the actual consumption of HPG's steel in July and August this year turned out not affected by the low season, and yet reached the high level of 62,958 tons as a result of the government's stimulus packages. We expect that sales volume of HPG's long steels in September 2009 could achieve approximately 29,000 tons. This will add up total consumption of long steels in Q3 to 91,958 tons, equivalent to Q2 volume – the highest sale season in the year. Slight increase in selling price of long steels was also a supporting factor. The current selling price of HPG's long steel product is about VND 11.4mn/ton, compared to the average VND 10mn/ton in 1H-2009.

Steel pipe segment were sustained with the average monthly produced and consumed amount of 8,000 tons. For the first 8 months 2009, total sales volume of HPG's steel pipe products reached over 60,000 tons, affirming HPG as one of the top producers and suppliers of steel pipe products in the domestic market.

In addition, HPG is currently the leading brand-name and manufacturer of office furniture in Vietnam, holding 40% domestic market share. The furniture segment which is the second largest contributor provides a stable source to revenue and income each year. For the 1H-2009, furniture segment contributed 12.3% to total revenue and 10.7% to total net income of the group.

Q3's financial performance is expected to be as high as Q2's result

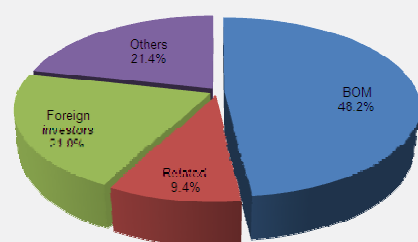
In light of high demand and steel price trending upward, coupled with the stability of other business segments, VCSC anticipates that HPG would be able to generate Q3 revenue equal to Q2 and approximately VND 350bn of net income. This will add up accumulated net profit for the first 9M-2009 to VND 1,036bn, surpassing 12.7% the whole year adjusted target income.

Q4-2009 OUTLOOK

The operation of the new integrated steel factory in November 2009 would drive incremental volume and reinforce HPG market share of long steel products in the years to come.

Hoa Phat integrated steel factory is a full chain production of long steels having the first stage capacity of 350,000 tons/year. The factory is almost ready for bringing the rolling activity phase into operation in November this year. Initially, HPG still has to import billets as key materials for its rolling phase. The full chain production activities will be completed and put into operation next year. With iron ore and coke coal at hand, HPG is heading towards a complete production line for construction steels to mitigate the dependence on imported raw material. This will also create a base for phase 2 development of the complex for flat steel products in the future.

SHAREHOLDER STRUCTURE



Source: HPG

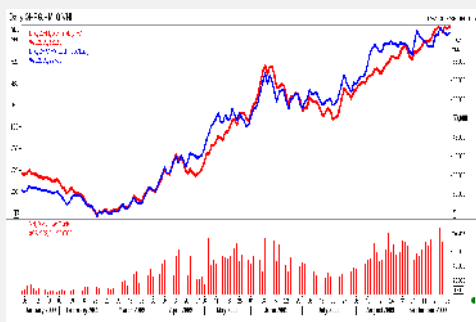
FINANCIAL INFORMATION 1H-2009

Net revenue (VND bn)	3,617
Gross profit (VND bn)	930
Net profit (VND bn)	686
Gross margin (%)	25.7
Net margin (%)	19.0
Debt/Equity (%)	39.8
EPS (VND)	3,496
BPS (VND)	23,071
ROA trailing (%)	8.9
ROE trailing (%)	15.2

VALUATION MEASURES

Price (01/10/2009)	70,000
Market Cap (VND bn)	13,745
EPS forward 2009 (VND)	6,562
P/E forward 2009 (x)	10.7
BVS 2009 (VND)	24,918
P/B forward 2009 (x)	2.8
EV/EBITDA 2009 (x)	8.1

SHARE PRICE PERFORMANCE



Source: Reuters

Quarter 4 is considered a high season for construction activities. Demand maintains at high level, coupled with possible further selling price increase will continue to help HPG achieve positive result for the last quarter. At first sight, the operation of the new complex at year end will increase depreciation cost and interest expense to the company. Hence, while revenue might see an add-on, incremental profit is not expected for this year. Nonetheless, the full steel production chain, once fully operating will greatly contribute to the company's financial performance.

2009 Net income is forecasted to exceed whole year adjusted plan by more than 40%

Given all supporting factors above, we project HPG will achieve positive results this year. Net sales in 2009 are forecasted to reach VND 7,330bn. Net profit in 2009 is forecasted to be VND 1,290 bn, up 50.8% compared to 2008 and over 40% exceeding adjusted plan for this year.

Expanding key business into cement and real estate segments to take advantage of available resources for a vertical integrated value chain is one of long term strategy of HPG

The HPG joint-venture cement plant will go into trial operation in October 2009 yet profit will not be expected. With the complementary demand for steel and cement products, HPG is confident in its reputation, brand-name, customer base and distribution network for long term potential growth of cement JV project. In addition, with strong financial capability and experience in the construction industry, HPG is expanding its real estate business which is expected to be a potential business segment moving forward.

RECOMMENDATION

With the current market price of VND 70,000/share, HPG is trading at the P/E forward 2009 of 10.7x, a reasonable P/E for investment decisions, especially when compared with the average P/E level 25.4x of international steel companies as below. EV/EBITDA 2009 of HPG is also more appealing at 8.1x versus 10.9x of the international average comparables.

In addition, HPG is planning to increase its charter capital, yet has not announced specific plans and the recent announcement of 10% cash dividend phase 1 for 2009 as along with expected strong financial results for 2009 would fuel upward trend of HPG share price.

We therefore recommend a BUY on HPG stock at the present time with the enter price of equal to or less than VND 75,000/share and the expected target price of VND 90,000/share (equivalent to P/E forward 2009 of 13.5x).

INTERNATIONAL COMPARABLES

Company name	Country	PE 2009	EV/EBITDA 09
Baoshan Iron & Steel Co Ltd	China	22.28	7.42
Bluescope Steel Ltd	Australia	26.16	8.78
China Steel Corp	China	85.23	27.99
Hyundai Steel Co	Korea	8.58	12.41
Kobe Steel Ltd	Japan	n/a	9.63
Kyoei Steel Ltd	Japan	11.11	4.62
Nippon Steel Corp	Japan	n/a	12.75
Posco	Korea	15.15	8.7
Sumitomo Metal Industries Ltd	Japan	n/a	14.22
Tata Steel PCL	Thailand	17.00	5.59
Nanjing Iron & Steel Co Ltd	China	26.26	10.22
Wuhan Iron & Steel Co Ltd	China	16.90	8.17
Average		25.41	10.9
HPG	Vietnam	11.00	8.3

SUMMARY OF HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

INCOME STATEMENT (VND mn)	2006A	2007A	2008A	1H-2009A	2009F
Net revenue	1,318,883	5,642,934	8,364,805	3,616,865	7,329,017
COGS	1,192,355	4,676,412	7,106,496	2,687,013	5,512,001
Gross profit	126,527	966,522	1,258,309	929,852	1,817,016
Operating profit	116,036	751,421	1,013,441	821,249	1,597,145
Profit before tax	74,506	759,426	1,018,628	808,236	1,523,470
Minority Interest	-	1,880	5,219	2,992	6,475
Profit after tax	71,929	643,974	854,190	686,462	1,288,475

BALANCE SHEET (VND mn)	2006A	2007A	2008A	1H-2009A	2009F
Current Assets	1,323,568	3,135,513	3,849,009	3,717,820	3,129,973
Cash & cash equivalents	78,452	399,323	510,218	622,054	586,321
Short term financial investments	-	266,000	734,386	604,835	-
Receivables	369,979	784,381	720,175	817,733	734,910
Inventory	844,034	1,580,078	1,820,240	1,470,741	1,359,124
Provision for inventory devaluation	-	(1,283)	(179,640)	(33,655)	-
Other current assets	31,104	105,731	63,990	202,458	219,871
Non-current assets	1,033,399	1,621,282	1,790,364	3,978,455	4,701,922
Fixed assets	910,429	950,049	1,265,420	2,594,322	3,352,889
Long term financial investments	63,551	399,466	398,937	790,326	790,326
Other non-current assets	29,419	32,338	125,964	571,047	558,708
TOTAL ASSETS	2,326,967	4,756,795	5,639,760	7,696,275	7,831,895
Short term debts	893,795	653,133	588,330	1,298,058	1,162,799
Payables	303,225	615,254	668,001	1,091,524	853,228
Long term debts	132,201	264,978	37,768	534,845	682,248
Total Equity	997,789	3,142,550	4,111,137	4,530,275	4,892,937
Charter Capital	849,400	1,320,000	1,963,640	1,963,640	1,963,640
Capital surplus	-	1,315,000	1,620,900	1,620,900	1,620,900
Retained earnings	141,614	449,746	415,743	894,593	1,115,126
TOTAL CAPITAL	2,326,967	4,756,795	5,639,760	7,696,275	7,831,895

KEY FINANCIAL RATIOS	2006A	2007A	2008A	1H-2009A	2009F
Revenue growth rate (%) y-o-y	45.1	327.9	48.2	(26.6)	(12.4)
Gross margin (%)	9.6	17.1	15.0	25.7	24.8
Net margin (%)	5.5	11.4	10.2	19.0	17.6
ROA (%)	3.1	13.5	15.1	8.9	16.5
ROE (%)	7.2	20.4	20.8	15.2	26.3
EPS (VND)	366	5,264	4,439	3,496	6,562
EPS growth rate (%) y-o-y	n/a	1,337	(15.7)	(42.0)	47.8
BPS (VND)	11.747	23.807	20.936	23,071	24,918
BPS growth rate (%) y-o-y	n/a	102.7	(12.1)	(28.3)	19.0

Note: 2006 data were unconsolidated financial data of Hoa Phat Steel JSC, the precursor of Hoa Phat Group.

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