

APRIL

08

WEDNESDAY

ADVISORY DIARY

- **NKG – AGM 2015 meeting update**
- **Market remains uncharacteristic**

NKG – AGM 2015 meeting update

At the end of last week, our Steel Industry analyst from RongViet Research attended General Meeting of Nam Kim Steel JSC (HSX: NKG). NKG is well-known as company ranked 2nd in Steel industry with approximately 12.8% market share. With positive business result in 2014 and plans for capacity expansion in the upcoming years, we believe that NKG is the notable stocks.

NKG business in 2014 achieved impressive result with net sales and profit after tax reaching VND5,835 billion (+25% yoy, 19% exceeded the plans) and 76.6 billion dong (+48% yoy, 18% exceeded the plans) consecutively. That achievement came from exceptional effort of the company in improving business efficiency and more importantly, significant growths in sale volume which are 39% in domestic market and 49% in exporting market. However, competitive pressure is increasing and decline trend of the global steel prices made average selling price decreasing by 10 – 15% yoy that slightly affected NKG’s profit margin. Though, net profit margin of the company has been improved due to reducing borrowing costs and other profits sharply rising over the same period.

In terms of production, NKG invested to upgrade the production capacity of steel pipes in 2014 to 80,000 tons/year. In 2015, company continues to invest two more new production lines. More detail, cold rolling lines (200,000 tons/year) is operated since March, 2015 which is expected to bring more 2-3% surplus value per product as compared to the previous period. Moreover, galvanizing lines (100,000 tons/year) with high profit margin will put into operation in the mid-2015.

Figure: Current production lines

	Technology	2014	2015
Washing line	Taiwan	300,000	300,000
Cold rolling line	Taiwan + Germany	200,000	400,000
Zinc galvanizing line	NOF/POSCO	50,000	50,000
Zinc thick size galvanizing line	NOF	100,000	100,000
Zinc- Aluminum coated steel line	NOF (Taiwan + Germany)	150,000	120,000
Pre-painted galvanizing line	POSCO (Korea)	150,000	150,000
Slitting line	Taiwan	200,000	200,000
Black steel pipe line	Taiwan	80,000	80,000

Source: RongViet Research

“Market remains uncharacteristic”

In addition, the company also has a plan in order to invest in the Nam Kim 3 factory steel in Dong An 2 Industrial Park with a total square area of 8.5ha and a total investment of ~ VND2.300 billion. Phase 1 of the project is expected to begin in the coming months and will operate since 2Q2016.

In the first phase (estimated investment capital of VND730 billion), the company will invest firstly the thick size galvanized in order to meet for demand from export markets and demand for the industrial products in the future. Investment capital is expected to be raised from 02 sources: (1) private placement of 20 million shares to strategic shareholders with a price of not less than VND15,000 per share, among that, of which VND160 billion will be used to invest in new projects and VND40 billion to be used for working capital, and (2) bank loans with an amount of 80% investment value. However, we are quite concerned about the issue to mobilize capital for projects in the context of a gloomy and low efficiency of steel industry when the first stage of project is financed by lots of loan (80% of investment capital).

Achievements of 2014 allow NKG's management to make an ambitious plan in 2015 with VND7,800 bn (+29% yoy) in revenue and VND120-150bn in NPAT (+33% yoy).

To assess the feasibility of 2015 guidance, RongViet Research's analyst assumes that if consumption stays stable and growing, NKG's 2015 volume and sales will grow thanks to adding two more manufacturing lines. In the other hand, we also note that 2015 earnings target has been built on assumption that HRC's price (input price) is at USD520 per ton. In 2015Q1, HRC's price experienced a strong decrease (more than 20%), while output price was down by only 5% compared to end of 2014. This is the reason why we expect NKG's profit margin will be improved in 2015 despite of current difficulties of steel industry.

Figure: 2015 earnings target

	2014	2015 target	+/- 2014 (%)
Volume (tons)	310,000	399,000	+29%
Sales (VND bil)	5,835	7,800	+33%
PAT (VND bil)	83.8	120-150	+43%-79%

Source: RongViet Research

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Specifically, 1Q/2015 results were very positive with sales reaching VND1,158 billion (-21 % yoy) and PAT of VND 25 billion (+ 147 % yoy) . This result sees NKG achieve respectively 15 % and 19 % of the 2015 earnings target. In addition, significant improvement of margin in 1Q / 2015 compared to corresponding quarter and previous quarter is a bright spot.

In 2015, the company plans to issue bonus share for dividend payment purposes at the rate of 8 % and ESOP at a rate of 2 %. Based on prudent calculated net income, after the additional share issue, the company's EPS could be around ~ 2.700 share and respective P / E at 5,4x and lower than leader HSG's P/E of approximately 46%. Dilution risk may increase in case the company successfully issued 20 million shares (expected to be in the second half of 2015) . As such, we believe that the valuation of the NGK may be unattractive.

Market remains uncharacteristic

Today's liquidity was tepid and trading was slowed as investors became increasingly cautious in the cashing in. Trading value on the two exchanges combined dropped 12% from yesterday and 8% from the month-to-date average. Foreigners kept selling at net VND61 billion worth of stocks in the HSX and VND1.5 billion in the northern exchange. In just the last two days, the foreigners discharged 40% of the amount they accumulated from April 01 to April 06, estimated about

VND285 billion. As large-caps either retreated or stood unchanged, VN-Index and HN-Index were down 0.07% and 0.44% respectively. In such a “plain” trading day, CII (+3.6%), JVC (+3.8%) and PGS (+3.2%) emerged to the spotlight; the first two posted a combined 6 million shares of volume. Though we have not had enough evidence to confirm a divergence of cash flows, we see VHC has attracted a lot of foreigners’ attention, posting steady net foreign purchases since mid-March. With optimistic projections of Q1 profits and lower anti-dumping tax and its market leadership status as the advantages, VHC should be in the watch list right now.

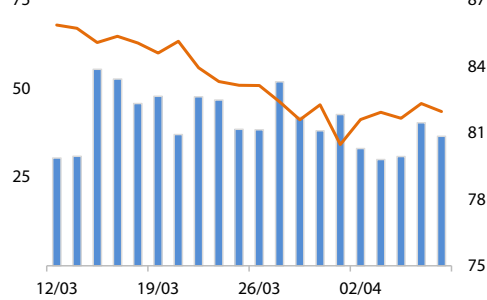
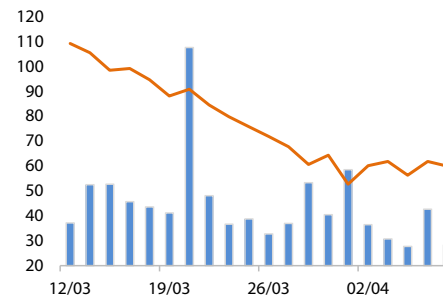
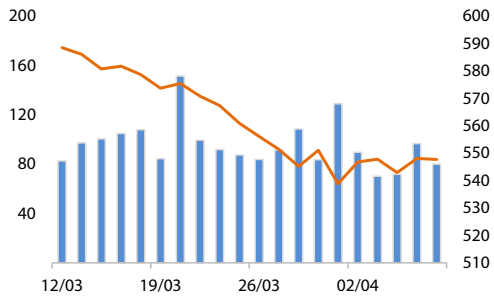
In another development, the stock market of the neighboring Asian countries recently witnessed strong rallies supported by important information. First, the move from the People's Bank of China cutting interest rates the first time in the past two years by 25 basis points to 5,35% and lowering the down-payment rate for second home buyers to 40% from 60% earlier this month showed the determination of the Chinese government to accelerate the recovery of the real estate and stock market, particularly in the context of dampening growth and sluggish domestic demand. According to many experts, there is still room for further quantitative easing from the government, though the mortgage rate cut seeing the interest rate for home loans to be at the lowest level since Oct/2014 but still 200 basis points higher than rates in 2009. In addition, Japan, one of Vietnam’s important overseas capital flows, is likely to extend quantitative easing measures in 4Q2015 due to weak indicators from domestic consumption, inflation and employment.

Basically, we remain firm on our idea that market is better going sideways amid low liquidity situation, which is then likely provide the basis for recovery. Investors may also consider take advantage of correction sessions to accumulate good stocks at bargained prices.

VNINDEX -0.07% 547.72

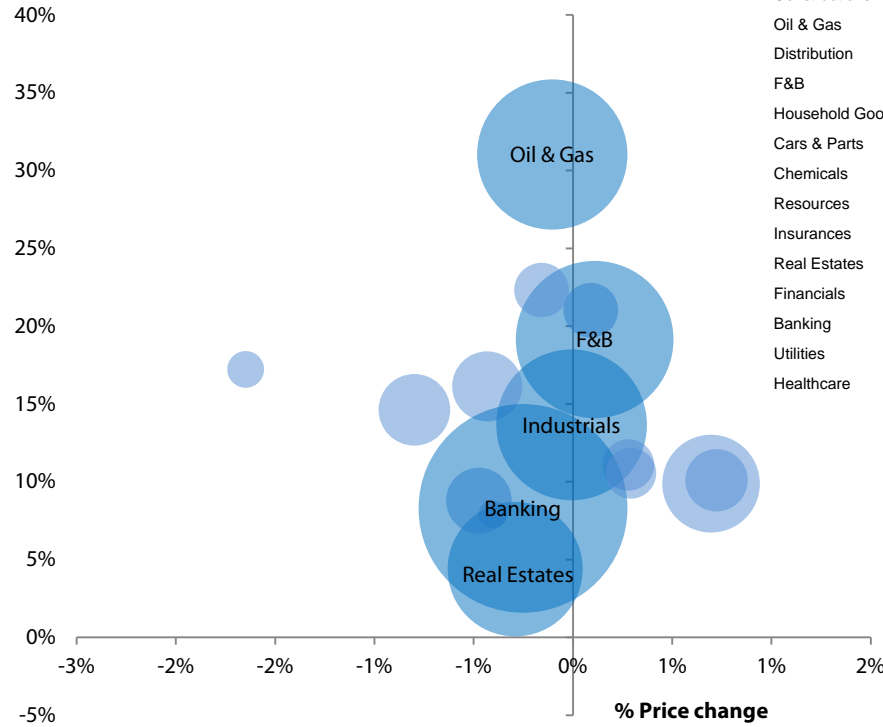
VN30 -0.30% 575.94

HNXINDEX -0.45% 81.96

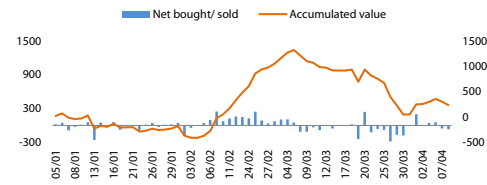


Industry Movement

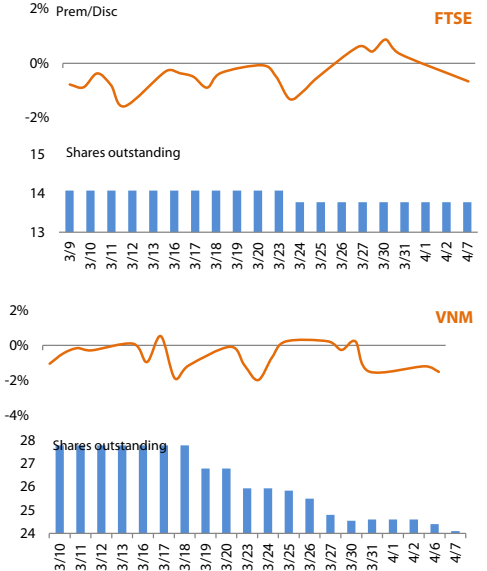
Industry ROE



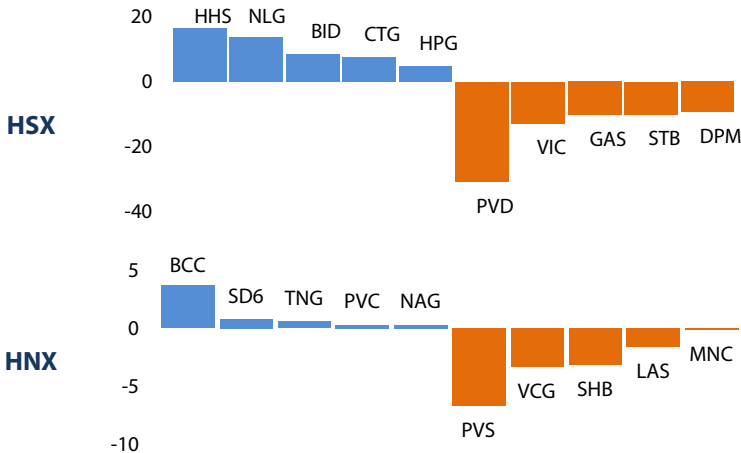
Foreign Investors Trading



ETF



Top net bought/sold by foreigners (VND bn)



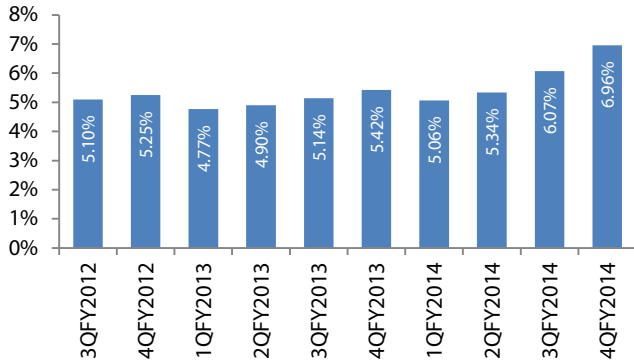
Top Active

Ticker	Price	Volume	% price change
FLC	10.5	7.38	-1.9%
HAI	11.4	6.66	2.7%
CII	20.0	4.42	3.6%
CTG	17.3	3.14	0.0%
JVC	21.6	2.28	3.8%

Ticker	Price	Volume	% price change
FIT	16.5	4.04	-2.4%
KLF	8.9	2.74	-2.2%
PXA	4.2	2.21	7.7%
CEO	12.9	1.76	1.6%
SHB	8.4	1.21	-1.2%

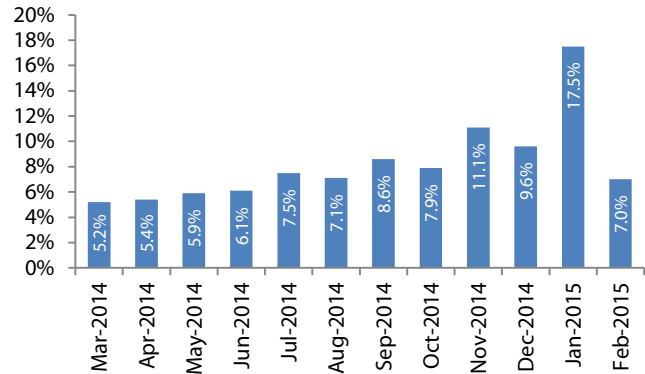
MACRO WATCH

Graph 1: GDP Growth



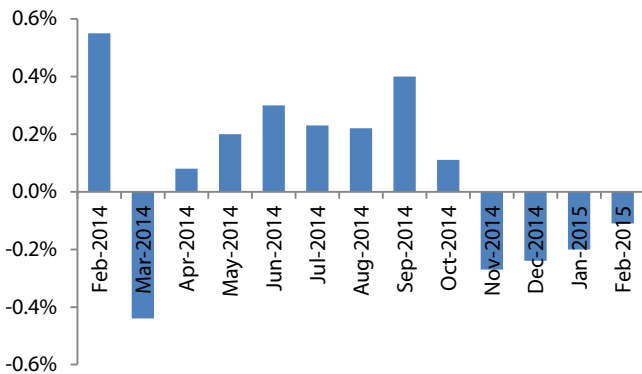
Sources: GSO. Rongviet Securities database
(* Comparison price in 1994)

Graph 2: IIP



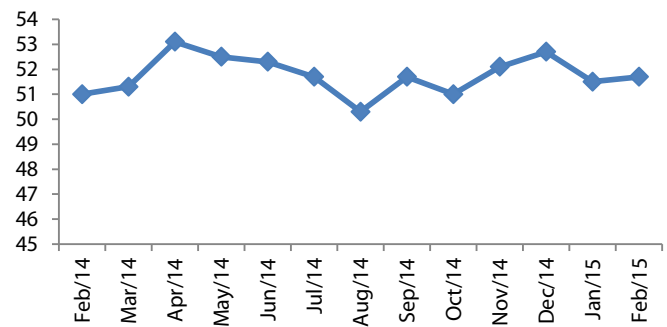
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



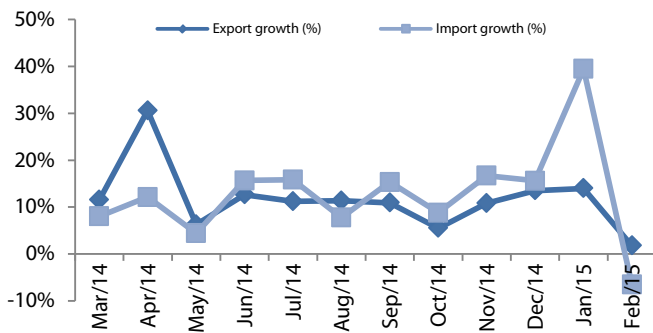
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



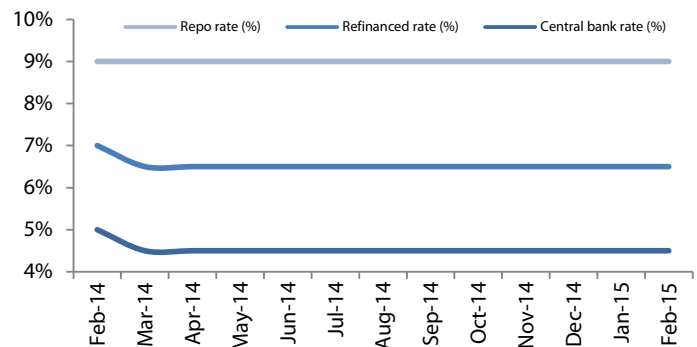
Sources: GSO. Rongviet Securities database

Graph 5: Trade Growth



Sources: GSO. Rongviet Securities database

Graph 6: Interest



Sources: SBV. Rongviet Securities database

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
PAC- Opportunities along with challenges	Jan 14 th , 2015	Accumulate – Intermediate term	27,500
HMH - Positive outlook from various supporting factors	Jan 06 th , 2015	Accumulate – Long term	33,800
DPM - Tail wind from crude oil	Dec 26 th , 2014	Buy – Intermediate term	36,100
VNM - 2014 - At the pit stop	Dec 19 th , 2014	Accumulate – Long term	110,000
PCT – Restructuring	Dec 11 th , 2014	Monitor	

Please find more information at <http://vdsc.com.vn/tabid/149/language/vi-VN/default.aspx>

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	31/03/2015	0%-0.75%	0%-2.5%	11,757	11,728	0.25%
VEOF	31/03/2015	0%-0.75%	0%-2.5%	9,357	9,667	-3.21%
VF1	03/04/2015	0.2% - 1%	0.5%-1.5%	20,683	20,433	1.23%
VF4	01/04/2015	0.2% - 1%	0%-1.5%	8,989	9,187	-2.15%
VFA	03/04/2015	0.2% - 1%	0%-1.5%	7,087	7,197	-1.54%
VFB	03/04/2015	0.3% - 0.6%	0%-1%	12,152	12,205	-0.43%
ENF	27/03/2015	0% - 3%	0%	10,764	10,851	-0.80%
MBVF	26/03/2015	1%	0%-1%	11,028	11,093	-0.59%
MBBF	25/03/2015	0%-0.5%	0%-1%	12,062	12,040	0.18%

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