

Construction Materials Sector: FY2024 Update

Steel firms ended 2024 with stronger profits, while cement and tile firms struggled amid subdued demand

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In the construction materials sector, steel firms reported strong profit growth in 2024, while cement and tile firms delivered mixed operating results. Looking ahead, we expect profits for the steel segment to strengthen in 2025, as recent issuances of anti-dumping tariffs will support domestic firms. Cement and tile firms' profits will improve from the pick-up in the construction of new infrastructure and residential projects.

Strong demand and lower input costs underpinned robust profit growth for steel firms

In 2024, the construction materials sector – including the top 30 steel, cement and tile firms by revenue – recorded strong growth in revenue (13% year-over-year (YoY)) and net income (111% YoY). Steel firms led the sector's profit rebound, posting a 14% YoY revenue growth and a 123% YoY net income increase. Buoyed by strong infrastructure and industrial construction activities, domestic steel sales rose 9% YoY in 2024, reversing a 9% decline a year ago. The average gross margin of steel firms improved to 9.1% (2023: 7.5%), driven by price declines for key inputs, including coking coal (-18.7% YoY), iron ore (-8.7% YoY), and hot rolled coil (-10% YoY). Looking ahead, we expect the steel firms' profits will improve further in 2025, from strong construction demand and recent issuances of anti-dumping tariffs to protect domestic firms.

Cement firms continued to incur operating losses from weak sales and excess capacity

Operating losses for cement firms contracted to VND 65 billion in 2024, from VND 200 billion a year ago. Although revenue grew 3% YoY, gross margins narrowed to 8.7% (2022-2023 average: 10.4%) and selling expenses increased by 4% YoY. Subdued demand and sales in both domestic and export markets led to many firms cutting selling prices and operating at below optimal capacity. Cement export sales fell by 14% YoY in 2024, mostly in Bangladesh (-19% YoY) and the Philippines (-11% YoY). In 2025, we expect domestic sales to accelerate from the pick-up in construction activities, and help to mitigate weak sales in key export markets.

The restart of residential project development helped to halt profit declines for tile firms

In 2024, tile sales grew by 15% YoY, supported by a 9% YoY increase in export sales. Our covered tile firms reported steady revenue (0.4% YoY) and net profit (2.5% YoY), stabilizing after double-digit annual declines during the property market downturn in 2022-2023. Vicostone, a subsidiary of Phenikaa (A, stable), reported a slight revenue decline of 1% YoY, while Viglacera, a subsidiary of Gelex (A, stable), increased its tile revenue by 3%. In 2025, we expect the residential property market recovery will drive stronger sales and profits for the tile firms.

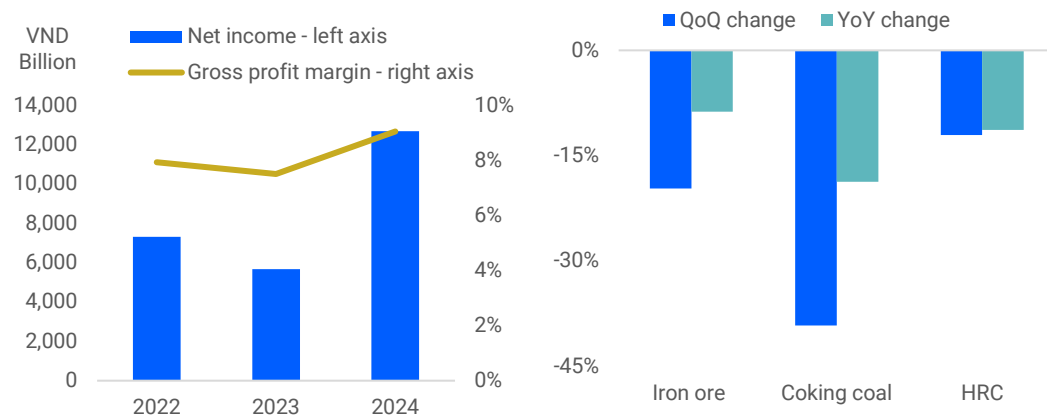
Leverage and coverage remained broadly stable as lower financing costs mitigated deterioration in operating cash flow

Leverage and coverage of our covered firms remained stable in 2024. The sector's total debt rose 21% YoY in 2024, mainly driven by long-term debts to fund new projects, for example, Hoa Phat's Dung Quat 2 steel project. Average annual financing costs declined from 6% to 3.7% over 2024, and average interest payments declined by 26% YoY, attributed to the low-interest environment. As a result, EBIT/Interest expense increased to 4.5x in 2024 from 2.2x in 2024. On the other hand, operating cash flow from operations (CFO) fell by 57% YoY in 2024, mainly due to major steel firms (TVN, HSG, NKG) capitalizing on lower prices in Q4/2024 to increase their stockpile of raw materials. We view this deterioration will reverse in 2025 from stronger sales, partly supported by less competition from steel imports following the implementation of new anti-dumping tariffs.

Steel firms ended 2024 with stronger profits, while cement and tile firms struggled amid subdued demand

Exhibit 1: Strong demand and lower input costs underpinned robust profit growth for steel firms

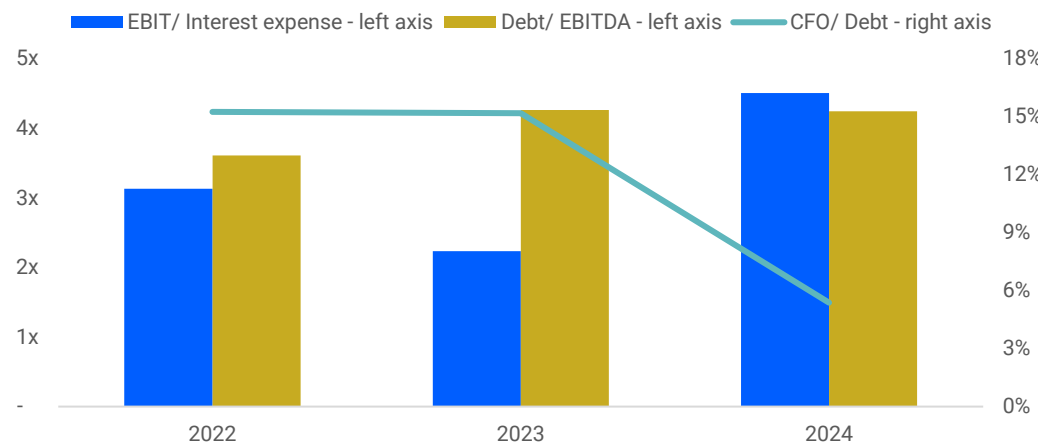
Steel firms' profitability rose significantly in 2024 Steel input prices sank in Q4/2024



Source: Vietnam Steel Association, Company data, VIS Rating

Note: Steel firms in top 30 listed construction material firms in terms of revenue

Exhibit 3: Leverage and coverage remained broadly stable as lower financing costs mitigated deterioration in operating cash flow

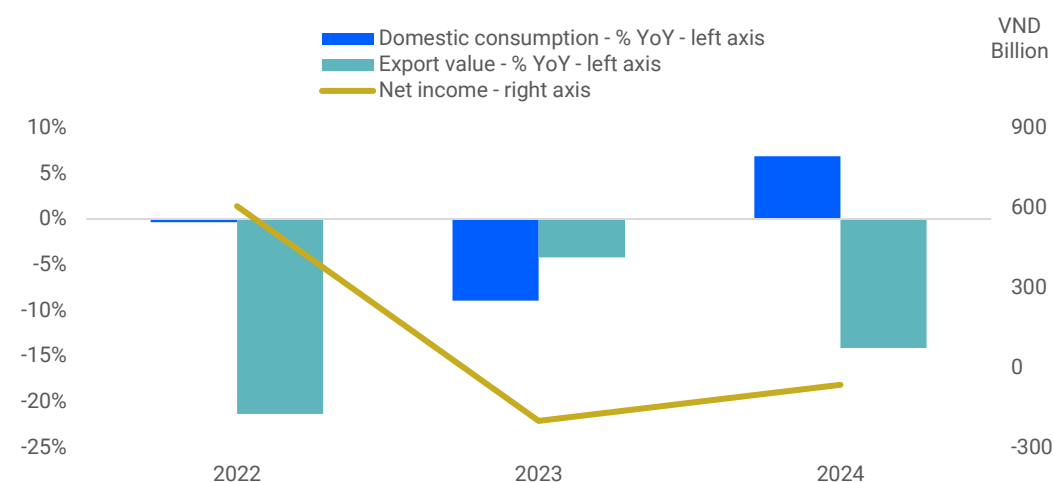


Source: Company data, VIS Rating

Note: Top 30 listed construction material firms in terms of revenue

This publication does not announce a credit rating action

Exhibit 2: Cement firms continued to incur operating losses from weak sales and excess capacity



Source: Vietnam National Cement Association, General Department of Vietnam Customs, Company data, VIS Rating

Note: Cement firms in top 30 listed construction material firms in terms of revenue

Exhibit 4: CFO deteriorated mainly due to steel firms capitalizing on lower prices in Q4/2024 to increase their stockpile of raw materials



Source: Company data, VIS Rating

Note: Steel firms in top 30 listed construction material firms in terms of revenue

APPENDIX

The firms included in our analysis are as follows:

	Short name	Full name	Classification
1	HPG	Hoa Phat Group JSC	Steel
2	HSG	Hoa Sen Group	Steel
3	TVN	Viet Nam Steel Corporation	Steel
4	NKG	Nam Kim Steel JSC	Steel
5	SHI	Son Ha International Corporation	Steel
6	TIS	Thai Nguyen Iron And Steel JSC	Steel
7	SMC	SMC Trading Investment JSC	Steel
8	VGS	Vietnam Germany Steel Pipe JSC	Steel
9	HT1	Vicem Ha Tien Cement JSC	Cement
10	TLH	Tien Len Steel Group JSC	Steel
11	TTS	Thai Trung Rooling JSC	Steel
12	KMT	Central Viet Nam Metal Corporation	Steel
13	VCS	Vicostone JSC	Tile
14	HMC	VNSTEEL - Ho Chi Minh City Metal Corporation	Steel
15	BCC	Bim Son Cement JSC	Cement
16	BTS	Vicem But Son Cement JSC	Cement
17	TNS	Thong Nhat Flat Steel JSC	Steel
18	CBI	Cao Bang Cast Iron And Steel JSC	Steel
19	VIT	Viglacera Tien Son JSC	Tile
20	DTL	Dai Thien Loc Corporation	Steel
21	HOM	Vicem Hoang Mai Cement JSC	Cement
22	QNC	Quang Ninh Construction & Cement JSC	Cement
23	TDS	VNSTEEL - Thu Duc Steel JSC	Steel
24	FIC	Fico Corporation JSC	Cement
25	VCA	VNSTEEL - VICASA JSC	Steel
26	SCJ	Sai Son Cement JSC	Cement
27	VHL	Viglacera Ha Long JSC	Tile
28	CVT	CMC JSC	Tile
29	PAS	Phuong Anh Group JSC	Steel
30	VLB	Bien Hoa Building Materials Production and Construction JSC	Construction stone

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