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Improve the Efficient Capital in Trading Enterprises and Listed Steel Products in Vietnam

[1] **Nguyen Thi Thu Thao,** [2] **Dang Thi My Linh,** [3] **Dang Thi Thuy Giang**
[1, 2, 3] University of Labour and Social Affairs, Hanoi, Vietnam

Corresponding Author: **Nguyen Thi Thu Thao**

Abstract
The Covid outbreak had a negative impact on the economy. Many firms lack the funding necessary to operate and carry out their operations. The economic downturn has an impact on Vietnam's steel industry in general and listed steel manufacturing businesses in particular. Organizing the economical and effective use of capital is therefore a definite necessity. To assess the efficient capital, the paper draws secondary data from the financial statements of listed steel production and trade businesses in Vietnam. The author suggests ways to increase the effectiveness of capital utilization at listed steel manufacturing and trading firms in Vietnam based on the findings of the research.

Keywords: Efficient Capital, Improve Efficient Capital, Listed Steel Production and Trading Enterprises

1. Introduction

Currently, many countries affected by the Covid-19 epidemic are still suffering from economic pressure and reduced demand, leading to a series of large-scale production cuts, even many large factories having to temporarily stop. Stop working. Not out of this context, the domestic steel industry continues to face challenges due to the stagnation of steel-using manufacturing industries such as construction industry, infrastructure. And competitive pressure from increased supply. Domestic and some neighboring countries. Rising input costs, low sales volume, large inventory, plus pressure from loan interest rates and rising exchange rate differences... are challenges besetting the Vietnamese steel industry. Therefore, steel industry enterprises in general and listed steel production and trading enterprises in Vietnam need to improve the efficient capital.

An enterprise's capital efficiency is reflected in its ability to create production value, revenue and capital profitability. For sustainable development, businesses constantly improve the efficiency of capital use. To do that, businesses need to evaluate the level and capacity of management and use of capital in the business, and see the causes and factors affecting the efficiency of capital use. On that basis, make appropriate decisions.

2. Theoretical Underpinnings for Examining Listed Companies' Capital Efficiency

Efficient Capital

Businesses always have a specific aim for whatever activity they engage in and work to attain it. Capital is the primary resource in manufacturing and business that aids organizations in achieving their outlined objectives. Good management and capital use indicate that the business spends the least amount of money to accomplish its objectives. Any company is interested in capital that is used effectively. It is essential to the survival and growth of every organization.

The efficient capital of an enterprise is the correlation between the results achieved according to the defined goals in a certain period with the amount of capital spent to achieve that result. The higher the results achieved according to the target with the lower the cost, the higher the efficiency of the enterprise will be in using capital, and vice versa, the results achieved are lower than the set target but consuming a large amount of costs. Enterprises are considered to have low capital efficiency. Thus, the efficient capital reflects the level of management and use of business capital of an enterprise in maximizing benefits, minimizing business capital expenditure and its use time according to the conditions of capital investment. Identified resources consistent with business goals.

Analyze the Efficient Capital

Analyze the efficient capital means through factors and criteria to evaluate the efficiency of capital use of an enterprise to draw conclusions about whether the efficiency of capital use of the enterprise is high or low, and whether it meets the target. Whether the business objectives have been set or not. Use analytical methods such as statistics, compare with previous periods to see what the difference is and whether the change is in a good or bad direction. At the same time, analyze the causes and factors that affect the efficient capital of the enterprise. Finally, provide comments and solutions to overcome weaknesses and directions to consolidate and promote achievements to increase the efficient capital to help businesses develop more sustainably.

You must appropriately construct an adequate indicator analysis system in order to assess the efficient capital utilization. This indicator system consists of broad indicators and specific indicators that indicate various ways in which company results might be expressed. In addition, this indicator system indicates both total and incremental quantities of the efficient capital each factor, kind of asset, and type of capital. Since there are numerous efficient methods to use a company's capital, there are also numerous indications that may be used to measure how effectively capital is being used. In this work, Isil Erem Ceylan (2020) [4], Bach Thi Thanh Ha, Bach Thi Thu Huong (2018) [1], and Nguyen Trong Kien (2020) [7] employed several common criteria in joint stock firms that the author obtained:

1. Return on Asset (ROA)

ROA for public companies can vary substantially and are highly dependent on the industry in which they function so the ROA for a tech company won't necessarily correspond to that of a food and beverage company. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or a similar company's ROA.

The ROA figure gives investors an idea of how effective the company is in converting the money it invests into net income. The higher the ROA number, the better, because the company is able to earn more money with a smaller investment. Put simply, a higher ROA means more asset efficiency.

ROA is calculated by dividing a company’s net income by its total assets. As a formula, it's expressed as:

$$ROA = \frac{\text{Net income}}{\text{Total Asset}}$$

This indicator can carry out the process of managing and using the enterprise's assets, and it shows the effectiveness of asset usage in listed firms.

Equity and borrowed money make up a company's assets. The company's operations are financed using both of these kinds of financing. ROA is a measure of how well an investment's capital is turned into profit. Because the corporation is producing more money on less investment, the greater the ROA, the better.

Investors should also be aware of the interest rate on debt that the company is required to pay. It's not a good sign if a company doesn't make more money than it spends on investing operations. In contrast, if ROA is higher than the cost of borrowing, the corporation is effectively utilizing financial leverage.

2. Return on Equity (ROE)

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company’s assets minus its debt, ROE is considered the return on net assets.

ROE is considered a gauge of a corporation's profitability and how efficient it is in generating profits. The higher the ROE, the more efficient a company’s management is at generating income and growth from its equity financing.

$$ROE = \frac{\text{Net income}}{\text{Average Shareholders' Equity}}$$

An essential factor to consider when evaluating a company's stock investment potential is its ROE ratio because a higher ROE ratio signals a restriction on running a business that successfully uses shareholder capital.

3. Price to Earning Ratio (P/E)

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

P/E ratios are used by investors and analysts to determine the relative value of a company's shares in an apples-to-apples comparison to others in the same sector. It can also be used to compare a company against its own historical record or to compare aggregate markets against one another or over time.

$$P/E = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

A lower market value for a company's shares or a larger return on a share of stock are both indicators of a low P/E ratio.

3. Listed Vietnamese Steel Manufacturing and Trade Businesses' Current Efficient Capital

Introduction of Vietnam's Steel manufacturing Companies

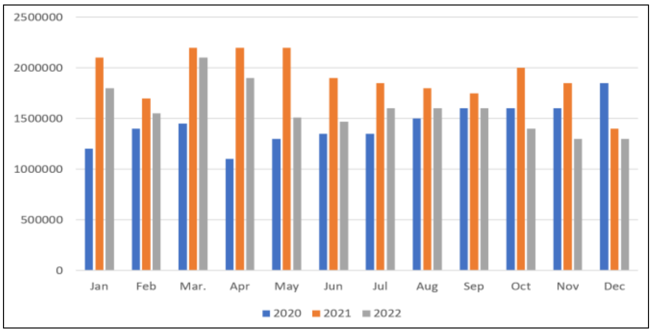
According to the listing floor, there are 7 companies listed on the Thanh Hoa Stock Exchange out of the 13-steel production and commercial enterprises functioning on the Vietnam stock market as of 2022. Hanoi Stock Exchange (HNX) and six firms in Ho Chi Minh City (HOSE).

Table 1: A list of Vietnam's publicly traded steel manufacturing companies

S. No	Stock code	Stock exchange	Company
1	DTL	HOSE	Dai Thien Loc Coporation
2	HPG	HOSE	Hoa Phat Group
3	HSG	HOSE	Hoa Sen Group
4	ITQ	HNX	Thien Quang Group JSC
5	KVC	HNX	Kim Vi Inox Import Export Prodution Joint Stock Company
6	MEL	HNX	*Me* Lin Steel Joint Stock Company
7	MHL	HNX	Minh Huu Lien JSC
8	NKG	HOSE	Nam Kim Steel Joint Stock Company
9	POM	HOSE	POMINA Steel Corporation
10	SHI	HOSE	Son Ha International Corporation
11	SSM	HNX	Steel Structure Manufacture JSC
12	VGS	HNX	Vietnam Germany Steel Pipe JSC
13	VIS	HOSE	Vietnam – Italy Steel Joint Stock Company

Source: Transaction data of listed steel sector businesses was compiled

Production generally fell by 20% from the same time in 2022 to 9 million tons in the first six months of 2023. 9 million tons were consumed, which is a reduction of 17% from the same period in 2022. 940,000 tons of crude steel were exported, a 31% increase from the same period in 2022. Production of construction steel totaled 5 million tons, a 25.5% decrease over the same time in 2022. Sales in 2022 totaled 5.1 million tons, a decrease of 22.7% from the same time in 2017.



Source: VSA

Fig 1: Crude steel production situation in 2020, 2021, 2022

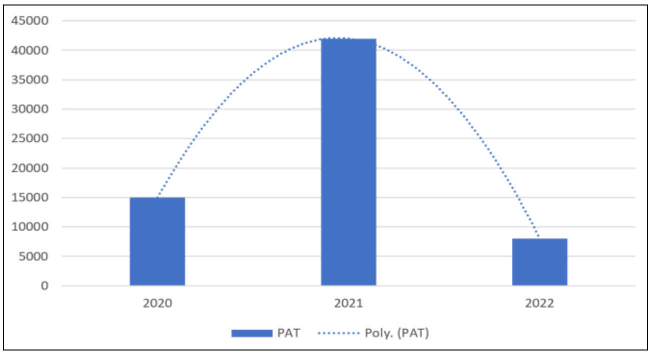
The small financial capability of the enterprises themselves is the cause of the decline in company scale. Due to the restricted investment capital of the owners, the majority of enterprises must raise capital through debt, which results in a constant high debt ratio. Small business scale is another barrier that prevents listed steel manufacturing businesses in Vietnam from making synchronized and contemporary investments to satisfy the demands of the sector. This is an issue that makes it difficult for domestic steel companies to compete internationally and do well economically.

The total capital of listed steel industry enterprises in Vietnam increased continuously in the period 2020 - 2022, accompanied by an increase in both liabilities and equity. The total capital of listed steel enterprises at the end of 2020 was 131,895,818 million VND, by the end of 2022 it had reached 188,378,172 million VND, with an average growth rate of 20% per year. However, the increase in capital size mainly comes from liabilities.

There will be 8 out of 13 listed steel firms with equity of more than 1,000 billion VND by the end of 2021. Additionally, the equity size and business size of the organization are relatively similar. Particularly, companies with high levels of business capital frequently have high levels of equity capital. Hoa Phat, Hoa Sen, and Pomina are often the companies in the steel industry with the largest business capital size.

Effective Capital Management for Vietnam's Publicly Traded Steel Production and Trading Companies

Corporate profits may increase starting in 2022, but risks are still quite high. In 2023, more consistent prices for steel and raw materials might aid in stabilizing steel businesses' earnings. However, weak demand may result in utilization rates as low as 60% to 75% (as opposed to over 80% in 2022 and more than 90% in 2021), which will put pressure on revenue, cash flow, and the company's profit margin in the following year.



Source: VSA

Fig 2: Listed steel companies' total earnings after taxes

Return on Asset (ROA)

Profitability of business capital of listed steel companies tends to decrease in the period of 2020-2022. In 2020, the industry average ROA will reach 9.35%, down to 5.43% in 2022. In which, ROA of long steel enterprises is still higher than flat steel enterprises.

Table 2: Profitability of business capital (ROA) of listed steel manufacturing and trading enterprises by operating segment

Indicators	Year of 2020	Year of 2021	Year of 2022
Long steel Enterprise	10,36	11,19	6,78
Flat steel Enterprise	5,67	0,86	1,65

Source: Author calculated from financial statements for 2020 to 2022

There are differences in working capital's net profitability. Hoa Phat, while having the largest total assets in the steel sector, has advantages in scale and manufacturing technologies that have helped cut production costs, dominating the market. As a result, its profitability ratio is still very high and stable over time. Hoa Phat hence continues to maintain a good ROA ratio regardless of the positive or negative changes in the steel business. Due to higher investment capital requirements, the high production costs of the EAF furnace technology, the low profitability of business capital, and even the negative net return on assets of these two companies in 2020, the remaining long steel production and trading enterprises (Pomina and Vietnam-Italy), have low profitability.

In 2020, the profitability of business capital improved in addition to the net profitability of several companies, including Hoa Sen (9%), Viet Duc (6%), and others, in the overall context of the entire industry. Even Kim Vi's profitability is still negative, and the profits of many companies are still declining or hardly rising.

Return on Equity (ROE)

The equity profitability of steel businesses generally tends to decline between 2020 and 2022 before experiencing a significant turnaround in 2020. In 2020, the ROE of publicly traded steel businesses will be on average 30%; by 2022, it will only be 12.56%. The ROE of long steel and flat steel businesses in the steel sector vary greatly from one another. The ROE of businesses varies significantly, even within the same industry. Despite having a net profit margin of only 1% on average, flat steel firms have fairly high ROE due to significant leverage, averaging 4 times, and short-term capital turnover speed, at 2.5 rounds. The key sources of return on equity for flat steel businesses are short-term capital management and capital mobilization strategies.

Price to Earning Ratio (P/E)

According to FiinGroup, the three-year P/E for 2020 to 2022 is 12.5, HPG's P/E is 1.29 times lower, and HSG's is 2.65 times lower than the average for the steel industry. VNIndex's average is 16.93 times lower, at 3.95 times less. HPG and HSG are 3.2–5.7 times less expensive than the top 8 stocks in potential industries. In contrast to its own 3-year average P/E of 8 and 9.46 times, respectively, HPG's P/E as of January 28, 2022, was 5.47 times higher than HSG's, which was only 3.42 times higher. It is 1.76 times less and 46.2% lower.t.

Table 3: P/E ratios of listed steel companies

Stock Exchange	2020	2021	2022
DTL	9,72	8,91	9,89
HPG	6,65	7,7	9,52
HSG	5,89	8,92	8,37
ITQ	10,02	9,92	9.97
KVC	9,82	9,36	8,79
MEL	15,45	17,37	19,32
MHL	19,23	17,56	10,72
NKG	7,79	8,23	8,97
POM	34,89	19,45	23,36
SHI	19,28	8,62	7,68
SSM	4,76	3,89	2,87
VGS	5,77	6,02	8,79
VIS	32,15	(8,94)	6,12

Source: Author calculated from financial statements for 2020 to 2022

Assessing the Current Situation of Efficient Capital at Listed Steel Manufacturing and Trading Enterprises in Vietnam

Achievements

+ In general, the size of listed steel sector firms tends to increase at a pretty quick average growth rate (in the 2020–2021 and 2021–2022 periods, it will increase by around 40% and 17%, respectively). Businesses like Hoa Phat (131,511 billion VND), Hoa Sen (17,351 billion VND), and Pomina (11,174 billion VND) have extremely substantial assets.

+ In recent years, some steel companies, like Hoa Phat, Hoa Sen, and Nam Kim, have focused more on investments in and upgrading of production technologies to increase production capacity. As a result, starting at the end of 2020, there will be more long-term assets than short-term assets. Long-term assets made up 53.45% of all assets by the end of 2022.

+ During the research period, the average profitability indicators were always positive. The majority of listed steel enterprises always maintain effective business operations, with profitability indicators always greater than 0, such as Hoa Phat, Hoa Sen, Nam Kim, Thien Quang, and Viet Duc.

Limit

Businesses' business capital and equity profitability is low and would likely decline between 2020 and 2022. Ability to increase financial resources through economic activity by accumulating earnings because business activities have been challenging in recent years and many businesses have incurred significant losses, there hasn't been much activity. As a result, loan capital typically plays a significant role in the capital structure of listed steel firms. Relying excessively on loan money is unavoidably bad for businesses in the context of loan interest rates remaining unstable and steadily rising in the years 2020–2022, especially 2022. Due to their small size and instability, firms find it challenging to acquire sources of long-term, secure finance, such as through issuing bonds to raise cash.

4. Conclusions and Recommendations

Thus, it is clear that the operating results of listed steel firms from 2020 to 2022 have been significantly impacted by the Covid_19 outbreak and changes in steel prices on the global market. This has an impact on how well enterprises utilise their capital in the steel industry.

The decline in profitability of listed steel enterprises in Vietnam is mainly due to fierce competition when supply exceeds demand. The real estate market, after a period of warming, has fallen back into a gloomy situation. The control mechanism of management agencies for steel projects is not really effective, leading to the development of businesses that disrupt industry development plans and imbalance in the structure of steel products. In a short period of time, businesses massively invested in production, leading to excess production, profit margins in businesses decreased, and many businesses even lost money.

Therefore, improving the efficient capital is a vital condition for businesses to develop strongly. If you want to improve the efficient capital of an enterprise, managers must: Exploit and use resources thoroughly, not leaving capital idle; improve the capacity of financial managers; Use capital reasonably, economically and effectively; Strictly manage capital for the right purpose, avoiding loss; Calculate the use of capital sources to put into production and business.

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