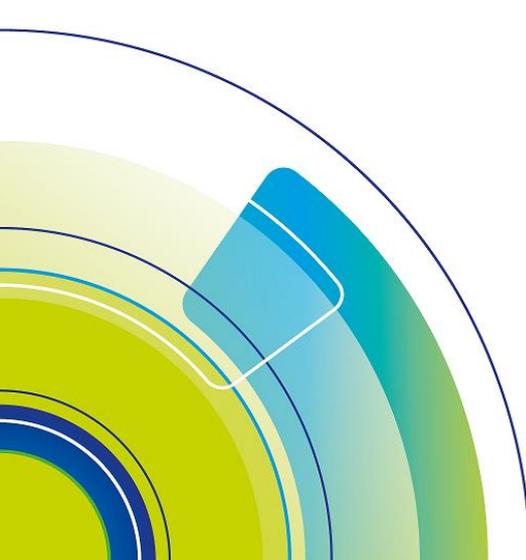




DGC **Initiation** - NEUTRAL

December 12, 2023



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Initiation Report

Recommendation **NEUTRAL**
HSX: DGC
Chemicals

Target price (VND) **100,986**
Market price (VND) **97,000**
 Expected share price return 4.1%
 Expected dividend yield 2.9%
Expected total return **7.0%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	68.9	5.2	7.6	64.0
Relative	55.1	2.9	15.2	55.1

Source: Bloomberg



Ownership

Dao Huu Huyen	18.38%
Ngo Thi Ngoc Lan	6.64%
Dragon Capital	6.07%

Stock Statistics

12-Dec-23

Bloomberg code	DGC VN
52-week range (VND)	48,600 - 101,000
Shares O/S (m)	380
Mkt cap (VND bn)	37,104
Mkt cap (USD m)	1,566
Est. Foreign room left (%)	29.9
Est. free float (%)	58.9
3m avg daily vol (shrs)	3,160,200
VND/USD	24,200
Index: VNIndex / HNX	1127.70/231.71

DUC GIANG CHEMICALS GROUP JSC (DGC VN)

Initiate with an NEUTRAL rating, target price of VND 100,986 given solid business performance.

DGC is a company that operates in the chemical sector. The company engages in manufacturing phosphorus products including yellow phosphorus, phosphoric acids, fertilizers, feed additives, etc.

Is leading in the phosphorus subsector: Currently, the company is the biggest yellow phosphorus manufacturer in Vietnam in term of capacity. In addition, the company is able to produce high quality products that meet standards countries manufacturing high-tech products (e.g. Japan, Korea).

Maintaining a healthy balance sheet and ready for expansion: the company has been maintaining a net cash position in recent years. Thanks to 2022 results its net cash increased by almost threefold compared to 2021. This enables the company to execute its M&A plans and further solidify its leading position.

Eyeing on expanding to other businesses: Not only expanding within the phosphorus sector but the company has huge plans for expansion in other business lines such as (i) NaOH Nghi Son business project and (ii) the Tay Nguyen Bauxite project. These projects will be key growth drivers for DGC in long-term period.

For 2023, we expect DGC to achieve a total revenue of VND10,216 bn (-29% YoY) and a NPAT of VND 3,236 bn (-46% YoY), 8% below its planned revenue but 8% above its planned NPAT as P4 selling price recovered better than the company expected but demand did not.

However, things will be better for the company as commodity prices is slightly increasing. We expect DGC revenue to reach VND 11,556 bn (+23% YoY) and Net profit of VND 3,681 bn (+23% YoY).

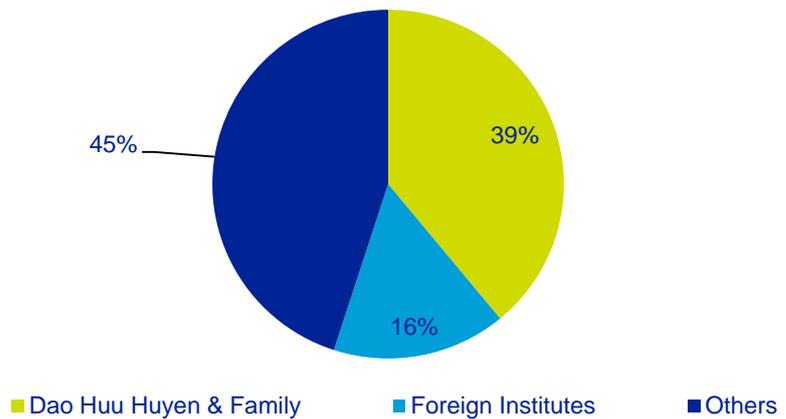
Using a combination of DCF and P/E as our valuation method, our one-year target price for the stock is 100,986/share equivalent to an expected return of 5% (including dividend yield). Thus, we initiated with an **NEUTRAL** recommendation.

	2020	2021	2022	2023F	2024F
Net Sales (VNDbn)	6,236	9,550	14,444	10,216	11,556
Growth	23%	53%	51%	-29%	13%
EBITDA (VNDbn)	1,254	2,821	6,283	3,090	3,861
Growth	48%	125%	123%	-51%	25%
PAT (VNDbn)	948	2,514	6,037	3,217	4,006
Growth	66%	165%	140%	-47%	25%
EPS (bonus-adjusted, VND)	5,733	6,047	13,774	7,809	9,723
Growth	35%	5%	128%	-43%	25%
ROE	23%	40%	56%	25%	26%
ROIC	18%	35%	53%	23%	23%
Net debt/EBITDA (times)	(0.6)	(1.0)	(1.4)	(3.6)	(3.5)
EV/EBITDA (times)	21	9	4	8	7
PER (times)	17	16	7	12	10
PBR (times)	4	4	3	3	3
DPS (VND)	500	1000	3000	3000	3000
Dividend yield	1%	1%	3%	3%	3%

Company Overview

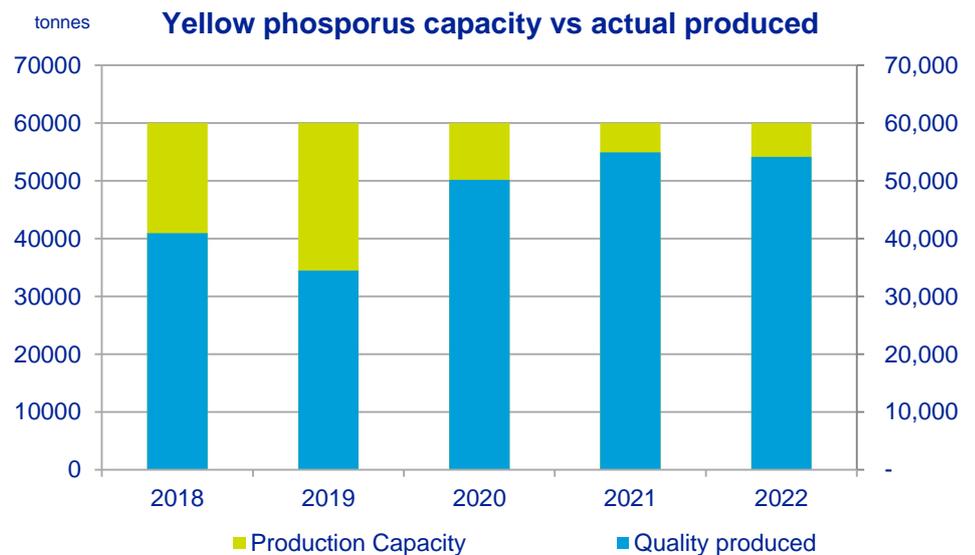
Duc Giang Chemical, founded in 1963 as a SOE, was privatized, and later became a JSC in 2004. The company listed on HNX in 2014 and later moved to HSX in 2020. Currently, biggest shareholder of DGC is Mr. Dao Huu Huyen (Chairman) and his family, owning approximately 40% of DGC.

Ownership Structure



Source: ACBS summarised

The company engages in manufacturing phosphorus products including yellow phosphorus, phosphoric acids, fertilizers, feed additives, etc. Currently, the company is the biggest P4 manufacturer in Vietnam in term of capacity with a total capacity of 60,000 tons/year in 2022 with a three-year-average utilization rate of approximately 90%. This was further increased by 18% after the merger in Q3 2023 of Photpho 6 JSC into DGC, reaching a total designed capacity of approximately 80,000 tons/year.

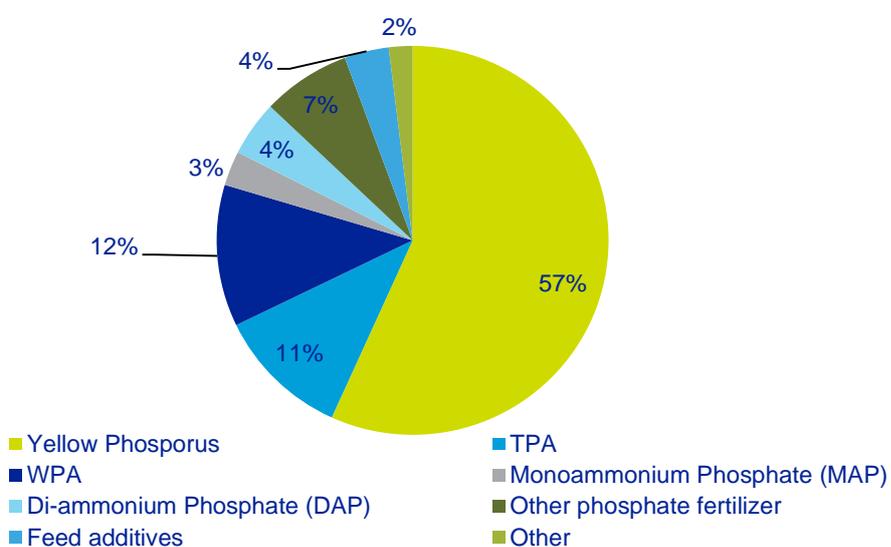


Source: ACBS summarised and estimated

The product, P4, is currently used in many industries, including of semiconductor production, electronic equipment, fertilizer, agricultural products, food, etc. In 2022, Yellow phosphorus accounted for approximately 57% of total revenue.

For phosphoric acid, the company's products include thermal process phosphoric acid (TPA), wet process phosphoric acid (WPA). TPA is made from P4 and used in food production process and semiconductor industries. WPA is made from apatite ores and used in fertilizers, phosphates, and feed additives. DGC is focusing more on TPA which has higher value, with estimated sales volumes increasing with a CAGR of 13% for the 2018-2022 period while WPA reported a CAGR of -13% in the same period.

2022 Revenue breakdown

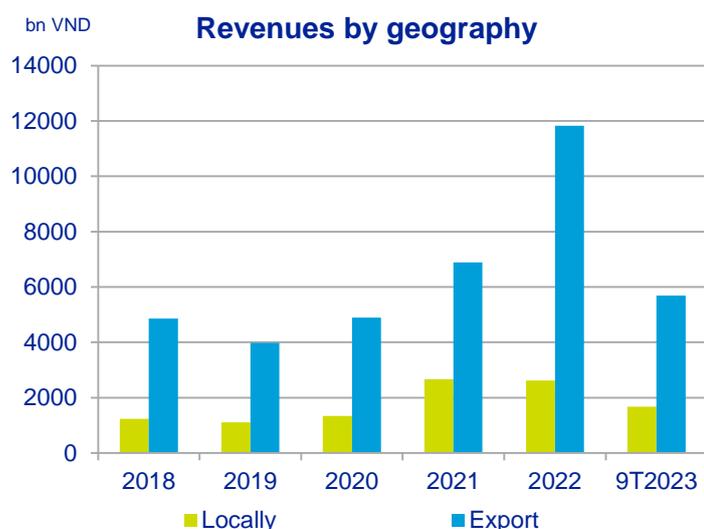


Segmented revenues for the 2018-2022 period

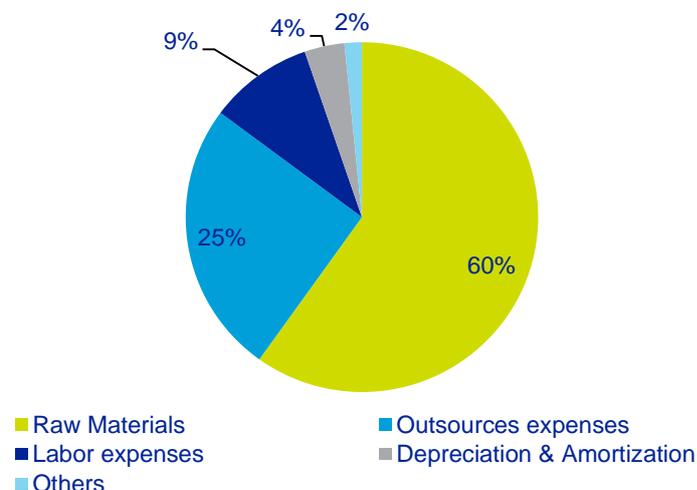
Products (Unit: bil VND)	2018	2019	2020	2021	2022
P4	2,499	2,147	2,939	3,725	8,200
TPA	523	522	625	1,719	1,596
WPA	1,485	949	893	1,051	1,702
Fertilizers	930	820	1,022	2,006	2,133
Feeds additive	437	436	478	478	530
Others	217	217	277	573	277

Source: ACBS summarised and estimated

82% of the company's total revenue is from export activities. Top exporting markets are India, Korea, Japan, EU, and US. India mostly imported agriculture-related-products while Korea, Japan and Taiwan imported products used in semiconductor manufacturing process. All export contracts are signed in USD thus the risk of VND depreciation for DGC doesn't exist. Besides, the company also has a short-term USD loan to partly offset the currency risk.



2022 Manufacturing costs breakdown



Source: ACBS summarised

Leader in the market

Phosphorus market in Vietnam has a high barrier to entry as the industry is a highly polluted one. Lao Cai province, biggest deposit in Vietnam and in the south-east-asia, also where DGC's factories and mining fields located in, has limiting issuing permission for new phosphorus mining fields.

With regards to existing companies in the market, DGC is the one boasting highest production capacity – total capacity of wholly owned Duc Giang Lao Cai Chemical Ltd (40,000 ton/ year), and partially owned subsidiary Apatit Photpho Vietnam Ltd (20,000 ton/ year). While other companies have their capacity at below 20,000 ton/ year, DGC was able to expand their influence through merger and acquisition. Currently, the company has a designed yearly capacity of 69,800 tonnes P4, much higher than the 2nd leading company.

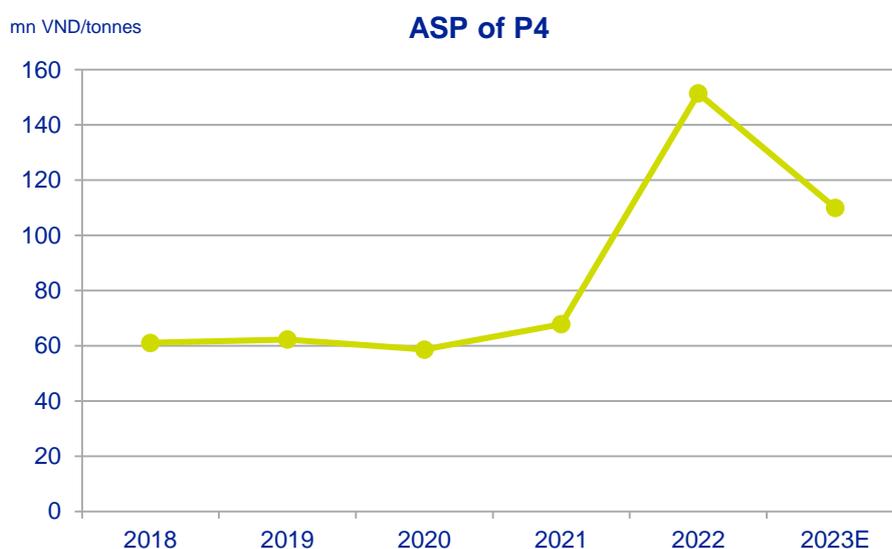
Company	Designed capacity (tonnes/ year) by 2023
Duc Giang Chemical JSC	69,800
Phot Pho Vang Vietnam Co., Ltd	19,800
Dong Nam A Lao Cai JSC	18,000
Nam Tien Lao Cai JSC	9,800
Phot Pho Vietnam JSC	6,000

Source: ACBS summarised

In addition, thanks to its position being a private company, the company is more efficient in investing in R&D and in its people. As a result, the company could(i) produce high quality products that meet the standards for exporting to Japan and Korea and (lowering its production cost).

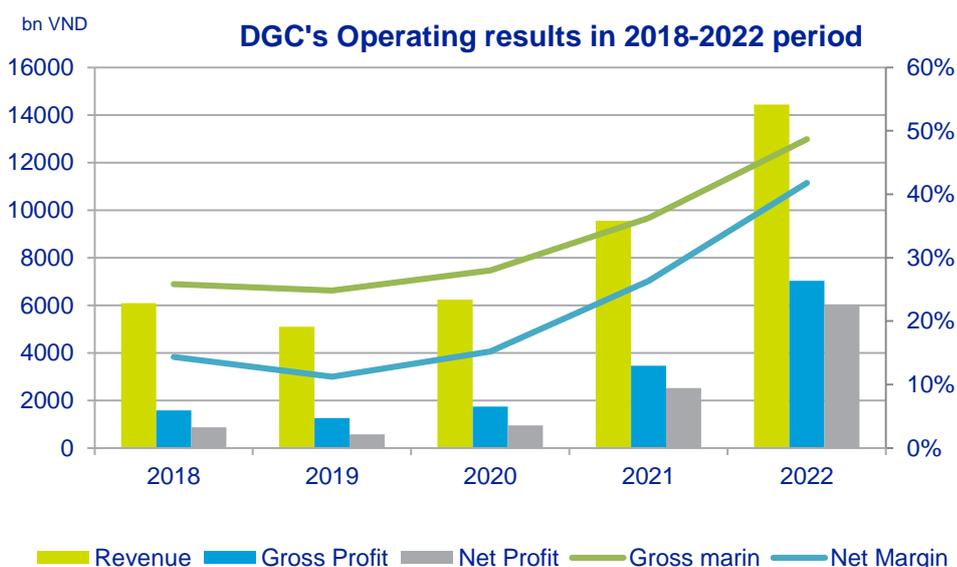
Solid performance during Covid-19 period thanks to overheated commodity market

A key factor to DGC's performances is the price of yellow phosphorus which is indirectly affected by the commodity market. During the Covid-19 period (2020-2021), global market supply chain was disrupted as production and transportation of raw materials and chemicals were affected by lockdowns, especially in China market. More specifically, because of lockdowns demand was falling. Thus, this led to a decline in commodity prices early 2020. However, as lockdowns were eased, demand rapidly recovered while supply chain still stagnated causing a surge in commodity prices in 2021.



Source: ACBS collected and estimated

Thanks to a strong commodity market, the company also enjoyed a strong hike in average selling price ("ASP") which in turn led to huge jump in both top line and bottom line in the aforementioned period. Per our estimation, ASP of P4 increased by 16% YoY and 123% YoY in 2021 and 2022 respectively. In turn, this led to an increase of 51% YoY and 53% YoY in top line, and 42% YoY and 26% YoY in 2022 and 2021 respectively.



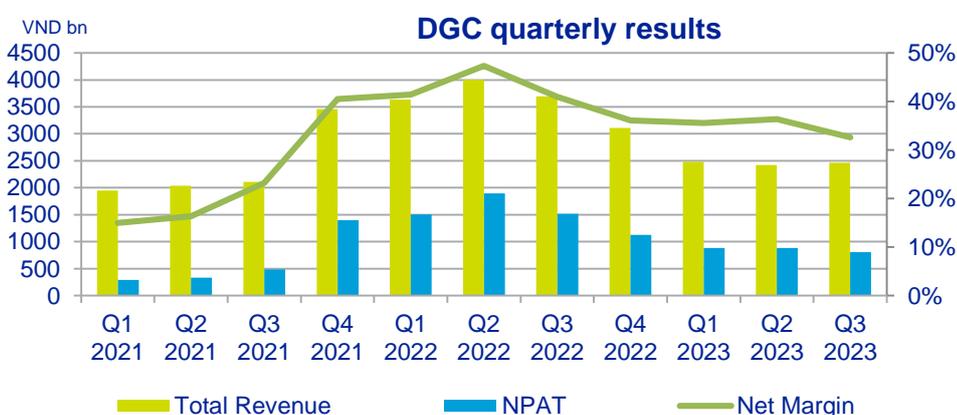
Source: ACBS summarised

Benefiting from 2022's profits, DGC gained a huge amount of cash in this period. Its net cash increased from VND 691 bn in 2020 to VND2,914 in 2021 and skyrocketed to VND8,539 bn by end of 2022. With the abundant amount of cash, DGC bought apatite mines in 2021 & 2022 and another yellow phosphorus company in 2023.

2023 – Back to normal business phase

Coming to 2023, ASP felt as global commodity prices retreated from their peaks due to worsening macro condition. DGC's performance was also negatively impacted. In 9M2023, the company reported a total revenue of VND7,360 bn (-36% YoY) and a net profit of VND2,389 bn (-47% YoY); however, still achieving 66% and 79% of the company planned revenue and NPAT respectively. Gross margin reduced to 36% compared to 49% in 2022.

On the bright side, thanks to the huge amount of cash achieved from the impressive 2022 earnings results and high interest rate during 1H2023, net financial income for 9M2023 increased by 85% YoY, reaching VND482 bn, accounting for approximately 20% of the net profit.



Source: ACBS summarised

Although commodity prices have retreated from its peak in 2022, they remained at a higher level compared to the pre-Covid 19 period. ASP for P4 of DGC were at around VND 60 mil/ton in 2018–2020 period on average and increased by 10% in 2021 when the price hike began in 4Q2021. The peak of P4 was approximately VND170 mil/ton in Q4 2021 but remained more stable around VND150mil/ton in 2022. The average P4 selling price in 2023 is above VND100mil/ton and we expect it will stay steadily around this price level for the coming period as global commodities prices are stabilizing in most sectors which proved that demand and supply is nearing its equilibrium.

Given all above assumptions, for 2023, we expect DGC to achieve a total revenue of VND10,216 bn (-29% YoY) and a NPAT of VND 3,236 bn (-46% YoY), 8% below its planned revenue but 8% above its planned NPAT as P4 selling price recovered better than the company expected but demand did not.

Back to growth in 2024

We expect DGC will have improved performances for 2024 compared to 2023 due to:

- (i) For P4 market, demand is slowly recovering after being affected by the Covid-19 thanks to a boost in Electrical Vehicles (EVs) production sector while supply is being disrupted in China due to bad weather conditions. Therefore, we believe that prices will increase slightly in 2024. As P4 is upstream products, its price increase will lead to the price increase of downstream products such as TPA and WPA. In short, this will lead to a relative increase in the ASP of DGC's entire product basket.
- (ii) In addition, as mentioned above, the company has been purchasing apatite mining fields, expand its annual capacity from 0.6mil tonnes to 1.6mil tonnes of raw apatite ores in 2023. Owning mines helps DGC to lower its input cost by approximately 30% for apatite ores (accounts for approximately 25% of COGS) in comparison to purchases materials from independent sources.

However, electrical price increased by nearly 5% in 4Q2023 will partly offset the above positive factor. As P4 production process is a high power consumed process, electrical bill accounted for almost 18% of COGS. Thus 5% increase in electrical price will translate into a 0.9% decrease in gross margin.

In total, for 2024F, we expect DGC revenue to reach VND 11,556 bn (+23% YoY) and Net profit of VND 3,681 bn (+23% YoY).

Future prospects – investing and expanding into other chemical products

While P4 business is a profitable one, it is also a very polluted business. As mentioned above, Lao Cai is limiting issuing permission for new mining fields and factories. Thus, beside acquiring new mining fields and factories via M&A activities, DGC is aiming to expand into new chemical products lines:

- (i) The Sodium Hydroxide (NaOH or Caustic Soda) business: total investment amount of VND 12,000 bn, dividing into two phases. The project is based in Nghi Son and is expected to have a production capacity of 50,000 tonnes per year – highest capacity locally and is equivalent to 28% of total capacity of

top 5 factories in Vietnam. Currently the project is pending for land lot clearances and is expected to be completed in 2025.

- (ii) The Tay Nguyen Bauxite project: expected investment amount of VND 57,000bn. Vietnam is one of the top countries with high bauxite deposit globally and the country eyeing on this sector. DGC is one of the big names that are applying for partaking in the setting up an aluminium business chain in Tay Nguyen utilizing its expertise in chemical process.
- (iii) The company is also eyeing on moving downstream in the lithium battery sector. Recently, DGC purchased 100% stakes in Tibaco (HNX: TSB), a battery-production company. With its expertise in the phosphorus business, the company is aiming to produce lithium batteries for EVs.

With its healthy balance sheets, we believe DGC is able to fully finance these projects. These projects will be new growth drivers for DGC if able to implement and complete. However, due to the uncertainty of these projects regarding the timeline, total capex as well as business projections, we have not yet accounted them into our earnings model for DGC.

Valuation

While we believe in the company expansion plan, however for prudence purposes, we did not include them into our forecasts and valuation. Using a combination of DCF and P/E as our valuation method, our one-year target price for the stock is 100,986/share, implying 7% total upside.

Valuation methods	Target price	Weight	Weighted price
DCF	103,005	50 %	51,503
P/E Multiple	98,966	50%	49,483
Total			100,986

DGC FINANCIALS MODEL	Price (VND):	97,000	Target (VND):	100,986	Mkt cap (VND bn):	36,839
(VND bn except where stated)	2020	2021	2022	2023F	2024F	
Total Net Sales	6,236	9,550	14,444	10,216	11,556	
Sales growth (%)	23%	53%	51%	-29%	13%	
CoGS ex-dep'n	4,489	6,089	7,408	6,646	7,151	
SG&A	493	640	752	481	544	
SG&A as % of sales	8%	7%	5%	5%	5%	
EBITDA	1,254	2,821	6,283	3,090	3,861	
EBITDA margin (%)	20%	30%	44%	30%	33%	
Depreciation	268	279	285	298	311	
Operating profit	987	2,542	5,998	2,792	3,551	
Operating profit margin (%)	16%	27%	42%	27%	31%	
Other profits/losses	(44)	11	81	82	96	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	(98)	(112)	(332)	(569)	(679)	
as % of avg net debt	-27%	-6%	-6%	-6%	-5%	
Interest cover (x)	(13)	(25)	(19)	(5)	(6)	
Tax	53	123	339	181	225	
Effective tax rate (%)	5%	5%	5%	5%	5%	
Minority interest	41	126	472	252	313	
Attributable net profit	907	2,388	5,565	2,966	3,693	
Cash earnings	1,174	2,667	5,850	3,264	4,003	
Total number of shares (mn shares)	149	171	380	380	380	
EPS (VND) (after treasury shares)	5,733	13,122	13,774	7,809	9,723	
Bonus factor (x)	0.4	0.5	1.0	1.0	1.0	
Adjusted EPS (VND)	2,493	6,047	13,774	7,809	9,723	
EPS growth (%)	31%	143%	128%	-43%	25%	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022	2023F	2024F
Increase in working capital	66	23	(145)	(410)	118
Capex	241	253	153	216	207
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	349	2,184	5,944	3,838	3,455
Free cash flow	656	2,459	5,951	3,643	3,780
Share issues	-	-	85	-	-
Dividends paid	-	237	411	1,139	1,139
Increase in net debt	(656)	(2,223)	(5,625)	(2,504)	(2,641)
Net debt, end of year	(691)	(2,914)	(8,539)	(11,043)	(13,684)
Shareholders' equity	4,067	6,332	10,834	12,660	15,213
BVPS (VNĐ)	27,341	37,012	28,526	33,335	40,058
<i>Net debt / equity (%)</i>	<i>-17%</i>	<i>-46%</i>	<i>-79%</i>	<i>-87%</i>	<i>-90%</i>
<i>Net debt / EBITDA (x)</i>	<i>-55%</i>	<i>-103%</i>	<i>-136%</i>	<i>-357%</i>	<i>-354%</i>
Total assets	5,876	8,520	13,405	15,663	19,367

KEY RETURN AND VALUATION RATIOS	2020	2021	2022	2023F	2024F
ROE	23%	40%	56%	25%	26%
ROA	16%	30%	45%	21%	21%
ROIC	18%	35%	53%	23%	23%
WACC	15%	15%	15%	15%	15%
EVA	3%	20%	38%	8%	8%
PER (x)	17	16	7	12	10
EV/EBITDA (x)	21	9	4	8	7
EV/FCF (x)	39	10	4	7	7
PBR (x)	3	4	4	3	3
PSR (x)	6	4	3	4	3
EV/sales (x)	4	3	2	3	2
PEG (x, 3 yr prospective)	0.2	0.2	0.2	(2.2)	1.1
Dividend yield	1%	1%	3%	3%	3%

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BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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