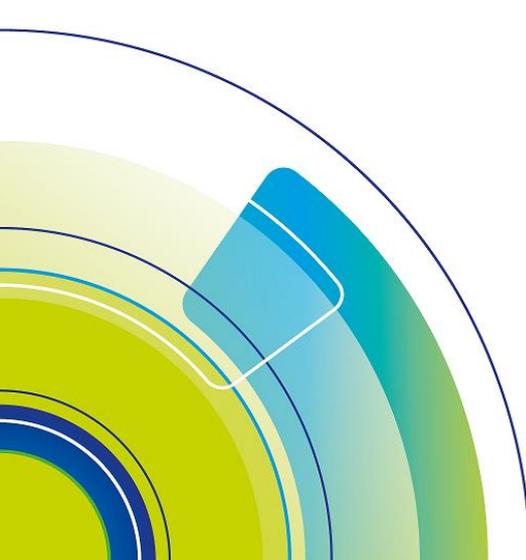




DHC Update - BUY

April 3, 2024



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Update

Recommendation

BUY

HOSE: DHC

Paper - Carton

Target price (VND) 50,500

Market price (VND) 43,750

Expected share price return 15.4%

Expected dividend yield 6.9%

Expected total return 22.3%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	14.4	3.7	14.4	15.6
Relative	0.7	0.9	0.7	-5.3

Source: Bloomberg



Ownership

KWE Beteiligungen AG	14.8%
Nguyen Thanh Nghia	12.9%
Le Ba Phuong	8.7%

Stock Statistics

02-Apr-24

Bloomberg code

DHC

52-week range (VND)	35,800 – 47,750
Shares O/S (mil)	80.5
Mkt cap (VND bn)	3,521.6
Mkt cap (USD mil)	147.3
Est. Foreign room left (%)	14.2
Est. free float (%)	49.4
3m avg daily vol (shrs)	378,017
VND/USD	23,913
Index: VNIndex / HNX	1,287.0/245.9

Dong Hai Ben Tre Joint Stock Company (HOSE: DHC)

In 2023, DHC announced its NPAT of VND309 bn, -18.3% YoY, completing 103% of the company's plan and 98.4% of our forecast. In 2023, DHC experienced a decline in sales volume amidst the general economic difficulties, particularly in the export sector and intense competition from industry counterparts. Looking ahead to 2024, we expect a growth in output due to the recovery from export. However, the gross profit margin is forecasted to continue narrowing due to the increasing price of raw materials. Therefore, the NPAT is projected to remain relatively unchanged compared to our most recent report. We reiterate our BUY recommendation given target price of VND50,500 per share.

2023 posed challenges for the paper industry. The demand for packaging paper declined mainly due to a significant decrease in import-export markets. Additionally, the price of packaging paper decreased while supply capacity outpaced demand, leading to the intensive competition among businesses. Companies such as Chen Long and Vinakraft reported losses or profit reductions from 20% to 30%. DHC was not immune to these difficulties; however, DHC's performance was brighter with NPAT only -18.3% YoY, thanks to the advantage of lower initial investment capital compared to other industry counterparts with foreign investment through whole contractors.

For 2024, we expect an improvement in DHC's business as the prices of OCC (Old Corrugated Containers) and packaging paper are forecasted to increase slightly and stabilize. This will coincide with the overall economic resume, especially in sectors such as garment, leather footwear, and aquaculture, which are expected to undergo increased orders.

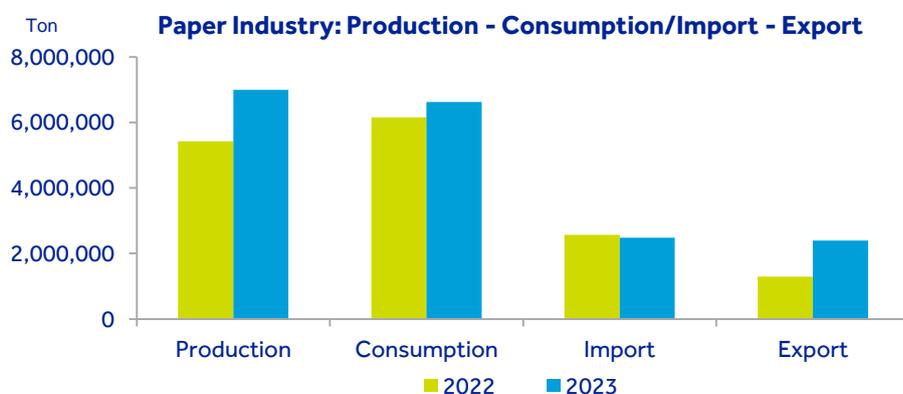
Regarding the Giao Long 3 project, there may be a further one-year delay compared to the initial plan set during the 2022 Annual General Meeting (AGM). In the 2024 AGM, DHC will finalize the investment capital and product structure of the Giao Long 3, as well as the fund mobilization plan. However, it is expected to be around VND2,600 bn, and the output will be higher-quality paper - Kraftliner. The CAPEX and operational results of Giao Long 3 have not been incorporated into our model for the 2024-2025 period, as it is projected that the plant will only be completed and operationalized.

Unit: bn VND	2021	2022	2023	2024F	2025F
Net sales	4,165	3,936	3,260	3,661	4,044
Growth	44%	-5%	-17%	12%	10%
EBITDA	614	556	462	533	633
EBITDA margin	15%	14%	14%	15%	16%
NPAT	482	380	309	359	440
Growth	23%	-21%	-19%	16%	23%
EPS	5,851	4,559	3,745	4,345	5,337
Growth	22%	-22%	-18%	16%	23%
ROE	28%	22%	17%	19%	21%
ROA	20%	13%	11%	10%	9%
Net debt / EBITDA (x)	0.5	0.6	1.0	2.2	3.1
EV / EBITDA (x)	6.2	6.9	8.6	8.8	8.7
P/E (x)	6.6	8.4	11.4	9.8	8.0
P/B (x)	1.6	1.6	1.9	1.9	1.7
DPS: VND	3,500	3,000	3,000	3,000	3,000
Dividend yield	8%	7%	7%	7%	7%

Paper industry in 2023: Oversupply mainly in the packaging paper segment, while demand for Kraftliner imports remains high.

According to VPPA (Vietnam Pulp and Paper Association), the paper industry consumption reached 6.6 mil ton in 2023, +7.5% YoY, in which: packaging paper accounts for 5.3 mil ton, +13.6% YoY. The paper industry production was 7.0 mil ton, +29.0% YoY, in which: packaging paper accounts for 6.0 mil ton, +28.7% YoY. Evidently, the paper industry has been facing an excess-supply situation, including the packaging paper segment. However, in the high-end packaging paper segment, the supply is still insufficient to meet the demand, and the export potential for this segment remains significant. The industry as a whole is addressing the supply-demand disparity in each segment through import and export activities.

The entire import volume in paper packaging industry reached 2.5 mil ton, -3.5% YoY. Conversely, the export volume was 2.4 mil ton, +85.7% YoY.



Sources: VPPA, ACBS

In 2023, DHC's result was affected by a decrease in production volume and selling prices, resulting in a -19.0% YoY of NPAT

According to VPPA, the average selling prices of Testliner and Medium in Q4/2023 were \$367/ton and \$340/ton, respectively, marking a decrease of 13.7% YoY and 7.3% YoY. As a result, DHC was not immune to the overall industry trend. More details, the Q4/2023 revenue decreased by 13.8% YoY, attaining VND816 bn. Gross profit decreased by 5.8% YoY to VND113 bn. The NPAT underwent a more significant decline, at 8.5% YoY to VND75 bn. Additionally, financial expenses decreased by 45.5% YoY to VND6 bn, mainly due to a reduction in other financial expenses and exchange rates. Finally, selling expenses also recorded a decrease of 15.2% YoY to VND28 bn.

Unit: bn VND	Q4/2022	Q4/2023	YoY	2022	2023	YoY
Revenue	947	816	-13.8%	3,944	3,260	-17.3%
Gross profit	120	113	-5.8%	610	504	-17.4%
Gross margin	12.7%	13.8%		15.5%	15.5%	
Financial revenue	13	9	-30.8%	21	25	19.0%
Interest expense	6	6	0.0%	19	33	73.7%
NPAT	82	75	-8.5%	378	309	-18.3%
NPAT's margin	8.7%	9.2%		9.6%	9.5%	

Sources: DHC, ACBS

Cumulative 2023, revenue decreased by 17.3% YoY, reaching VND3,260 bn, due to a decline in selling prices and production volume. In detail, the average prices of

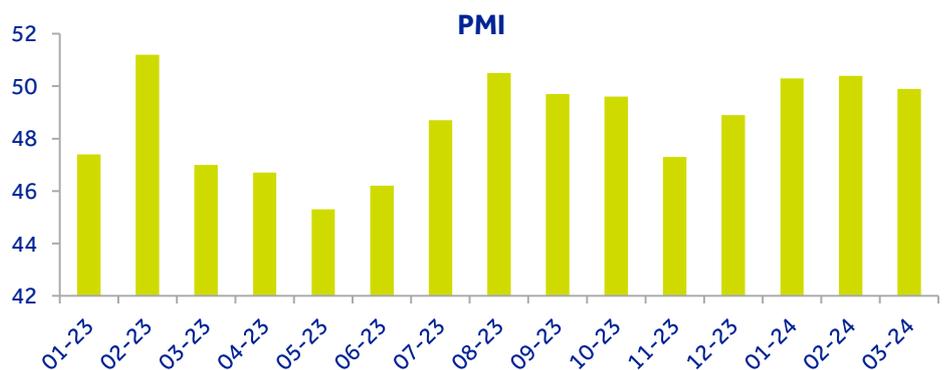
Testliner and Medium in 2023, according to VPPA, were \$402/ton and \$347/ton, -20.2% YoY and -24.9% YoY, respectively. Gross profit also recorded a corresponding decrease of 17.4% YoY, reaching VND504 bn. NPAT decreased by 18.3% YoY, amounting to VND309 bn, primarily due to an increase in interest expenses from VND19 bn to VND33 bn, +73.7% YoY. This increase was mainly attributed to the higher interest rates on short-term loans used to support daily operations. Administrative and selling expenses decreased by 7% YoY, reaching VND146 bn. The portion of administrative and selling expenses to revenue in 2023 was 4.5%, compared to the level of 4.0% in 2022.

2024F-2025F

For 2024, we expect a robust demand for packaging paper and carton products as the overall economic outlook becomes more optimistic. Industries such as leather footwear, textiles, and seafood, mainly concentrated in the South and Southeast regions of Vietnam, would play a crucial role in driving the output demand for packaging paper from DHC. In this context, the selling prices of packaging paper are forecast to gradually stabilize and slightly increase, without experiencing the significant fluctuations seen in 2021 and 2022.

However, the instability surrounding the Red Sea and the Suez Canal also partly reinforces the upward trend in the prices of OCC, due to the difficulties and prolonged trade disruptions in that region. This affects the prices of OCC sourced from the US and Europe, which are two of the three main sources for DHC's input. Although the impact will not be as significant as the supply chain disruptions during the COVID-19 pandemic, it would be a factor to consider. For 2024, we expect the OCC price to fluctuate around \$170/ton, +7.6% YoY, and the average prices of Testliner and Medium to hover around \$400/ton, +7.0% YoY.

The Purchasing Managers' Index (PMI) has recorded a reading above 50 for two consecutive months since the beginning of January 2023, indicating the expectation of a long-term growth trend for orders and the overall economy (Jan 2024: 50.3 and Feb 2024: 50.4). However, in March, the PMI index fell back to 49.9.



Sources: MoIT, ACBS

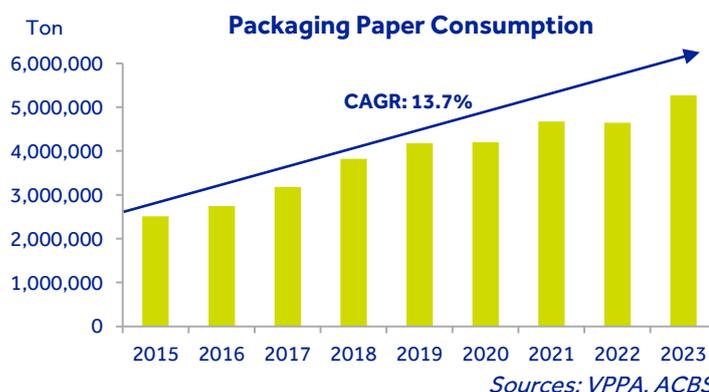
According to the General Statistics Office (GSO), in Q1/2024, along with the recovery of the global market, export orders increased, leading to vibrant import-export activities. The total value of goods exports and imports in Mar 2024 is estimated at \$65.1 bn, +35.6% MoM and +12.0% YoY. In which, exports are estimated at \$34.0 bn, +37.8% MoM and +14.2% YoY.

In Q1/2024, the total value of goods exports and imports is estimated at \$178.0 bn, +15.5% YoY. Exports increased by 17.0% YoY and imports increased by 13.9% YoY. The goods trade balance recorded a surplus of \$8.1 bn. Particularly in Q1/2024, exports showed strong and consistent growth across all three commodity groups. Specifically, the agricultural, forestry, and aquatic products group is estimated at \$9.9 bn, +26.1% YoY, accounting for 10.6% of the country's total export turnover.

For DHC, in 2024, we forecast a revenue growth of 12.3% YoY, reaching VND3,661 bn, based on the low base of 2023. Accordingly, gross profit is expected to reach VND575 bn, +14.1% YoY, and costs would be well controlled, especially interest expenses due to the low-interest rate environment in the period of 2023-2024. As a result, we expect NPAT to reach VND359 bn, +16.0% YoY.

Unit: bn VND	2023	2024F	YoY	2025F	YoY
Output					
<i>Paper: ton</i>	281,000	303,000	7.8%	325,000	7.3%
<i>Carton: unit</i>	56,500,000	62,400,000	10.4%	68,900,000	10.4%
Revenue	3,260	3,661	12.3%	4,044	10.5%
Gross profit	504	575	14.1%	686	19.3%
<i>Gross margin</i>	15.5%	15.7%		17.0%	
NPAT	309	359	16.0%	440	22.8%
<i>NPAT's margin</i>	9.5%	9.8%		10.9%	

For 2025, we project the production volume of paper to reach 325,000 ton, +7.3% YoY, and carton packaging to reach 68.9 mil unit, +10.4% YoY. The revenue is expected to reach VND4,044 bn, +10.5% YoY, based on the assumption that the economy will continue to operate stably and the demand for paper will continue to grow steadily at around 13% annually. Furthermore, the profit margin is expected to improve in the context of the anticipated slow and steady upward trend of OCC and paper prices.



Valuation

Based on the FCFF method, we have determined a fair target price for DHC at VND50,500/share, representing a total expected return of 22.3%, reiterating a BUY rating.

This valuation does not include the potential revenue and profit prospects from the Giao Long 3 project in 2024-2026 period. We will incorporate the expectations from the project into the model once we have more certain information when the project is completed and officially operational.

APPENDIX

FINANCIALS MODEL	Price: VND	43.750	Target:	50.500	Mkt Cap: bn VND	3.522
(VND bn except where stated)		2021	2022	2023F	2024F	2025F
Total Net Sales		4,165	3,936	3,260	3,661	4,044
<i>Growth</i>		<i>44%</i>	<i>-5%</i>	<i>-17%</i>	<i>12%</i>	<i>10%</i>
CoGS		3,492	3,324	2,756	3,086	3,358
EBITDA		614	556	462	533	633
<i>EBITDA margin</i>		<i>15%</i>	<i>14%</i>	<i>14%</i>	<i>15%</i>	<i>16%</i>
Depreciation		103	101	104	104	104
Operating profit		509	434	346	411	504
<i>Operating profit margin</i>		<i>12%</i>	<i>11%</i>	<i>11%</i>	<i>11%</i>	<i>12%</i>
Net interest expense		14	15	26	15	22
<i>as % of avg net debt</i>		<i>5%</i>	<i>4%</i>	<i>6%</i>	<i>1%</i>	<i>1%</i>
Interest cover (x)		36.5	30.3	13.8	28.3	23.6
Tax		30	58	48	56	69
<i>Tax rate</i>		<i>6%</i>	<i>13%</i>	<i>13%</i>	<i>13%</i>	<i>13%</i>
NPAT		482	380	309	359	440
<i>NPAT's margin</i>		<i>12%</i>	<i>10%</i>	<i>9%</i>	<i>10%</i>	<i>11%</i>
Cash earning		585	481	413	463	544
Number of shares: mil		70.0	70.0	80.5	80.5	80.5
EPS: VND		6,729	5,243	3,745	4,345	5,337
Share split factor (x)		0.9	0.9	1.0	1.0	1.0
Adjusted EPS: VND		5,851	4,559	3,745	4,345	5,337
EPS growth		<i>22%</i>	<i>-22%</i>	<i>-18%</i>	<i>16%</i>	<i>23%</i>

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	309	242	231	4	236
Capex	156	77	88	1,000	1,000
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	10	94	(22)	177	95
Free cash flow	130	256	72	(364)	(596)
Share issues	-	3	-	-	-
Dividends paid	168	315	199	325	241
Increase in net debt	38	56	127	689	837
Net debt, end of year	283	339	466	1,155	1,992
Shareholders' equity	1,697	1,751	1,851	1,902	2,091
BVPS: VND	24,243	25,014	22,994	23,633	25,976
Net debt / equity	17%	19%	25%	61%	95%
Net debt / EBITDA (x)	0.5	0.6	1.0	2.2	3.1
Total assets	2,401	2,881	2,914	3,773	4,847

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	28%	22%	17%	19%	21%
ROA	20%	13%	11%	10%	9%
ROIC	25%	20%	14%	13%	12%
WACC	-	12%	12%	12%	12%
EVA	-	8%	2%	2%	1%
P/E (x)	6.6	8.4	11.4	9.8	8.0
EV/EBITDA (x)	6.2	6.9	8.6	8.8	8.7
EV/FCF (x)	29.3	15.1	55.4	(12.9)	(9.3)
P/B (x)	1.6	1.6	1.9	1.9	1.7
P/S (x)	0.8	0.9	1.1	1.0	0.9
EV / Sales (x)	0.9	1.0	1.2	1.3	1.4
Dividend Yield (%)	8%	7%	7%	7%	7%

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Our Recommendation System

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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