



DGC Update - NEUTRAL

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Trung Tran

(+84 28) 7300 7000 (x1043)

trungtn@acbs.com.vn

Update Report

Recommendation

NEUTRAL

HSX: DGC

Chemicals

Target price (VND) **112,200**

Market price (VND) **115,500**

Expected share price return -2.8%

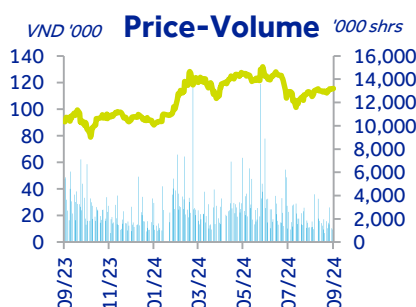
Expected dividend yield 2.7%

Expected total return **-0.1%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	23.2	2.3	-7.4	30.8
Relative	7.1	1.7	-10.6	16.9

Source: Bloomberg



Ownership

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

Stock Statistics

25-Sep-24

Bloomberg code

DGC VN

52-week range (VND) 76,500 - 134,000

Shares O/S (m) 380

Mkt cap (VND bn) 44,168

Mkt cap (USD m) 1,785

Est. Foreign room left (%) 31.0

Est. free float (%) 62.1

3m avg daily vol (shrs) 2,192,645

VND/USD 24,750

Index: VNIIndex / HNX 1292.26/236.09

DUC GIANG CHEMICALS GROUP JSC (DGC VN)

Falling Phosphorus price led to worse-than-expected result but showing signs of recovery

Ending 6M2024, DGC recorded a top line of VND4,889 bn (-1% YoY) and a NPAT of VND1.574 bn (-7% YoY), achieving 47% and 50% the company' targets respectively. While the results are in-line with the company's yearly target, they fell short of our forecasts, meeting only 45% and 40% respectively. However, we see some recovery signs for P4 price since July thus we expect DGC's results to improve in 2H2024. Therefore, we just revised down slightly our forecast for 2024's revenue and NPAT by 6% and 8% respectively to VND10,815 bn (+11% YoY) and VND3,689 bn (+14% YoY). For 2025F, we expect a 5% YoY growth in the revenue and 8% YoY growth in NPAT. **Using FCFF valuation method, we derive the target price for the next 12 months at VND 112,200/share. Rating NEUTRAL.**

Key reasons for this slightly underperformance include: (i) falling yellow phosphorus prices (P4) – which we estimate have dropped by 3% YTD - and its by-products (e.g. Fertilizer prices, fell by 2% YTD) and (ii) the maintenance of its WPA factory causing its sales volume reduction in Q1 2024.

On the bright side, the gross margin improved, reaching last-year high - also in 2nd quarter - at 39% compared to 32% in Q1 2024 thanks to mining field 19 fully came into operation in end of March 2024.

In addition, P4 price is showing recovery signs: With Chinese spot price as our benchmark, P4 price has maintained a downward trend YTD but seemingly created a bottom in June and has increased by 5% since then thanks to recovered demand due to: (i) sowing seasons and (ii) recover in consumer purchasing activities. With the increasing demand from semiconductor sector, we expect P4 price will continue to rise toward year end.

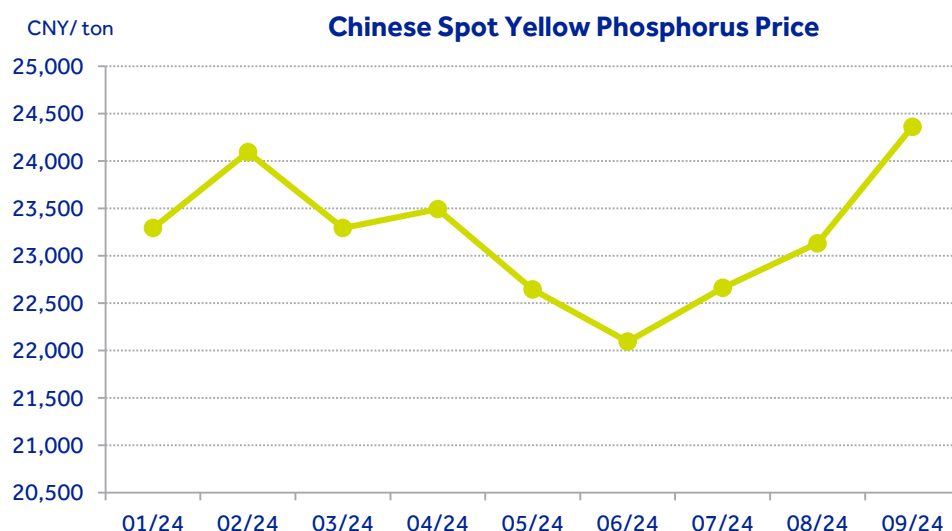
Key catalysts for the period 2025-2026 may come from the revival of Nghi Son project and the CBD project in Duc Giang – Long Bien. However, our current financial forecasts and valuation model have not yet factored in the impact of these projects due to the lack of sufficient basis at this time.

	2021	2022	2023	2024F	2025F
Net Sales (VNDbn)	9,550	14,444	9,748	10,815	11,408
Growth	53%	51%	-33%	11%	5%
EBITDA (VNDbn)	2,821	6,283	3,204	3,565	3,808
Growth	125%	123%	-49%	11%	7%
PAT (VNDbn)	2,514	6,037	3,242	3,689	4,017
Growth	165%	140%	-46%	14%	9%
EPS (bonus-adjusted, VND)	6,047	13,774	7,673	8,732	9,509
Growth	5%	128%	-44%	14%	9%
ROE	40%	56%	27%	26%	23%
ROIC	35%	53%	24%	25%	23%
Net debt/EBITDA (times)	(1.0)	(1.4)	(2.8)	(3.5)	(4.0)
EV/EBITDA (times)	12	5	11	10	9
PER (times)	19	8	15	13	12
PBR (times)	4	3	4	4	3
DPS (VND)	1,000	3,000	3,000	3,000	3,000
Dividend yield	1%	3%	3%	3%	3%

Weak demand caused yellow phosphorus price to fall in the 1H2024

Demand for P4 has significantly declined due to weak demand from downstream industries (such as fertilizers, rodenticides, semiconductors, etc.). Weak macro-economic conditions, fears of a recession and unstable geopolitics have further constrained supply chains. That said, the price trend is still considered more stable in 2024 compared to the 2021-2023 period.

While the sowing season initially bolstered demand for fertilizers, this trend reversed in June before surging again in early September which resulted in a 5% price increase YTD (based on Chinese spot price as of September 4th, 2024).

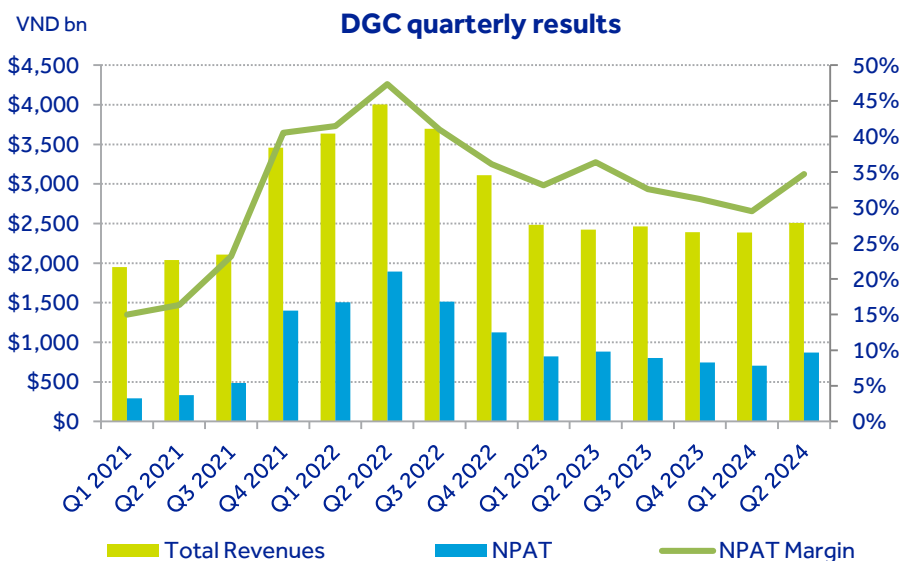


Source: Sunsirs

Weak Q1 followed by a stronger-than-expected Q2 results

Affected by declining P4 prices and the maintenance of its WPA factory, Q1 revenues dropped to VND2,385bn (-4% YoY) while NPAT dropped to VND745.7 bn (-14% YoY). Despite continued pressure from lower P4 prices in Q2, DGC's performance improved significantly compared to the previous quarter. Revenue increased by 5% QoQ while NPAT surged by an impressive 24% QoQ respectively.

Unit: VNDbn	Q2 2024	Q2 2023	%YoY	6M2024	6M2023	%YoY
Revenues	2,504	2,413	3.8%	4,889	4,897	-0.2%
Gross Profit	983	940	4.6%	1,749	1,830	-4.4%
Gross Margin	39%	39%		36%	37%	
NPAT	871	879	-0.9%	1,574	1,701	-7.5%
Net Margin	35%	36%		32%	35%	

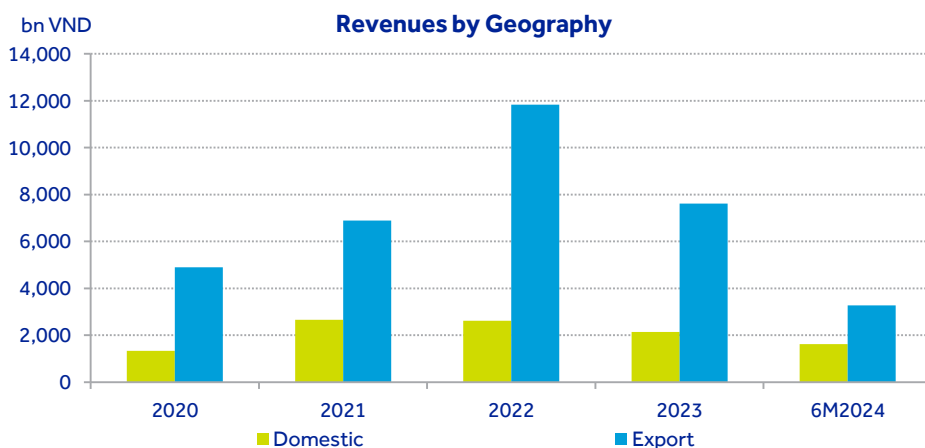


Source: DGC, ACBS summarised

In Q2/2024, DGC's improved profitability was primarily driven by the commencement of operations at mining field No. 19 which began on 17 March 2024. DGC holds 100% shareholder of this mining field. This contributed to an increase in DGC's gross margin, which rose to 39% compared 32% in Q1/2024. This ratio is equal to the gross margin in Q2/2023 when P4 price was around 30,750 CNY/ ton, 23% higher than the average P4 price of 22,743 CNY/ton in Q2 2024.

Local demand is in the spotlight

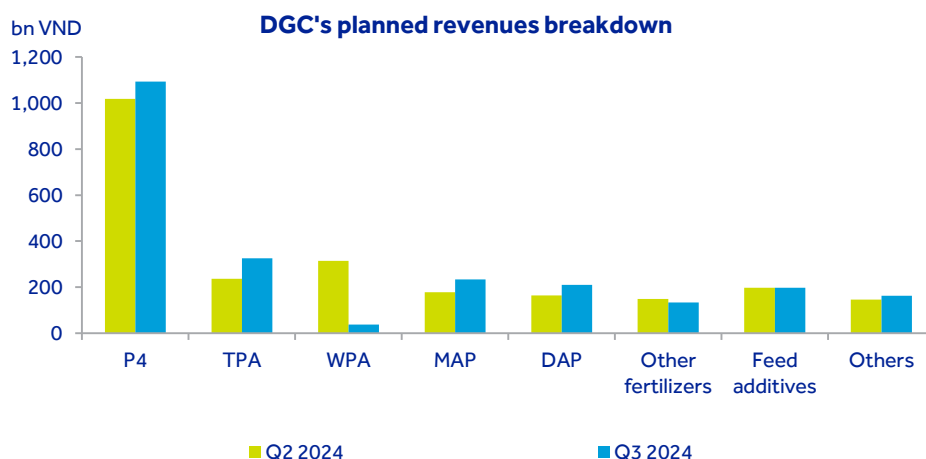
For the 1H2024, domestic revenue accounted for 33% of total revenues, much higher than a 5-year average of approximately 22%. This shift is attributed to a 13.4% YoY drop in export revenues, contrasted by a strong 46.5% YoY growth in domestic revenues. Based on the company quarterly plans which highlighted fertilizer and related products' revenues growth ranging from 50% to 300% QoQ, we believe the surge in domestic revenues is primarily driven by the fertilizer industry, as inventory levels in this sector increased strongly in Q2.



Source: DGC, ACBS summarised

Expecting better outlook for the 2H2024 results thanks to rising P4 price

For Q3/2024, the company has set a revenue target of VND2,394.5 bn and a NPAT of VND720 bn. While the plan represents a slight improvement compared to Q2's plan, it is still very modest compared to Q2's actual result. However, with the P4 price hike since June, we expect that DGC's performance in 2H will improve significantly and achieving NPAT of VND2115.3 bn (34% higher than 1H's results).



Source: DGC

Nghi Son project delayed but will start its construction soon

With a total investment amount of VND 12,000 bn dividing into 3 phases, the Nghi Son project will have a production capacity of 50,000 tonnes NaOH per year in its 1st phase – highest capacity locally and is equivalent to 28% of total capacity of top 5 factories in Vietnam. The project is also expected to produce 100,000 tons extra of NaOH and 150,000 tons of PVC plastic in its 2nd phase. Its 3rd phase is a 400,000-ton Soda factory.

The project experienced delays due to the late approval of Industrial Zone 15 (Dong Vang Industrial Park). The detailed planning for Industrial Zone 15 was only approved in late July 2024, pushing the expected start of construction to Q4 2024 instead of June 2024 as original proposed at the company's AGM. However, the first phase of the project is still on track to become fully operate in Q1 2026.

Duc Giang residence is restarting

According to DGC, the Duc Giang residence project is set to resume in the near future once the legal procedures can be resolved. We expect that this event may come in 2025. Originally initiated in 2019, the project received approval for its 1/500 detailed planning from the Hanoi People's Committee on October 12, 2020.

The Duc Giang residence will be located on DGC's current headquarters site in Long Bien district, Ha Noi, covering a total area of 53,312 m². Of which, the construction land comprises 42,609 sqm, including 26,618 sqm for residential use, 4,613 sqm for common area and 11,378 sqm for a school. The project scale will include 60 townhouse lots, 3 buildings with 21-storey apartment with a total of 900 apartments.

While the total investment was initially planned at VND 1,410 bn in 2021, this amount might be revised to reflect current market conditions.

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 112,235/share, implying 1.2% total upside.

Valuation methods	Target price	Weight	Weighted price
DCF	110,365	50%	55,182
P/E Multiple	114,105	50%	57,052
Total			112,200

DGC FINANCIALS MODEL	Price (VND):	115,500	Target (VND):	112,200	Mkt cap (VND bn):	43,865
(VND bn except where stated)	2021	2022	2023	2024F	2025F	
Total Net Sales	9,550	14,444	9,748	10,815	11,408	
<i>Sales growth (%)</i>	<i>53%</i>	<i>51%</i>	<i>-33%</i>	<i>11%</i>	<i>5%</i>	
CoGS ex-dep'n	6,089	7,408	5,950	6,741	7,063	
SG&A	640	752	594	509	537	
<i>SG&A as % of sales</i>	<i>7%</i>	<i>5%</i>	<i>6%</i>	<i>5%</i>	<i>5%</i>	
EBITDA	2,821	6,283	3,204	3,565	3,808	
<i>EBITDA margin (%)</i>	<i>30%</i>	<i>44%</i>	<i>33%</i>	<i>33%</i>	<i>33%</i>	
Depreciation	279	285	358	311	322	
Operating profit	2,542	5,998	2,846	3,254	3,486	
<i>Operating profit margin (%)</i>	<i>27%</i>	<i>42%</i>	<i>29%</i>	<i>30%</i>	<i>31%</i>	
Other profits/losses	11	81	45	48	51	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	(112)	(332)	(659)	(715)	(786)	
<i>as % of avg net debt</i>	<i>-6%</i>	<i>-6%</i>	<i>-7%</i>	<i>-7%</i>	<i>-6%</i>	
<i>Interest cover (x)</i>	<i>(25)</i>	<i>(19)</i>	<i>(5)</i>	<i>(5)</i>	<i>(5)</i>	
Tax	123	339	243	277	302	
<i>Effective tax rate (%)</i>	<i>5%</i>	<i>5%</i>	<i>7%</i>	<i>7%</i>	<i>7%</i>	
Minority interest	126	472	142	161	176	
Attributable net profit	2,388	5,565	3,100	3,528	3,842	
Cash earnings	2,667	5,850	3,458	3,839	4,164	
Total number of shares (mn shares)	171	380	380	380	380	
EPS (VND) (after treasury shares)	13,122	13,774	7,673	8,732	9,509	
Bonus factor (x)	0.5	1.0	1.0	1.0	1.0	
Adjusted EPS (VND)	6,047	13,774	7,673	8,732	9,509	
<i>EPS growth (%)</i>	<i>143%</i>	<i>128%</i>	<i>-44%</i>	<i>14%</i>	<i>9%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023	2024F	2025F
Increase in working capital	23	(145)	194	147	85
Capex	253	153	216	207	192
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	2,184	5,944	2,185	4,043	3,710
Free cash flow	2,459	5,951	2,595	4,397	3,988
Share issues	-	85	(920)	-	-
Dividends paid	237	411	1,139	1,139	1,139
Increase in net debt	(2,223)	(5,625)	(535)	(3,258)	(2,848)
Net debt, end of year	(2,914)	(8,539)	(9,075)	(12,332)	(15,181)
Shareholders' equity	6,332	10,834	12,027	14,416	17,118
BVPS (VND)	37,012	28,526	31,668	37,958	45,073
Net debt / equity (%)	-46%	-79%	-75%	-86%	-89%
Net debt / EBITDA (x)	-103%	-136%	-283%	-346%	-399%
Total assets	8,520	13,405	15,536	17,037	20,130

KEY RETURN AND VALUATION RATIOS	2021	2022	2023	2024F	2025F
ROE	40%	56%	27%	26%	23%
ROA	30%	45%	21%	22%	20%
ROIC	35%	53%	24%	25%	23%
WACC	15%	15%	15%	15%	15%
EVA	20%	38%	9%	10%	8%
PER (x)	19	8	15	13	12
EV/EBITDA (x)	12	5	11	10	9
EV/FCF (x)	14	6	13	8	9
PBR (x)	4	4	3	4	4
PSR (x)	5	3	4	4	4
EV/sales (x)	4	2	4	3	3
PEG (x, 3 yr prospective)	0.3	0.3	(2.1)	1.3	2.2
Dividend yield	1%	3%	3%	3%	3%

CONTACTS

Ho Chi Minh City Head Office

117 Nguyen Dinh Chieu, Dist. 3, Ho Chi Minh City
Tel: (+84 28) 7300 7000
Fax: (+84 28) 7300 3751

Hanoi Office

10 Phan Chu Trinh, Hoan Kiem Dist., Ha Noi
Tel: (+84 4) 3942 9395
Fax: (+84 4) 3942 9407

RESEARCH DEPARTMENT

Head of Research

Trang Do

(+84 28) 7300 7000 (x1041)
trangdm@acbs.com.vn

Manager – Properties Truc Pham

(+84 28) 7300 7000 (x1043)
trucptt@acbs.com.vn

Manager – Financials Hung Cao

(+84 28) 7300 7000 (x1049)
hungcv@acbs.com.vn

Manager – Consumer-related, Technology

Chi Luong
(+84 28) 7300 7000 (x1042)
chiltk@acbs.com.vn

Associate – Oil & Gas Hung Phan

(+84 28) 7300 7000 (x1044)
hungpv@acbs.com.vn

Associate – Industrials Trung Tran

(+84 28) 7300 7000 (x1045)
trungtn@acbs.com.vn

Associate – Utilities Toan Pham

(+84 28) 7300 7000 (x1051)
toanpd@acbs.com.vn

Associate – Macro & Money Market

Minh Trinh Viet
(+84 28) 7300 7000 (x1046)
minhtvh@acbs.com.vn

Analyst – Technical Huu Vo

(+84 28) 7300 7000 (x1052)
huvvp@acbs.com.vn

Analyst – Technical Huu Vo

(+84 28) 7300 7000 (x1052)
huvvp@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director

Huong Chu

(+84 28) 7300 7000 (x1083)
huongctk@acbs.com.vn
groupis@acbs.com.vn

Associate

Thanh Tran

(+84 28) 7300 6879 (x1120)
thanhtt@acbs.com.vn

Associate

Huynh Nguyen

(+84 28) 7300 6879 (x1088)
huynhntn@acbs.com.vn

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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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