January 26th, 2024

Shinhan Securities



Duc Giang Chemicals Group JSC

[Vietnam / Chemicals]

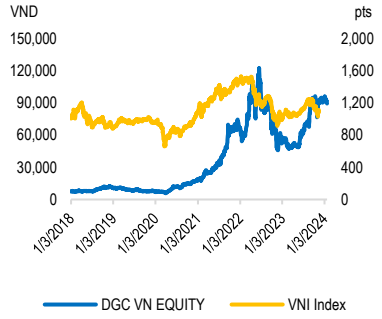
Bloomberg Ticker (DGC VN) | Reuters Ticker (DGC.HM)

HOLD

Update

Target price (12 months)	**99,000 VND**
Current price (25/01/24)	88,000 VND
Upside/downside (%)	12.5%
VNINDEX	1,170
HNXINDEX	228
Market Cap (bn VND)	33,440
Outstanding shares (1mn)	380
Free float (1mn)	223
52-week high/low (VND)	101,000/48,600
90-day avg. trading volume (1mn)	2.7
90-day avg. turnover (bn VND)	200
Major shareholders (%)	Dao Huu Huyen and his related parties 39.11

Performance	3M	6M	12M
Absolute (%)	-1.0	22.3	47.6
Relative to VN-Index (%)	-7.4	24.3	41.8



Source: Bloomberg

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Phosphate fertilizer demand recovery

Maintain HOLD rating and target price of VND 99,000

Duc Giang Chemicals Group JSC (DGC) is one of the leading enterprises in the field of industrial chemicals in Vietnam and yellow phosphorus is the main product. In 2023, net profit reached VND 3,250 bn (-40% YoY) due to a sharp decline in P_4 prices. Excluding 2022, which saw a sudden surge in demand worldwide, 2023 was a relatively successful year for DGC, with profits ranking second in the company's history. In 2024, we believe that DGC's profits will grow by around 18%, thanks to the stability of the fertilizer segment and the reduction of production costs. From mid-2025 onwards, the Nghi Son project will be a long-term growth driver for DGC. Based on DCF method, we update DGC's target price at VND 99,000.

Update business results in 2023 and prospects

In Q4/2023, DGC recorded revenue of VND 2,387 bn (-23.2% YoY) and NPAT-Mi of VND 719 bn (-30.3% YoY). Revenue from the core business segment (P_4 and H_3PO_4) decreased by approximately 43% YoY, due to declining prices and demand. On the other hand, fertilizer segment revenue increased by 22% YoY, due to the potential extension of China's ban on phosphate fertilizer exports to 2024.

In 2023, DGC's net revenue reached nearly VND 9,747 bn (-32.5% YoY) and consolidated net profit reached approximately VND 3,108 bn (-44.1% YoY). In which, P_4 and Phosphoric Acid (H_3PO_4) recorded a decrease in revenue of 38%; Wet Phosphoric Acid (WPA) decreased by 28%; fertilizer segment recorded a decrease in revenue of 12%. With the above results, DGC's net profit reached 106% of our forecast.

DGC continues to set a profit decline plan in Q4/2024. The expected net profit is VND 700 bn (-14.8% YoY). We note that DGC usually sets conservative plans.

In 2024, we forecast that the P_4 segment will not have many surprises, as the semiconductor market is expected to recover only from Q4/2024. However, we believe that the fertilizer segment will support DGC's profits, thanks to the outlook for phosphate fertilizers and the expected increase in prices due to the absence of the Chinese market. In addition, we expect DGC to reduce production costs after the Khai Truong 25 and 19b projects are completed in 2023. We project that DGC's net profit will reach approximately VND 3,840 bn (+18% YoY).

We note that the Nghi Son Chemical Complex project is expected to start construction in the first half of 2024. The project has a total investment of VND 12,000 bn (3 phases), making it the largest investment project in DGC's history. As of the end of 2023, the company's cash and short-term investment reached more than VND 10,000 bn, which is sufficient to implement phase 1. We expect the project to be operational from mid-2025, contributing significantly to its business.

Risks: (1) Risk of phosphorus export tariff hikes and (2) Higher-than-expected electricity price.

Year to Dec.	2023	2024F	2025F	2026F	2027F
Revenue (bn VND)	**9,748**	**9,797**	**10,341**	**10,524**	**11,526**
OP (bn VND)	2,858	3,348	3,425	2,813	2,903
NP (bn VND)	**3,250**	**3,840**	**4,019**	**3,589**	**3,801**
EPS (VND)	14,653	8,186	9,670	10,122	9,037
BPS (VND)	27,519	30,531	40,642	51,226	60,675
OPM (%)	29.3%	34.2%	33.1%	26.7%	25.2%
NPM (%)	33.3%	39.2%	38.9%	34.1%	33.0%
ROE (%)	**27.1%**	**24.0%**	**19.9%**	**15.0%**	**13.6%**
PER (x)	11.7	9.9	9.4	10.6	10.0
PBR (x)	3.1	2.3	1.9	1.6	1.3
EV/EBITDA (x)	0.4	0.4	0.4	0.4	0.4

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Maintain HOLD rating and target price of VND 99,000

We apply a Discounted Cash Flow (DCF) valuation method to value DGC. We update our HOLD recommendation with a target price of VND 99,000, equivalent to a return of 12.5%. The main driver of our target price is the update of risk-free rate and equity risk premium

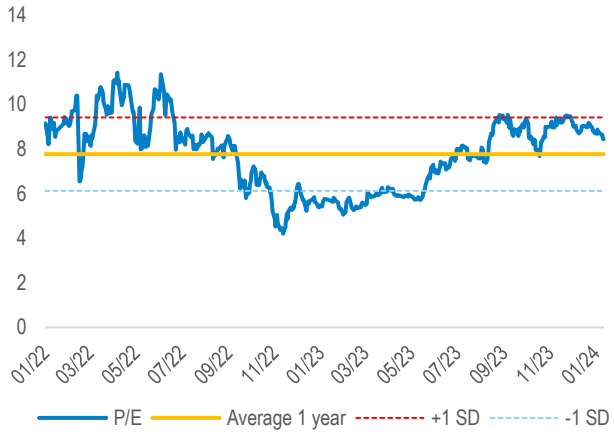
Valuation

DCF valuation (include phase 1 Nghi Son Chemical Complex)					
Unit: billion VND	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net profit	3,673	3,844	3,432	3,635	3,861
Plus: After-tax interest expense	35	27	30	34	37
Plus: Depreciation & Amortization	367	413	463	516	574
Minus: Change in working capital	-4	-28	-138	-58	-41
Minus: CapEx	253	413	463	516	574
Free Cash Flow (FCF)	**3,826**	**3,900**	**3,600**	**3,727**	**3,938**
PV of FCF	11,783				
Growth rate	2%				
Present value of long-term value	16,813				
Enterprise value	**28,596**				
Debt	1,328				
Cash and cash equivalents	10,403				
Equity value	**37,671**				
Number of shares outstanding (mn units)	380				
Target price (VND)	**99,000**				

WACC	**13.4%**
Risk-free rate	2.5%
Equity risk premium	9%
Beta	1.1
Debt cost	8%
The cost of equity	14.4%
Debt-to-equity ratio	11.1%
Total debt (VND bn)	1,328

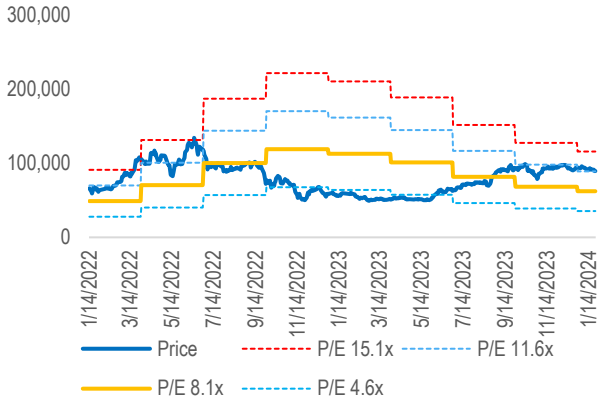
Source: Company data, Shinhan Securities Company

DGC's PER 1 year



Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of DGC



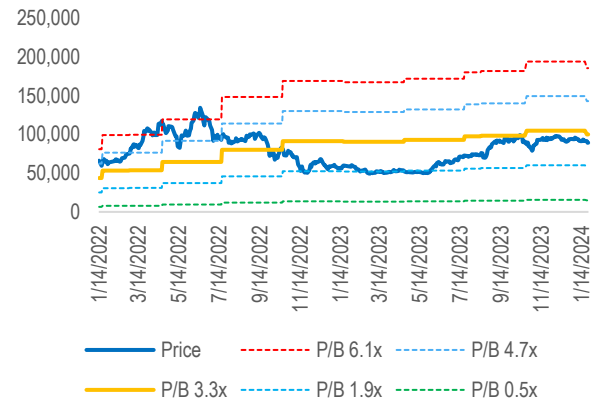
Source: Bloomberg, Company data, Shinhan Securities Vietnam

DGC's PBR 1 year



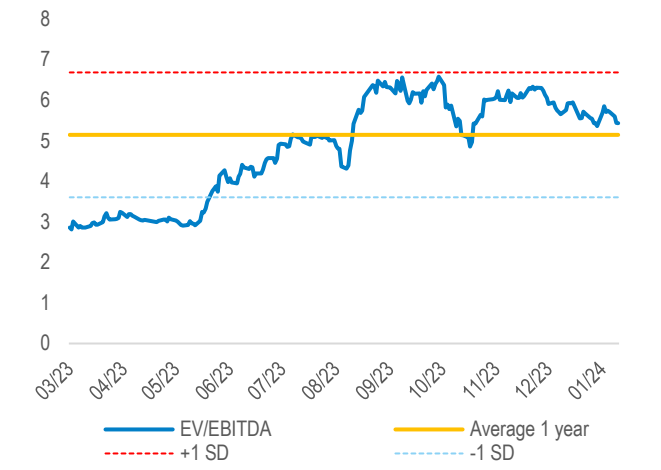
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of DGC



Source: Bloomberg, Company data, Shinhan Securities Vietnam

DGC's EV/EBITDA 1 year



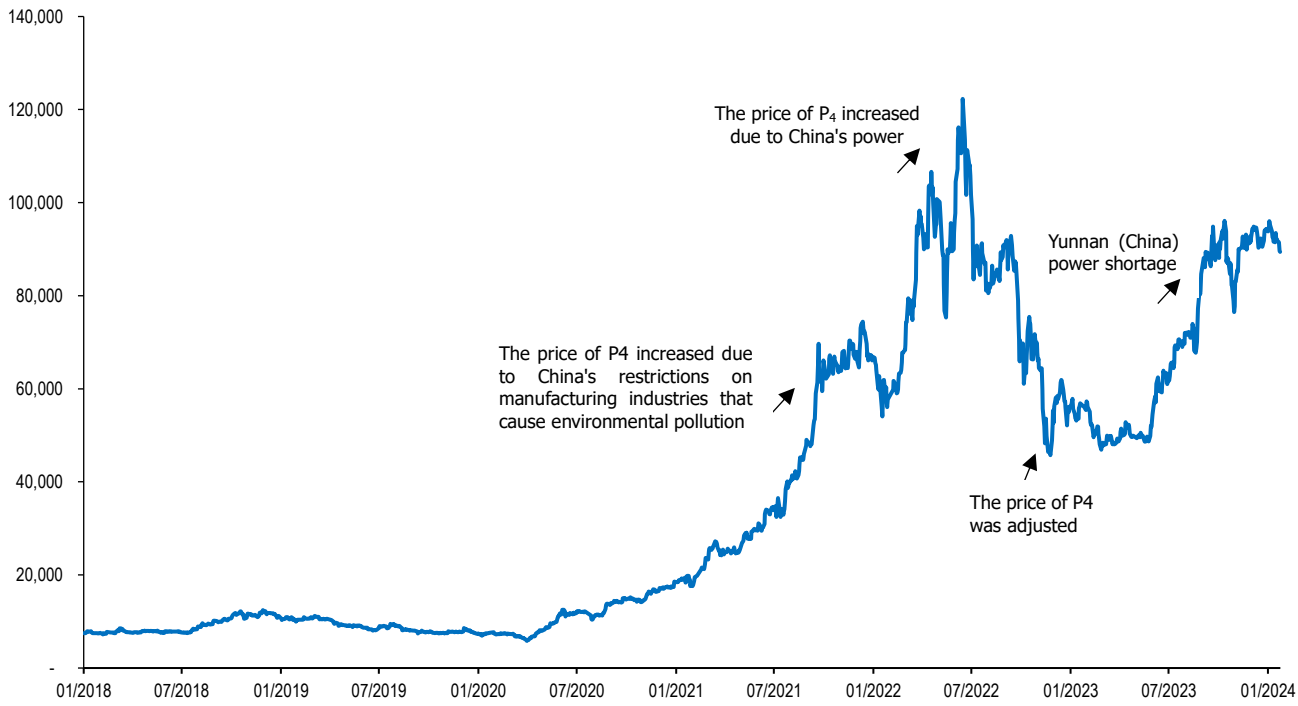
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of DGC's price and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key event chart of DGC



Source: Bloomberg, Company data, Shinhan Securities Vietnam

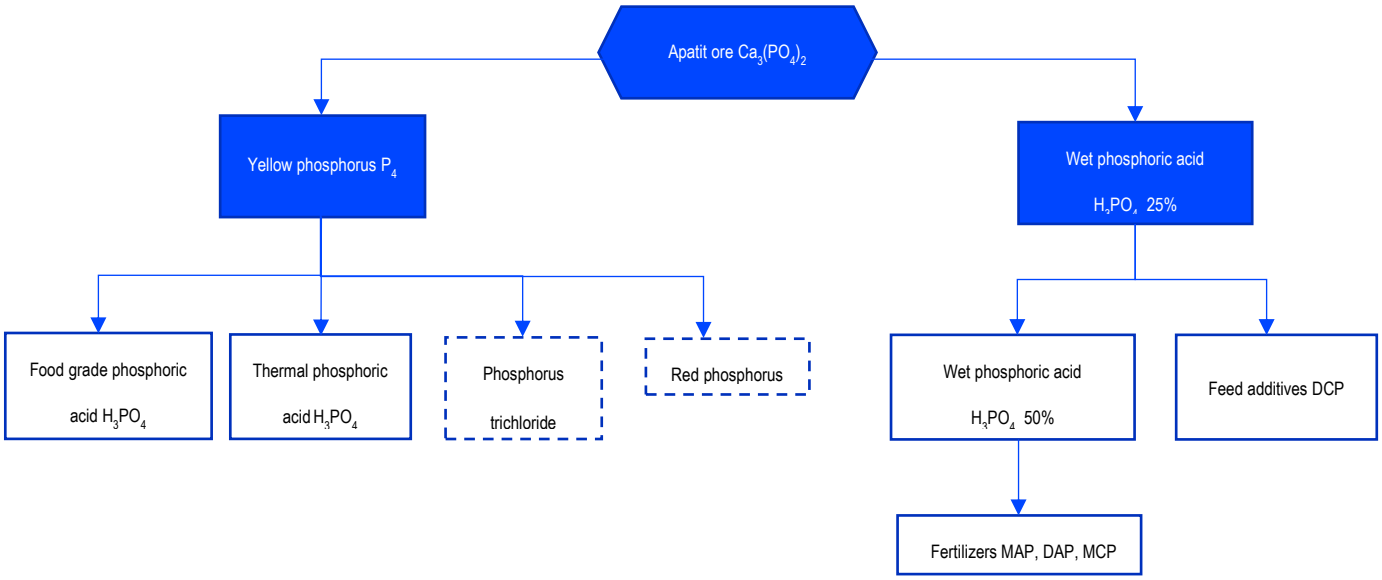
Appendix: Company Background

History

Duc Giang Chemical is a state-owned enterprise established in 1963 and specializes in washing powder production. The company was equitised in 2004. It filed for listing on the Hanoi Stock Exchange (HNX) in early November 2019 with more than 129 million shares. In 2020, DGC moved its share listing from HNX to the Ho Chi Minh City Stock Exchange (HSX).

DGC mainly produces yellow phosphorus (P_4) and phosphorus – related chemicals (merchant-grade phosphoric acid, food phosphoric acid and feed additives) which have diverse agricultural and industrial applications.

DGC's value chain

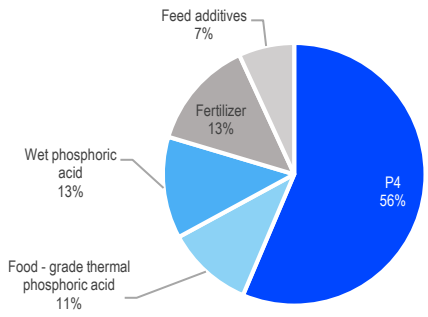


Source: Data Company, Shinhan Securities Company

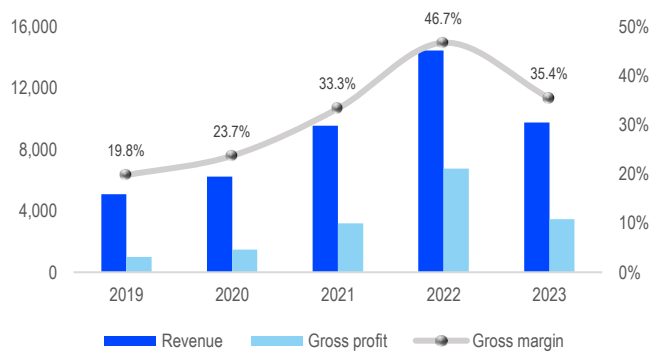
In which:

- Yellow phosphorus (P_4) (accounting for about 60% of revenue): This is an important input material, with high applications in industry (P_4 can extend the value chain with products such as: thermal phosphoric acid, food phosphoric acid,...)
- Wet phosphoric acid (WPA) (accounting for about 13% of revenue): WPA is the basic material to produce high-grade fertilizer DAP, MAP, Superphosphate,...
- Food-grade phosphoric acid (accounting for about 11% of revenue): typically used for pH control in the food industry, for example in the manufacture of cheese products, fats, and shortenings. Food grade phosphoric acid is also used in the beverage industry in soft drinks.

DGC's revenue breakdown by segment (%)

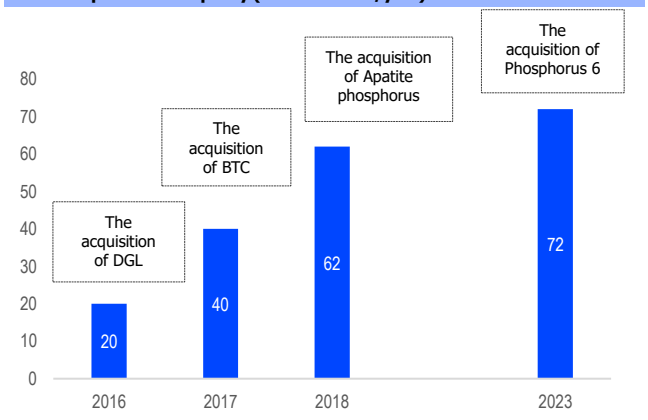


DGC's revenue and gross profit (VND bn)

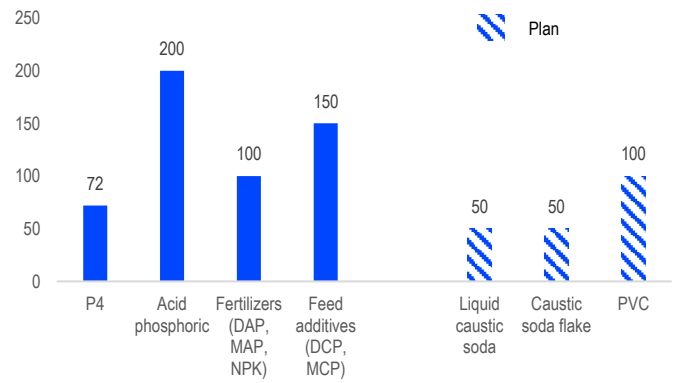


Source: Data Company, Shinhan Securities Company

DGC's P_4 production capacity (thousand tons/year)

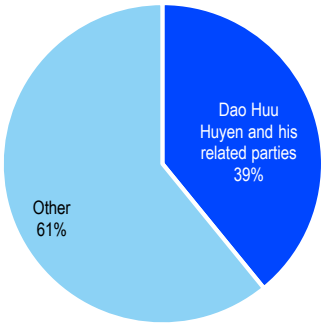


Production capacity of DGC (thousand tons/year)

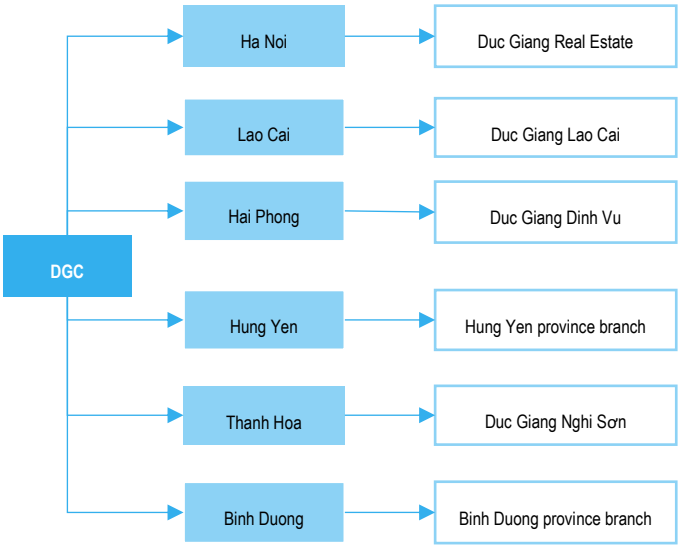


Source: Data Company, Shinhan Securities Company

Shareholder Structure 09/08/2023



Model of Governance



Source: Data Company, Shinhan Securities Company

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Total assets	13,406	15,492	18,860	23,260	27,376
Current assets	10,985	12,466	12,585	14,859	16,867
Cash & equivalents	1,535	1,061	1,285	3,440	5,320
Short-term financial asset	7,471	9,342	9,342	9,342	9,342
Accounts receivable	919	1,130	1,065	1,124	1,144
Inventories	1,000	855	814	874	982
Non-current assets	2,420	2,681	2,906	3,132	3,357
Net fixed assets	1,781	2,100	2,325	2,551	2,776
Investment assets	234	225	225	225	225
Other long-term assets	406	356	356	356	356
Total liabilities	2,572	3,493	2,853	3,059	3,430
Current liabilities	2,571	3,492	2,853	3,059	3,430
Accounts payable	326	190	181	194	218
Short-term borrowings	468	1,328	790	849	954
Others	1,778	1,942	1,882	2,016	2,258
Non-current liabilities	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Other financial liabilities	0	0	0	0	0
Total shareholders' equity	10,834	11,999	16,006	20,201	23,946
Capital stock	3,798	3,798	3,798	3,798	3,798
Capital surplus	1,787	1,787	1,787	1,787	1,787
Other capital	-217	123	123	123	123
Retained earnings	5,084	5,887	9,727	13,747	17,335
Non-controlling interest equity	382	404	571	747	903
*Total debt	468	1,328	790	849	954
*Net debt (cash)	-8,539	-9,075	-9,837	-11,933	-13,708

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Revenue	14,444	9,748	9,797	10,341	10,524
Growth		-32.5%	0.5%	5.6%	1.8%
COGS	7,694	6,293	5,989	6,430	7,227
Gross profit	6,750	3,455	3,809	3,911	3,297
GPM	46.7%	35.4%	38.9%	37.8%	31.3%
SG&A	752	597	460	486	484
Operating profit	5,998	2,858	3,348	3,425	2,813
Growth		-52.4%	17.2%	2.3%	-17.9%
OPM	41.5%	29.3%	34.2%	33.1%	26.7%
Non-operating profit	384	641	712	825	982
Financial income	533	743	820	925	1,084
Financial expense	150	102	108	99	102
In which: interest expenses	18	32	37	29	32
Net other non-operating profit	-6	-1	-1	-1	-1
Pre-tax profit	6,376	3,497	4,059	4,249	3,793
Income tax	339	247	219	229	205
Net profit	6,037	3,250	3,840	4,019	3,589
Growth		-46.2%	18.1%	4.7%	-10.7%
NPM	41.8%	33.3%	39.2%	38.9%	34.1%
Controlling interest	5,565	3,109	3,673	3,844	3,432
Non-controlling interest	472	142	167	175	156
EBIT	6,393	3,529	4,096	4,278	3,825
Growth		-44.8%	16.1%	4.4%	-10.6%
EBIT Margin	44.3%	36.2%	41.8%	41.4%	36.3%
EBITDA	6,679	3,845	4,464	4,691	4,288
Growth		-42.4%	16.1%	5.1%	-8.6%
EBITDA margin	46.2%	39.4%	45.6%	45.4%	40.7%

Statement of cash flow

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Cash flow from operations	5,937	1,812	2,472	2,714	2,461
Net profit	6,037	3,250	3,840	4,019	3,589
Depreciation expense	285	317	367	413	463
(Gain) from investing activities					
Change in working capital	-19	-42	4	28	138
Others	106	-1,572	-1,572	-1,572	-1,572
Cash flow from investments	-3,828	-1,498	-1,498	-413	-463
Change in fixed assets	-253	-153	-253	-413	-463
Change in investment assets	-3,675	-1,244	-1,244	0	0
Others	100	-100	0	0	0
Cash flow from financing	-697	-789	-750	-146	-118
Change in equity	85	0	167	175	156
Net borrowing	-371	828	-538	58	105
Dividends	-411	-1,617	-380	-380	-380
Change in total cash	1,412	-475	225	2,155	1,880
Beginning cash	124	1,535	1,061	1,285	3,440
Change in FX rates					
Ending cash	1,535	1,061	1,285	3,440	5,320

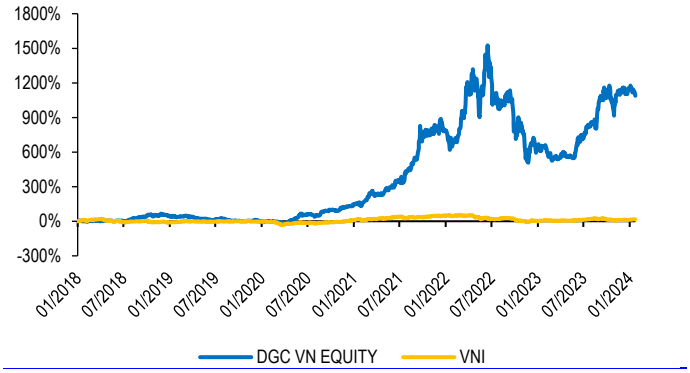
Key ratios

Year to Dec.	2022	2023	2024F	2025F	2026F
EPS (VND)	14,653	8,186	9,670	10,122	9,037
BPS (VND)	27,519	30,531	40,642	51,226	60,675
DPS (VND)	3,000	2,000	1,000	1,000	1,000
PER (x)	5.3	11.7	9.9	9.5	10.6
PBR (x)	2.8	3.1	2.4	1.9	1.6
EV/EBITDA (x)	0.3	0.4	0.4	0.4	0.4
Dividend payout ratio (%)	20%	24%	10%	10%	11%
Dividend yield (%)	6.7%	4.4%	2.2%	2.2%	2.2%
Profitability					
EBITDA margin	46.2%	39.4%	45.6%	45.4%	40.7%
OPM	41.5%	29.3%	34.2%	33.1%	26.7%
NPM	41.8%	33.3%	39.2%	38.9%	34.1%
ROA	45.0%	21.0%	20.4%	17.3%	13.1%
ROE	55.7%	27.1%	24.0%	19.9%	15.0%
Stability					
Debt to equity ratio	4.3%	4.3%	11.1%	4.9%	4.2%
Cash ratio	59.7%	59.7%	30.4%	45.1%	112.5%
Interest coverage ratio (x)	340.8	340.8	90.3	89.7	118.6
Activity					
Working capital turnover (days)	55	81	78	78	78
Inventory turnover (days)	47	50	50	50	50
Receivable turnover (days)	23	42	40	40	40

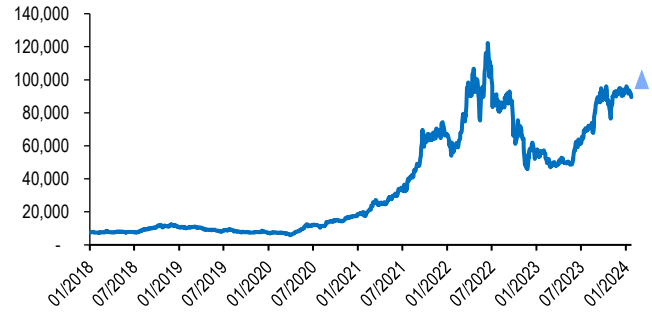
Source: Company data, Shinhan Securities Vietnam

Duc Giang Chemicals Group JSC (DGC VN)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
10/08/2023 (Initiation)	BUY	87,000	14.5	-15.9/80.8
26/01/2024 (Update)	HOLD	99,000	32.3	-1.9/103.7

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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