Shinhan Securities

Before you invest, ask us!

Ducgiang Chemicals JSC.

06/22/2021

Ticker	DGC
RATING	BUY
Current price (VND)	82,200
Target price (VND)	125,000
Upside	52.1%

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COMPANY INFORMATION

Industry	Chemicals
Stock Exchange	HOSE

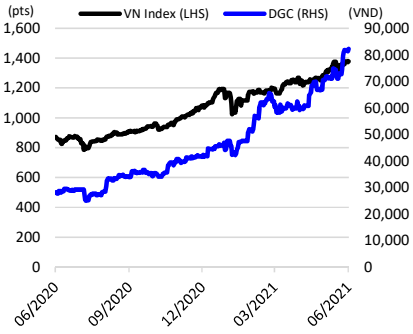
STOCK TRADING DATA

VN INDEX	1,377
Market Cap. (bn VND)	14,063
Outstanding Shares (1mn)	171
Free Floating Shares (1mn)	106
52-week High (VND)	82,700
52-week Low (VND)	25,331
Avg. Trading Volume (mn)	1.0
Avg. Reading T/O (bn VND)	69

DGC's PERFORMANCE VS VN INDEX

(%)	3M	6M	12M
Absoulute	36.2	97.1	180.2
Relative	20.9	70.0	122.1

STOCK PRICE PERFORMANCE



INVESTMENT THESIS

1. Business position

- Customers: foreign and domestic businesses (B2B), 70% revenue of yellow phosphorus from export market
- Competitors: 1) Phosphorus: private companies in Lao Cai, 2) Fertilizer: Binh Dien, Dam Phu My, etc., 3) Washing powder: LIX, NET, Unilever, etc.
- Substitutes: phosphorus is an irreplaceable product in the manufacturing sector such as electronics, semiconductors, pesticides and fertilizers, etc.

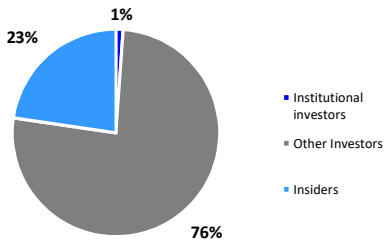
2. Investment catalysts

- Duc Giang Chemicals is a leading enterprise in Vietnam's chemical industry, especially with products from apatite ores. DGC's main business supplies phosphorus-containing products, which are essential ingredients in many industries.
- DGC holds an outstanding technology that can process deeply in the value chain from apatite ores to end products. The Company is the only entity in Vietnam that can produce some high-value products in the niche market such as biocides Chloramine B and DAP fertilizer and PVC resin from ores.
- Nghi Son project under construction is expected to operate in early 2022. The manager confident that this mega factory under full-capacity will earn VND8,000 bn revenue per year with high margin, securing the growth ~25% profit / year in next 5 years. The great potential thanks to their products are essential raw materials Clo + PVC resin, of which Vietnam currently have to import 100%.
- DGC's margin is improving strongly, thank to: 1) Khai Truong 25 apatite mine reduce 30% of raw material costs from early 2021; 2) Lauching new value-added chemical offerings in 2021-2022 such as electronic-grade TPA, food-grade TPA and red phosphorus. In addition, phosphorus chemical prices (80% profit DGC) are surging amid strong global demand for semicondutors.
- We forecast DGC net profit could earn VND1,475bn in 2021 (+56% YoY) and VND1,908 bn in 2022 (+31% YoY). We believe that P/E of 12x is reasonable for investment into such a leading business with strong growth prospect in the near future, DGC's target price is VND125,000/share in 2022 (upside +43%)

3. Risks

- Vienam government is proposing to enhance tax for export of yellow phosphorus material. In order to reduce this risk, the Company is promoting to upgrade their position in the value chain thanks to Nghi Son project and others like production of Phosphoric Acid for electronics. Thus, they can shift to midstream and downstream products with higher profit margins.
- There always exist high environmental risks in the chemical industry when problem occurs.

SHAREHOLDER STRUCTURE



FINANCIAL INFORMATION

	2017	2018	2019	2020	2021F
Sales (bn VND)	**626**	**6,090**	**5,091**	**6,236**	**8,215**
OP (bn VND)	50	939	592	987	1,471
Operating profit margin	8.1	15.4	11.6	15.8	17.9
NP(1bn VND)	**128**	**870**	**567**	**907**	**1,475**
Net profit margin	20.5	14.3	11.1	14.5	17.9
BPS(VND)	8,759	18,558	19,429	22,860	24,220
PER(x)	13.6	3.7	5.8	8.9	10.6
PBR(x)	2.5	1.6	0.9	1.9	3.4
ROE(%)	14.4	45.0	16.8	23.6	0.0
EPS (VND)	1,587	8,146	3,207	4,985	8

(*) Database information provided by Bloomberg

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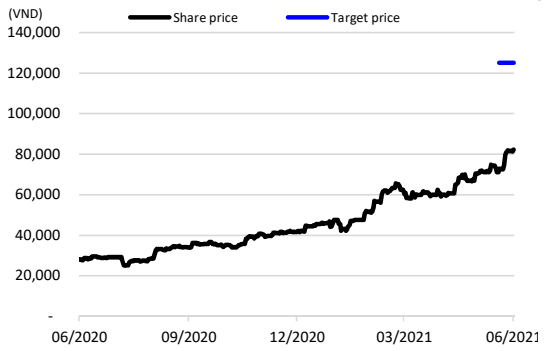
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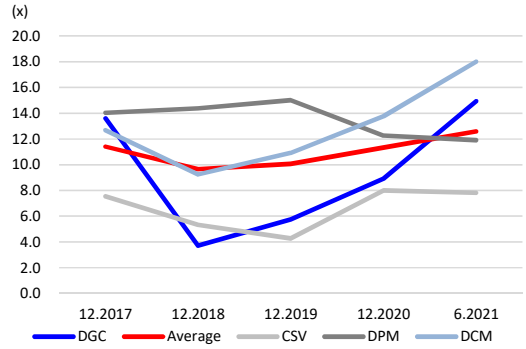
Recommendation History



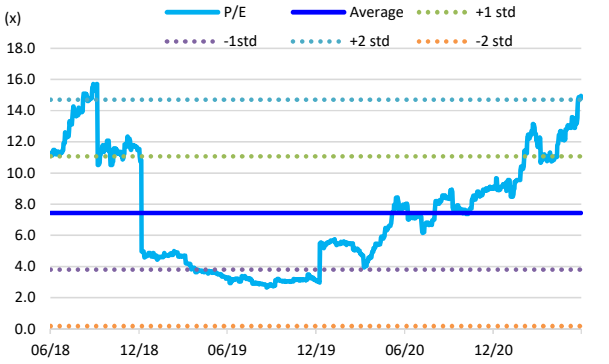
Phosphorus yellow price in China domestic market



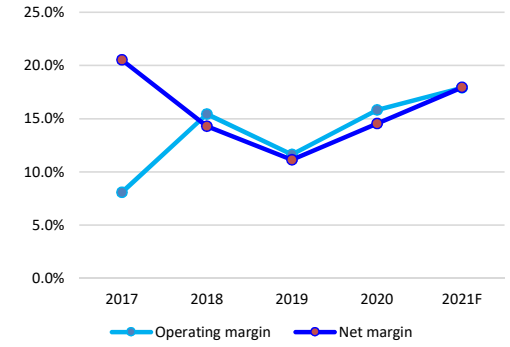
Relative valuation peers' PE



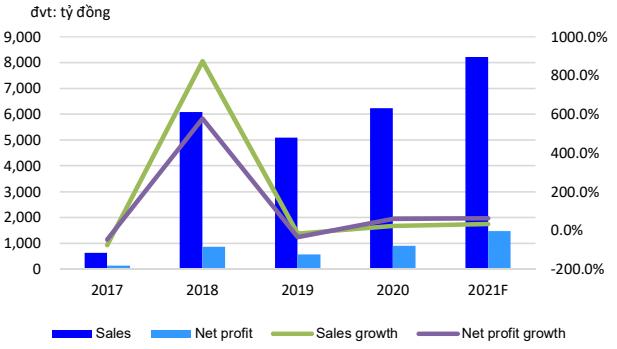
Average P/E 3 years of DGC



Operating and net margin over the years



Revenue - profit over the years



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