Shinhan Securities



Duc Giang Chemicals Group JSC

[Vietnam / Chemicals]

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

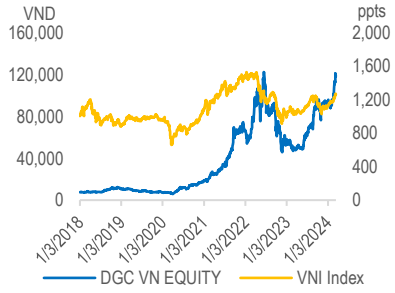
BUY

Update

Target price (12 months)	**130,000 VND**
Current price (19/04/24)	108,000 VND
Upside/downside (%)	20.3%

VNINDEX	1,174
HNXINDEX	221
Market Cap (bn VND)	41,016
Outstanding shares (1mn)	380
Free float (1mn)	223
52-week high/low (VND)	131,000/50,000
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 (%)	24.9	20.9	123.0
Relative to VN-Index (%)	16.8	10.8	105.9



Source: Bloomberg

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Reinforcement

Maintain BUY rating and target price of VND 130,000

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. Based on DCF method, we update DGC's target price at VND 130,000. In 2024, we believe that DGC's highlight is the groundbreaking of the Nghi Son project in the 3rd quarter of 2024, which will be a long-term growth driver for DGC.

Business Plan for 2024: Total consolidated revenue to reach VND 10,202 bn (+4.6% y.o.y). After-tax profit to reach VND 3,100 billion (-4.4% y.o.y). DGC's business plan is based on flat selling prices and increased production. DGC assesses this as a challenging plan and does not take into account potential electricity price increases. The dividend for 2024 is expected to be maintained at 30% in cash.

A brighter picture for the industrial P_4 segment

P_4 prices are edging up slightly due to demand from the semiconductor sector. Demand for P_4, in particular, and other chemicals from customers in the European Union (EU), South Korea, Japan, etc., is recovering and is assessed to have bottomed out in the second half of last year. In addition, DGC has also proactively raised its selling prices in line with the upward trend in domestic electricity prices.

DGC said it is looking for more M&A deals to boost its production capacity of yellow phosphorus. At the same time, the group is applying for a modification of the mining license for mine 25 and extending it for another 5 years due to larger than expected ore reserves, thereby increasing DGC's self-control over input materials.

Nghi Son Caustic Soda - Plastics Complex project is scheduled to begin construction in Q3/2024

DGC has hired a facility design consultant to commence construction in June 2024 at the Nghi Son Industrial Park in Thanh Hoa. Phase 1 of this project is expected to generate annual revenue of VND 2,000 billion and profit of VND 200-250 billion per year. We expect the project to be operational by the end of 2025, making a significant contribution to our business operations.

The "steel fist" of the Dak Nong bauxite project

DGC has signed an MOU with the Dak Nong Provincial People's Committee. The next step is to wait for the investment certificate, which could take at least two years. As such, the earliest the project could come into operation is 2027. The total investment for phase 1 is VND 57,000 billion (equivalent to USD 2.3 bn). We believe this is an ambitious project for DGC after the P_4 product.

Benefiting from the semiconductor wave

DGC produces a variety of basic chemicals for the semiconductor industry. The company has the capability to produce $FePO_4$, one of the raw materials for lithium iron phosphate (LFP) batteries. In the short term, DGC is aiming to produce $FePO_4$, rather than directly manufacturing LFP batteries, and has also offered the material to partners in South Korea and Taiwan. DGC now expects to sell lithium iron phosphate (LFP) batteries and upstream chemicals from 2025 onwards.

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**	**10,626**	**11,667**	**12,450**	**14,264**
OP (bn VND)	2,858	3,736	4,124	3,812	4,205
NP (bn VND)	**3,250**	**4,195**	**4,677**	**4,595**	**5,181**
EPS (VND)	14,653	10,565	11,777	11,571	13,047
BPS (VND)	27,519	41,578	53,892	65,991	79,633
OPM (%)	29.3%	35.2%	35.3%	30.6%	29.5%
NPM (%)	33.3%	39.5%	40.1%	36.9%	36.3%
ROE (%)	**27.1%**	**25.6%**	**22.0%**	**17.6%**	**16.5%**
PER (x)	11.7	12.1	10.9	11.1	9.8
PBR (x)	3.1	3.1	2.4	1.9	1.6
EV/EBITDA (x)	0.4	0.3	0.3	0.3	0.3

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Maintain BUY rating and target price of VND 130,000

We apply a Discounted Cash Flow (DCF) valuation method to value DGC. We update our BUY recommendation with a target price of VND 130,000, equivalent to a return of 20.3%. The main driver of our target price is the reassessment of the P4 segment's outlook and the potential for M&A to enhance yellow phosphorus production capacity. In addition, earnings are also supported by the new NPK plant that came into operation in Q8/2023 and the company Tia Sang Battery (TSB).

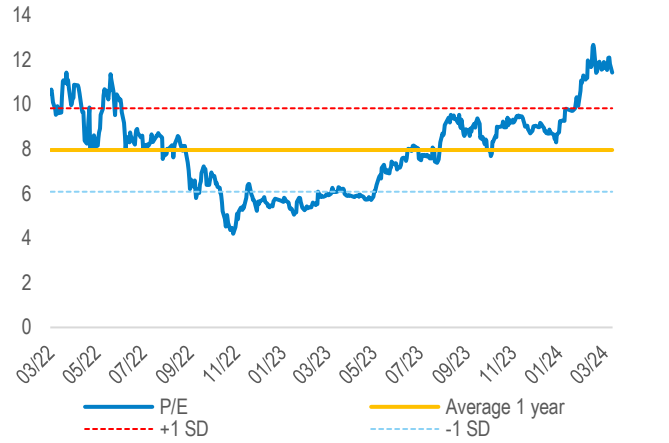
Valuation

DCF valuation (include phase 1 Nghi Son Chemical Complex)					
Unit: billion VND	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net profit	4,013	4,473	4,395	4,955	5,550
Plus: After-tax interest expense	36	29	33	38	43
Plus: Depreciation & Amortization	366	410	460	513	570
Minus: Change in working capital	17	-17	-127	-65	-52
Minus: CapEx	253	410	460	513	570
Free Cash Flow (FCF)	4,144	4,519	4,555	5,058	5,645
PV of FCF	15,037				
Growth rate	2%				
Present value of long-term value	24,988				
Enterprise value	**40,025**				
Debt	1,328				
Cash and cash equivalents	10,403				
Equity value	**49,100**				
Number of shares outstanding (mn units)	380				
Target price (VND)	**130,000**				

WACC	**13.3%**
Risk-free rate	2.9%
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

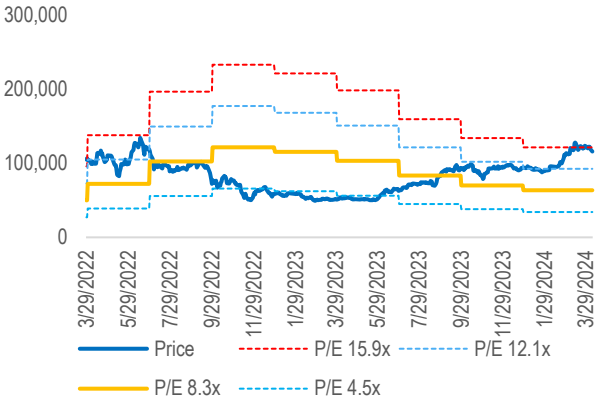
Source: Company data, Shinhan Securities Company

DGC's PER 1 year



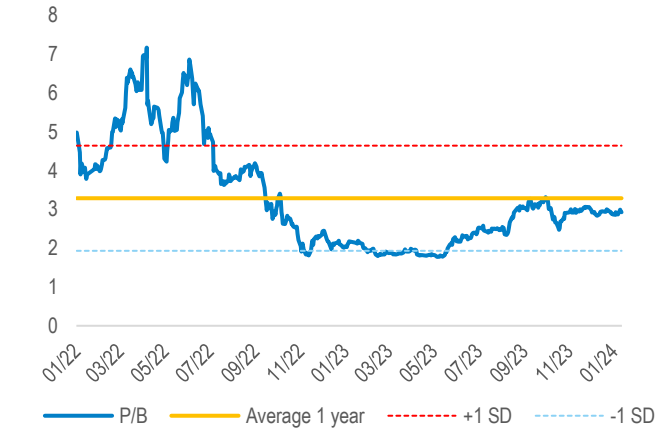
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of DGC



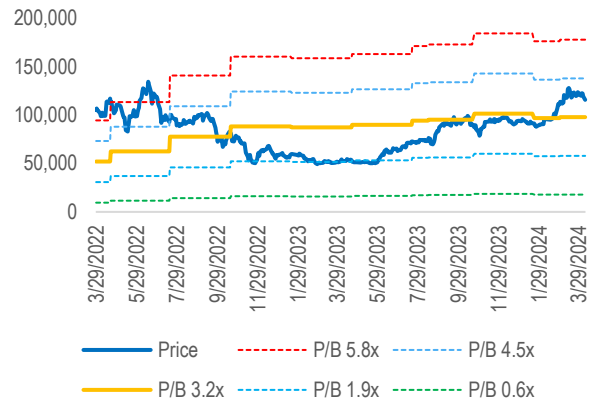
Source: Bloomberg, Company data, Shinhan Securities Vietnam

DGC's PBR 1 year



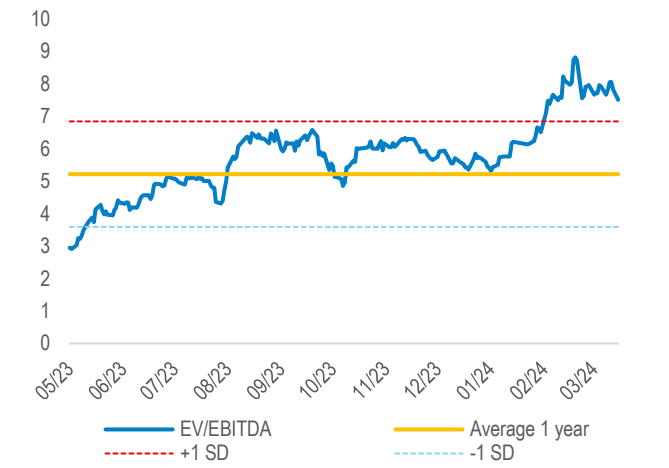
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of DGC



Source: Bloomberg, Company data, Shinhan Securities Vietnam

DGC's EV/EBITDA 1 year



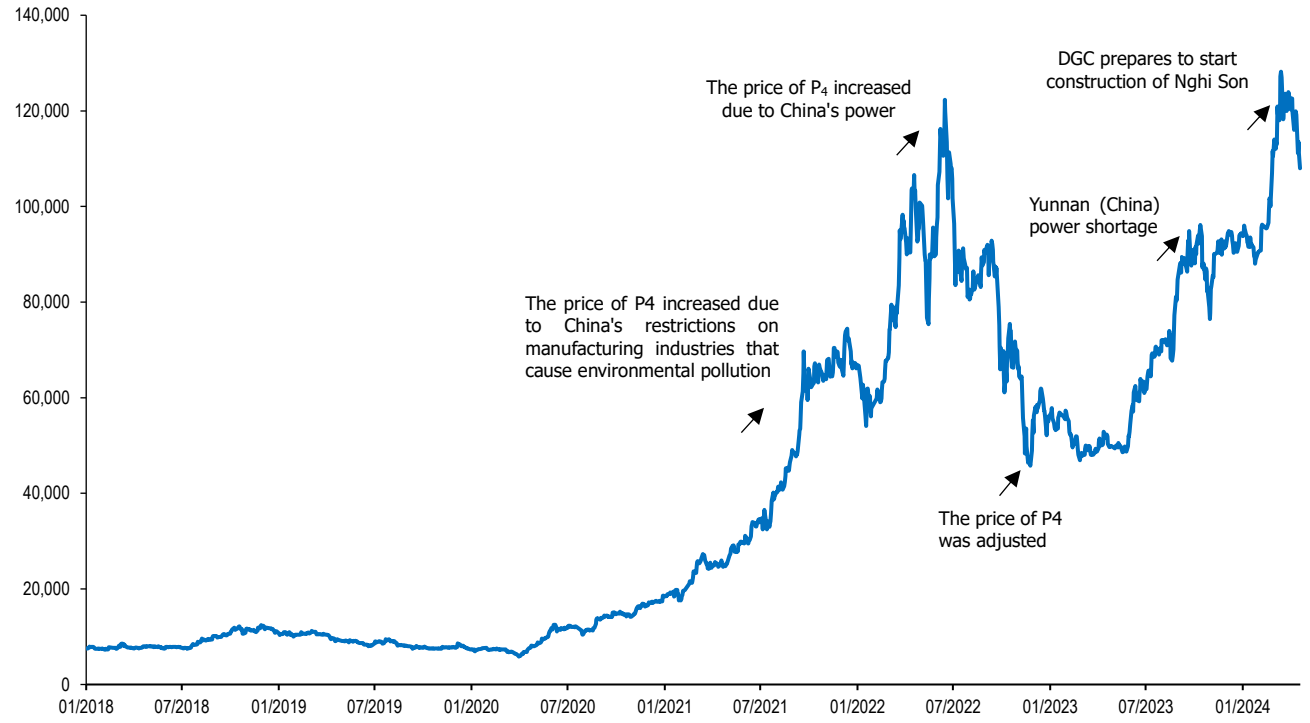
Source: Bloomberg, Company data, Shinhan Securities Vietnam

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

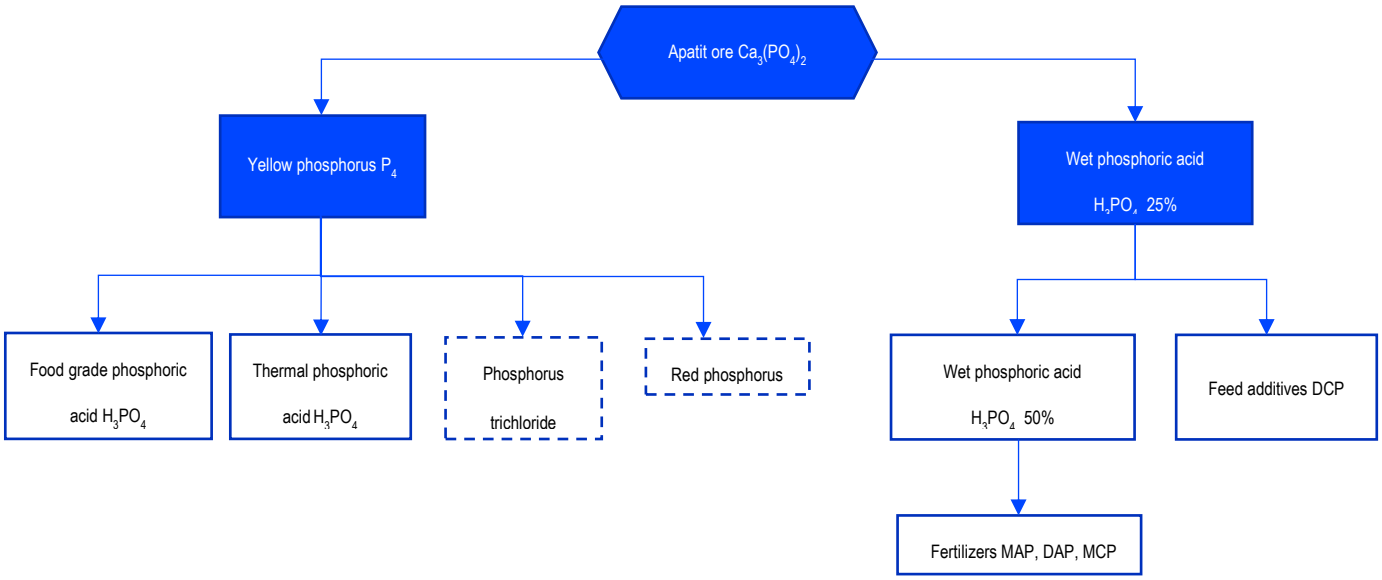
Appendix: Company Background

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

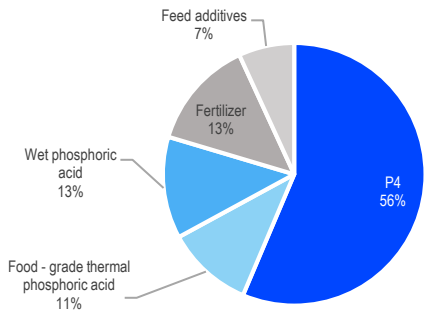


Source: Data Company, Shinhan Securities Company

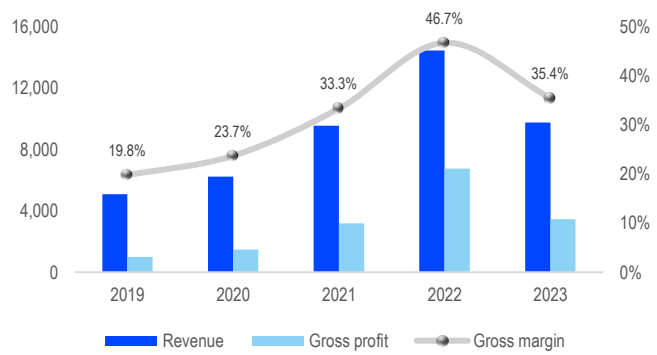
In which:

- 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 (%)

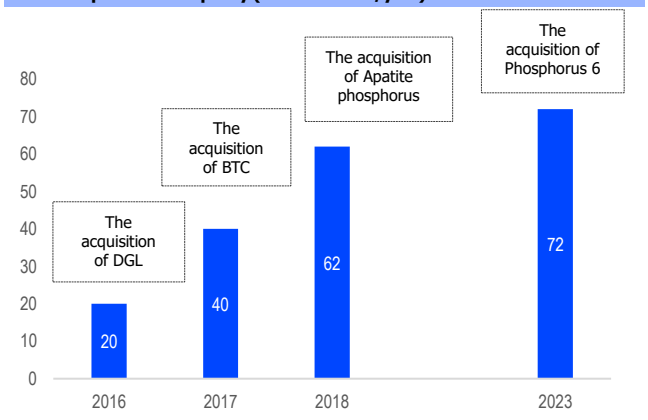


DGC's revenue and gross profit (VND bn)

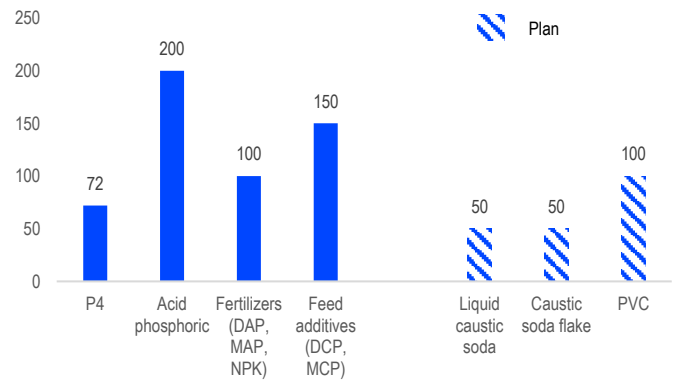


Source: Data Company, Shinhan Securities Company

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

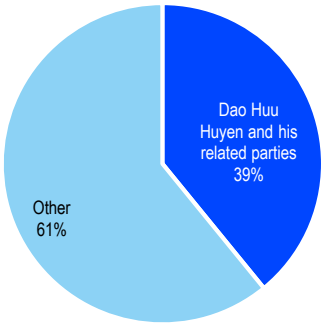


Production capacity of DGC (thousand tons/year)

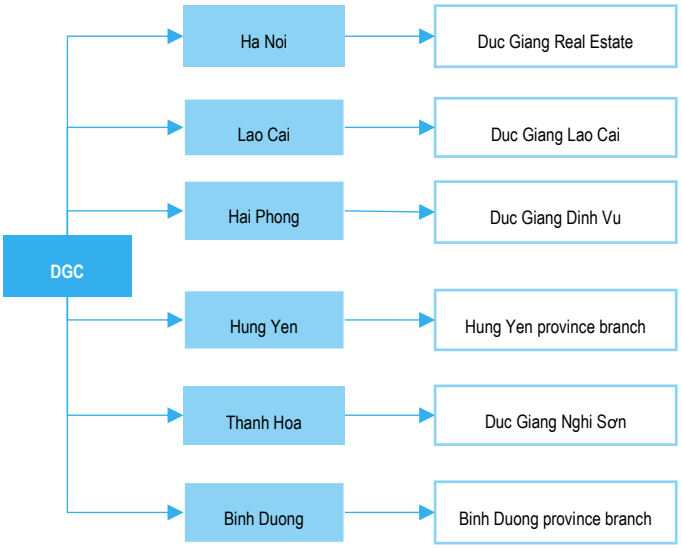


Source: Data Company, Shinhan Securities Company

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	19,393	24,580	29,874
Current assets	10,985	12,466	12,342	15,374	18,516
Cash & equivalents	1,535	1,061	905	3,734	6,646
Short-term financial asset	7,471	9,342	9,342	9,342	9,342
Accounts receivable	919	1,130	1,155	1,268	1,353
Inventories	1,000	855	861	950	1,096
Non-current assets	2,420	2,681	2,870	3,095	3,320
Net fixed assets	1,781	2,100	2,289	2,514	2,739
Investment assets	234	225	225	225	225
Other long-term assets	406	356	356	356	356
Total liabilities	2,572	3,493	3,016	3,322	3,821
Current liabilities	2,571	3,492	3,016	3,322	3,821
Accounts payable	326	190	191	211	244
Short-term borrowings	468	1,328	837	923	1,065
Others	1,778	1,942	1,988	2,187	2,513
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	16,377	21,258	26,053
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	10,083	14,759	19,354
Non-controlling interest equity	382	404	587	791	991
*Total debt	468	1,328	837	923	1,065
*Net debt (cash)	-8,539	-9,075	-9,410	-12,153	-14,923

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Revenue	14,444	9,748	10,626	11,667	12,450
Growth		-32.5%	9.0%	9.8%	6.7%
COGS	7,694	6,293	6,337	6,995	8,065
Gross profit	6,750	3,455	4,289	4,672	4,385
GPM	46.7%	35.4%	40.4%	40.0%	35.2%
SG&A	752	597	553	548	573
Operating profit	5,998	2,858	3,736	4,124	3,812
Growth		-52.4%	30.8%	10.4%	-7.5%
OPM	41.5%	29.3%	35.2%	35.3%	30.6%
Non-operating profit	384	641	697	820	1,042
Financial income	533	743	805	921	1,148
Financial expense	150	102	109	102	106
In which: interest expenses	18	32	38	31	35
Net other non-operating profit	-6	-1	-1	-1	-1
Pre-tax profit	6,376	3,497	4,463	4,975	4,888
Income tax	339	247	268	299	293
Net profit	6,037	3,250	4,195	4,677	4,595
Growth		-46.2%	29.1%	11.5%	-1.7%
NPM	41.8%	33.3%	39.5%	40.1%	36.9%
Controlling interest	5,565	3,109	4,013	4,473	4,395
Non-controlling interest	472	142	183	204	200
EBIT	6,393	3,529	4,501	5,006	4,923
Growth		-44.8%	27.6%	11.2%	-1.7%
EBIT Margin	44.3%	36.2%	42.4%	42.9%	39.5%
EBITDA	6,679	3,845	4,867	5,416	5,383
Growth		-42.4%	26.6%	11.3%	-0.6%
EBITDA margin	46.2%	39.4%	45.8%	46.4%	43.2%

Statement of cash flow

Year to Dec. (bn VND)	2022	2023	2024F	2025F	2026F
Cash flow from operations	5,937	1,812	2,790	3,328	3,409
Net profit	6,037	3,250	4,013	4,473	4,395
Depreciation expense	285	317	366	410	460
(Gain) from investing activities					
Change in working capital	-19	-42	-17	17	127
Others	106	-1,572	-1,572	-1,572	-1,572
Cash flow from investments	-3,828	-1,498	-1,498	-410	-460
Change in fixed assets	-253	-153	-253	-410	-460
Change in investment assets	-3,675	-1,244	-1,244	0	0
Others	100	-100	0	0	0
Cash flow from financing	-697	-789	-1,448	-89	-38
Change in equity	85	0	183	204	200
Net borrowing	-371	828	-491	87	141
Dividends	-411	-1,617	-1,139	-380	-380
Change in total cash	1,412	-475	-156	2,829	2,912
Beginning cash	124	1,535	1,061	905	3,734
Change in FX rates					
Ending cash	1,535	1,061	905	3,734	6,646

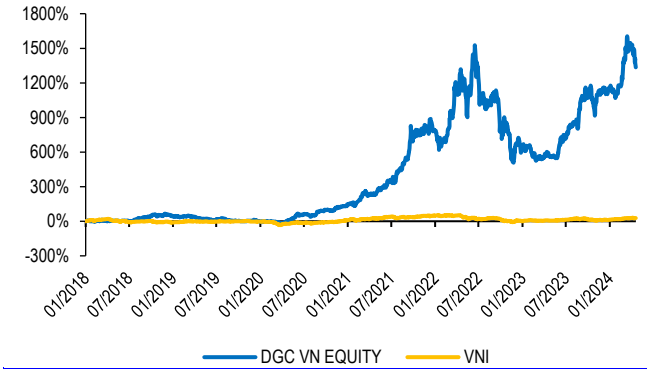
Key ratios

Year to Dec.	2022	2023	2024F	2025F	2026F
EPS (VND)	14,653	8,186	10,565	11,777	11,571
BPS (VND)	27,519	30,531	41,578	53,892	65,991
DPS (VND)	3,000	2,000	3,000	1,000	1,000
PER (x)	5.3	11.7	12.1	10.9	11.1
PBR (x)	2.8	3.1	3.1	2.4	1.9
EV/EBITDA (x)	0.3	0.4	0.3	0.3	0.3
Dividend payout ratio (%)	20%	24%	28%	8%	9%
Dividend yield (%)	6.7%	4.4%	6.7%	2.2%	2.2%
Profitability					
EBITDA margin	46.2%	39.4%	45.8%	46.4%	43.2%
OPM	41.5%	29.3%	35.2%	35.3%	30.6%
NPM	41.8%	33.3%	39.5%	40.1%	36.9%
ROA	45.0%	21.0%	21.6%	19.0%	15.4%
ROE	55.7%	27.1%	25.6%	22.0%	17.6%
Stability					
Debt to equity ratio	4.3%	4.3%	11.1%	5.1%	4.3%
Cash ratio	59.7%	59.7%	30.4%	30.0%	112.4%
Interest coverage ratio (x)	340.8	340.8	90.3	98.0	133.0
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

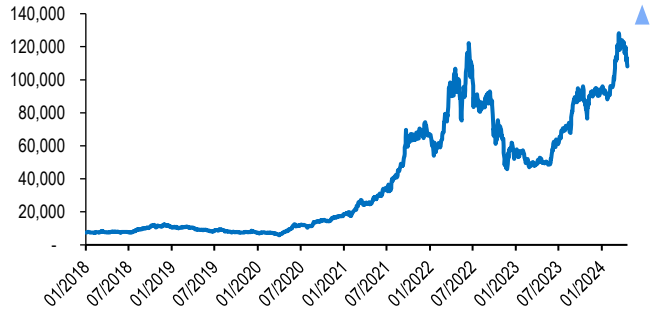
Source: Company data, Shinhan Securities Vietnam

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
22/04/2024 (Update)	BUY	130,000	44.4	-0.001/160

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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