

# Duc Giang Chemicals (DGC)

## Expect better product prices in 2H24

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### 2Q24 business results are relatively positive

2Q24 revenue of Duc Giang Chemicals (DGC) rose 3.8% YoY. DGC boosted the consumption of fertilizer products via favorable prices. We estimate the growth in the prices of yellow phosphorus and phosphoric acid in 2Q24 at -16.9% and 6.1% YoY, respectively. GPM improved slightly YoY with lower input costs thanks to stable operation of Mining field 19.

### Asian semiconductor market should recover in 2H24, and Japanese market show signs of recovery

World Semiconductor Trade Statistics (WSTS) maintains its forecast for the growth of the Asian semiconductor industry in 2024 and 2025 at 17.5% and 12.3% YoY, respectively. We still hope semiconductor consumption in Asia will rebound more strongly in 2H24, thereby improving demand for yellow phosphorus and its derivatives. Although the Japan market showed signs of recovery in 2Q24, it may continue to record negative YoY growth until the end of 2024.

### Nghi Son project has risk of delay

The project has completed compensation and site clearance but still faces some obstacles including (1) difficulties in fire prevention and fighting records and (2) the incomplete resettlement of some households. We adjusted the assumption of the project's operating time to 1Q26.

### Valuation: NEUTRAL rating – Target price VND128,800/share

We gave a NEUTRAL rating to DGC with a target price of VND128,800, 13.5% higher than the closing price of VND113,500 on September 13, 2024. The new target price is 2% lower than that of the last report due to (1) lower assumption of product price growth and (2) later recognition of business results from the Nghi Son project (changed to 2026). The expected dividend yield is at 2.7%.

**Neutral** maintain

**Target price** VND128,800

Upside	1.3%
Current price (Sep 13, 2024)	VND113,500
Consensus target price	VND130,800
Market cap (VNDtn/USDbn)	43.1/1.8

#### Forecast earnings & valuation

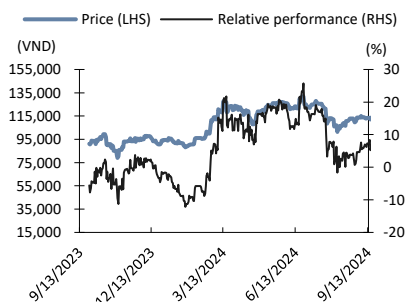
FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	14,444	9,748	10,922	12,306
Operating income/loss (VNDbn)	5,998	2,845	3,211	3,634
NPAT-MI (VNDbn)	5,565	3,100	3,478	3,855
EPS (VND)	13,774	7,673	8,217	9,106
EPS growth (%)	127.8	-44.3	7.0	11.0
P/E (x)	8.1	14.6	13.6	12.3
P/B (x)	3.9	3.5	3.0	2.6
ROE (%)	55.7	27.0	25.3	24.0
Dividend yield (%)	1.0	4.2	2.7	2.7

#### Trading data

Free float	62.1%
3M avg trading value (VNDbn/USDmn)	314.1/12.4
Foreign ownership	17.9%
Major shareholder	Chairman Dao Huu Huyen (18.4%)

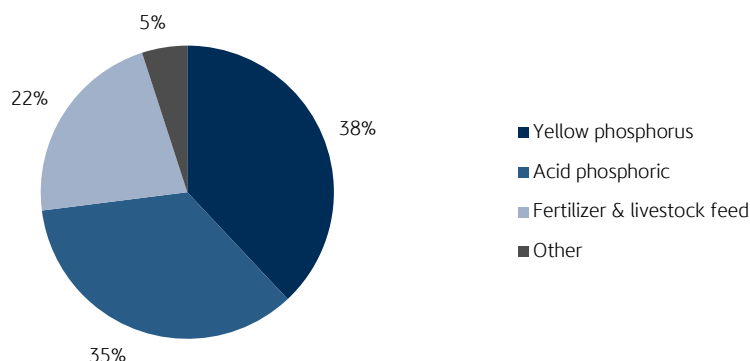
#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	4.1	-7.9	-10.8	25.0
<b>Relative</b>	2.0	-4.5	-9.7	23.5



Source: Bloomberg, KB Securities Vietnam

## Revenue composition (2023)



Source: Duc Giang Chemicals, KB Securities Vietnam

## Business operation

Duc Giang Chemical Group Joint Stock Company (DGC) was established in 1963. In 2004, it was transformed into a joint stock company. Yellow phosphorus, agricultural chemicals, fertilizers, and washing powders and detergents are the core business products of the Company, bringing in the main source of revenue. Currently, DGC has a great competitive advantage as one of the key suppliers of yellow phosphorus in the East Asia region. In the near future, DGC plans to participate in the production and business of Caustic Soda-Chlo products with the Duc Giang Nghi Son Chemical Complex projects

## Investment Catalysts

**Yellow phosphorus and derivatives prices should rebound from 2H24.** A clearer recovery in the Asian semiconductor market while demand for phosphate fertilizers remains high may support yellow phosphorus and derivatives prices.

**Medium-term growth drivers come from M&As.** DGC recorded business results from Tia Sang Battery from 2024 and Dai Viet Ethanol from 2025. It reduced input ore costs by continuing to acquire mines in neighboring areas.

**Long-term growth driver is the Duc Giang Nghi Son chemical project.** The project is facing short-term difficulties, but is expected to start operating from 1Q26, helping to create new growth drivers in the long term.

## Notes

Please find more details [here](#)

Please see more details below

Please see more details below

## Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	10,922	12,306	-9%	-12%	126,456	134,448	1%	7%
EBIT	3,211	3,634	-12%	-7%	5,777	6,838	8%	11%
NP after MI	3,478	3,855	-4%	-8%	5,998	6,890	11%	13%

Source: Bloomberg, KB Securities Vietnam

## Investment opinion &amp; risks

Bull-case scenario	VND144,700 (high product prices, low input electricity prices)	<b>Base-case scenario: catalysts</b> 1) 2024F P4 & TPA price: 0.0% YoY 2) 2024F WPA price: 0.0% 3) 2024F input electricity price: +7.0%
Base-case scenario (target price)	VND128,800	<b>Bull-case scenario: upside risk</b> 1) 2024F P4 & TPA price: 5.0% YoY 2) 2024F WPA price: +3.0% 3) 2024F input electricity price: +5.0%
Current price	VND113,500	<b>Bear-case scenario: downside risk</b> 1) 2024F P4 & TPA price: -5.0% YoY 2) 2024F WPA price: -3.0% 3) 2024F input electricity price: +9.0%
Bear-base scenario	VND112,900 (low product prices, high input electricity prices)	

## 2Q24 performance updates

### 2Q24 business results are relatively positive

DGC's 2Q24 revenue gained 3.8% YoY. Similarly, in 1Q24, the company boosted the consumption of fertilizer products due to negative price movements of its key products, yellow phosphorus and acid. We estimate the prices of yellow phosphorus and phosphoric acid in 2Q24 will drop 16.9% and gain 6.1% YoY, respectively. The estimated figures for 1H24 are -22.0% and -6.7% YoY, respectively. 2Q24 GPM improved slightly YoY mainly due to input cost reduction thanks to stable operation of Mining field 19.

Table 1. DGC – 1H24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	1H23	1H24	+/-%YoY	Notes
Revenue	2,414	2,505	3.8%	4,897	4,889	-0.2%	2Q24 growth in continues thanks to the strengthening of the fertilizer segment. The WPA plant has returned to stable operation after the maintenance period in 1Q24. We estimate that the price of yellow phosphorus (P4) in 2Q decreased by 16.9% YoY while the average acid price (AP) increased by 6.1% YoY.
Gross profit	940	983	4.6%	1,831	1,750	-4.4%	
Gross profit margin	39.0%	39.3%		37.4%	35.8%		The improvement in 2Q was attributable to the reduction of input ore costs when the Mining field 19 started to operate stably.
Financial income	181	165	-8.9%	345	330	-4.5%	This was mainly due to the decrease of 24.3% YoY in interest expenses in 2Q24.
Financial expenses	25	16	-35.7%	45	34	-24.0%	
Profits from affiliates	0	0	N/A	0.0	0.0	N/A	
SG&A	145	157	8.8%	293.3	303.0	3.3%	
Operating profit/loss	952	975	2.4%	1,838	1,743	-5.2%	
Other income	1	-9	-1930.0%	-1	-8	1172.6%	
Profit before taxes (PBT)	953	966	1.4%	1,837	1,735	-5.6%	
Profit after taxes (NPAT)	882	880	-0.2%	1,705	1,584	-7.1%	
NP after MI	843	861	2.1%	1,631	1,533	-6.0%	

Source: Duc Giang Chemicals, KB Securities Vietnam

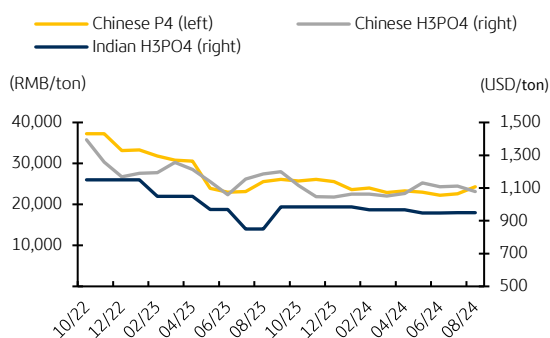
### Asian semiconductor market should recover in 2H24, and Japanese market show signs of recovery

On the supply side, the yellow phosphorus export market in Asia remains tight due to China's export restrictions. On the demand side, the WSTS maintains its forecast for Asian semiconductor industry growth in 2024 and 2025 at 17.5% and 12.3% YoY, respectively, while the forecasts for the Japanese market are 1.1% and 9.3% YoY, respectively. We continue to expect that semiconductor consumption in Asia (especially China) will be able to recover more clearly in 2H24, thereby contributing to improving demand for yellow phosphorus and derivatives. One of DGC's key markets, Japan, has started to show signs of a recovery in semiconductor sales in 2Q24 (Figure 5), but we believe this market is likely to continue to record negative YoY growth until the end of 2024 due to the gloomy economic outlook.

## Global phosphate consumption outlook remains positive in 2024, supporting fertilizer and WPA sales

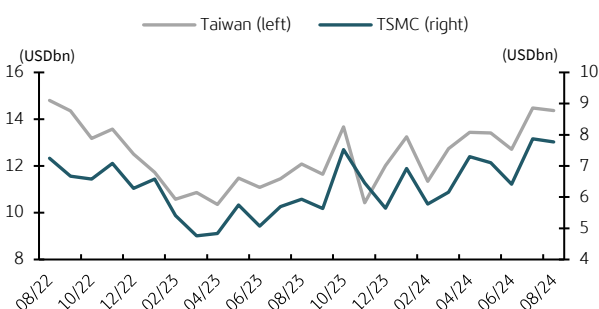
Green Markets has raised its forecast for global phosphate fertilizer consumption growth in 2024 from 2.7% to 3.2% YoY mainly due to better-than-expected 1H24 actual data. We maintain our view that phosphate fertilizer prices will remain stable in the rest of 2024 thanks to the market supply-demand balance.

**Fig 2. China & India – Chinese P4 (CNY/ton) & H3PO4 prices & Indian H3PO4 price (USD/ton)**



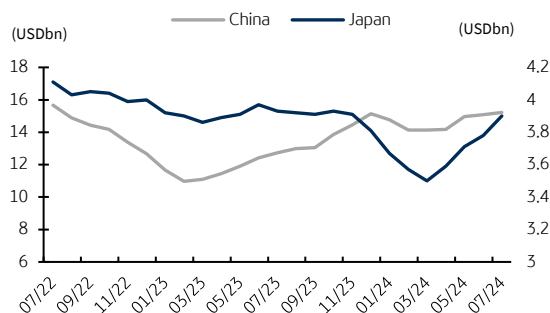
Source: Bloomberg, KB Securities Vietnam

**Fig 3. Taiwan – Semiconductor equipment and TSMC Group revenue (USDbn)**



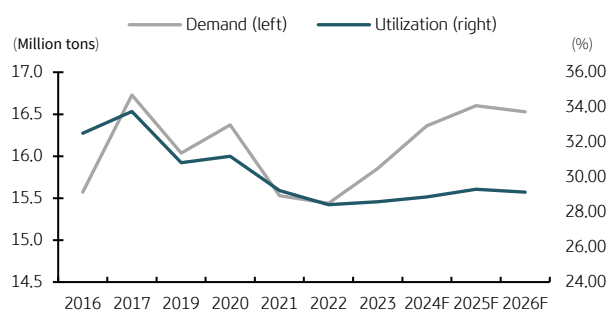
Source: Bloomberg, KB Securities Vietnam

**Fig 4. China & Japan – Semiconductor equipment sales (USDbn)**



Source: SIA, Bloomberg, KB Securities Vietnam

**Fig 5. Global – Forecasts for phosphate fertilizer demand (million tons) and utilization (%)**



Source: Green Markets, Bloomberg, KB Securities Vietnam

## Forecast & valuation

**Table 6. DGC – 2024–2025F**

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Assumptions
Revenue	9,748	10,922	12.0%	12,306	12.7%	
P4, TPA and WAP	7,132	7,847	10.0%	8,487	8.1%	We reduced 2024 yellow phosphorus and TPA price growth assumptions from 6.5% to 0% compared to the latest report due to weaker-than-expected market developments in 1Q–2Q24. P4 and TPA prices should improve strongly in 2H24 due to positive consumption demand while supply remains tight.
Fertilizers & animal feeds	2,148	2,572	19.7%	2,702	5.1%	DAP and NPK fertilizer consumption output should be further boosted.
Other products	468	502	7.4%	1,117	122.3%	2024: DGC would record full-year revenue for Tia Sang Battery and moved Dai Viet Ethanol revenue recognition assumption from mid-3Q24 to 1Q25.
Gross profit	3,440	3,877	12.7%	4,385	13.1%	2025: The company would remove Nghi Son project contribution from 2025 projection due to delay risk and delay revenue recognition assumption to 1Q26.
Gross profit margin	35.3%	35.5%		35.6%		2024 NPAT rose 1.8% compared to the latest report due to (1) reducing input apatite ore valuation by 5% yoy and (2) removing Dai Viet Ethanol revenue assumption (lower NPAT in the early period).
Financial income	739	702	-5.0%	702	0.0%	
Financial expenses	98	72	-26.5%	78	8.3%	
Profit from affiliates	0	0	N/A	0	N/A	
SG&A	595	666	11.9%	751	12.8%	We lowered 2024 yellow phosphorus and TPA price growth assumption from 6.5% to 0% compared to the latest report due to weaker-than-expected market developments in 1Q–2Q24. NPAT should start improving in 2H24.
Operating income/loss	3,486	3,841	10.2%	4,258	10.9%	
Other incomes	-1	0	N/A	0	N/A	
Profit before taxes (PBT)	3,485	3,841	10.2%	4,258	10.9%	
Profit after taxes (NPAT)	3,242	3,572	10.2%	3,960	10.9%	
NP after MI	3,100	3,478	12.2%	3,855	10.8%	
NPAT margin	31.8%	31.8%		31.3%		

Source: Duc Giang Chemicals, KB Securities Vietnam

**Valuation: NEUTRAL rating –  
Target price VND128,800**

We combined the FCFF and P/E comparison to give a NEUTRAL rating to DGC. The average of the projected EPS for 2024F and 2025F is used to value the stock. The new target price is VND128,800/share, 2% lower than the latest report due to (1) lower assumption of growth in the prices of products and (2) later recognition of business results from the Nghi Son project (delayed to 2026). This target price is equivalent to an upside of 13.5% compared to the closing price of VND113,500/share on September 13, 2024.

Table 7. DGC – FCFF valuation

Risk-free rate	4.7%	Present value of terminal value	27,043
Equity risk premium	7.6%	Total present value for the period 2024-2028	13,952
Beta	1.5	Total present value	40,995
Average interest rate	7.0%	Plus: Cash & Short-term investments	12,406
Taxes	7.0%	Minus: Net Debt	-1,495
Weighted cost of capital	13.2%	Minus: Minority interest	-424
Terminal growth rate	2.0%	Equity value	51,482
		Number of shares outstanding (million shares)	379.80
		Equity value/share (VND)	135,550

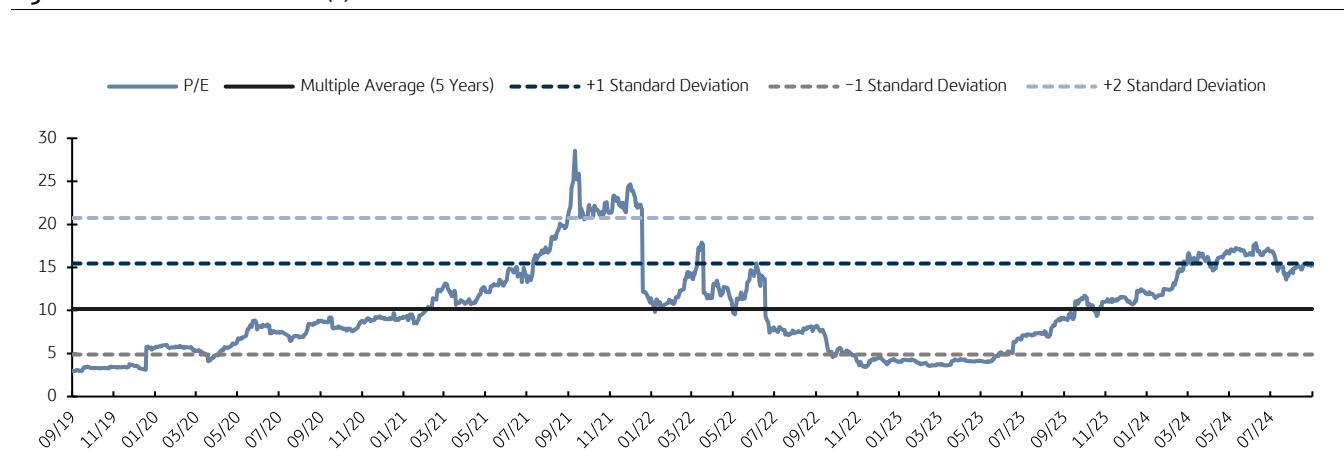
Source: Bloomberg, KB Securities Vietnam

Table 8. DGC – Final valuation

Method	Forecast price	Weight	Price per weight
FCFF	135,550	50%	67,775
P/E (14.1x)	122,134	50%	61,067
Target price (rounded)			<b>128,800</b>
Current price (13/09/2024)			113,500
Upside			13.5%
Dividend yield			2.7%
Total return			16.2%

Source: Bloomberg, KB Securities Vietnam

Fig 4. DGC – PE in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam



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**Investment Ratings for Stocks**

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

**Investment Ratings for Sectors**

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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