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3Q23 performance of DGC was weaker than expected, causing 9M23 business results not to improve much

3Q23 results of Duc Giang Chemicals Group (DGC) were much lower than our expectation as yellow phosphorus prices recovered more slowly than expected. 9M23 revenue from yellow phosphorus decreased 39% YoY, and revenue from WPA and fertilizers of all kinds dropped 38% and 14% YoY, respectively.

Consumption of semiconductor equipment is expected to recover in 2024

Global consumption of semiconductor equipment and molds showed signs of recovery from the end of 1Q23. The demand for semiconductor equipment has room to grow in 2024 thanks to low comparative levels in 2023. The possibility of the Fed easing policy in 2H24 could support semiconductor demand. Accordingly, the prices of yellow phosphorus and TPA should be more positive in 2024.

The global phosphate fertilizer supply and demand balance is favorable in 1H24

China has not yet lifted the fertilizer export ban. India will have to stockpile DAP to get ready for the Rabi crop. We believe that the price outlook and demand for WPA and DAP fertilizer in 1H24 will be positive thanks to the favorable balance between supply and demand in the world.

The construction of Duc Giang Nghi Son Chemical Complex should start in 1H24

We started to include the Duc Giang – Nghi Son Chemical Complex in the valuation model with the conservative assumption that it will be completed in 2Q25 and contribute about VND670 billion in 2025 revenue to DGC with a GPM of 12%.

HOLD recommendation with a target price of VND95,300/share

Based on FCFF and P/E valuation, we give a HOLD rating for DGC. The target price is VND95,300/share, equivalent to an upside of 5.3% compared to the price on December 22, 2023.

Hold maintain

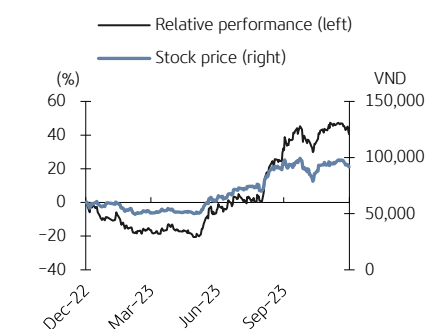
Target price	VND95,300
Upside	5.3%
Current price (Dec 12, 2023)	VND90,500
Consensus market price	VND101,300
Market cap (VNDbn/USDmn)	34,330/1,430

Trading data	
Free float	58.6%
3M avg trading value (VNDbn/USDmn)	265/11
Foreign ownership	18.9%
Major shareholder	Mr Dao Huu Huyen (18.38%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.8	-2.6	43.8	51.9
Relative	-1.6	7.4	46.1	40.6

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	9,550	14,444	10,019	11,638
Operating income (VNDbn)	2,541	5,998	3,047	3,620
NPAT of the parent (VNDbn)	2,388	5,565	3,395	3,863
EPS (VND)	6,047	13,774	8,939	10,170
EPS growth (%)	5.5	127.8	-35.0	14.0
P/E (x)	15.2	6.7	10.3	9.0
P/B (x)	2.5	3.2	2.9	2.6
ROE (%)	39.7	55.7	28.9	29.4
Dividend yield (%)	1.5	1.2	1.1	1.1



Source: Bloomberg, KB Securities Vietnam

9M23 performance updates

3Q23 performance was weaker than expected

3Q23 business results of DGC were much weaker than our expectations due to the slower recovery in yellow phosphorus and phosphoric acid prices. Accordingly, 9M23 performance to not improve much with NPAT only reaching VND2,507 billion (down 49% YoY).

Table 1. DGC – 9M23 business performance

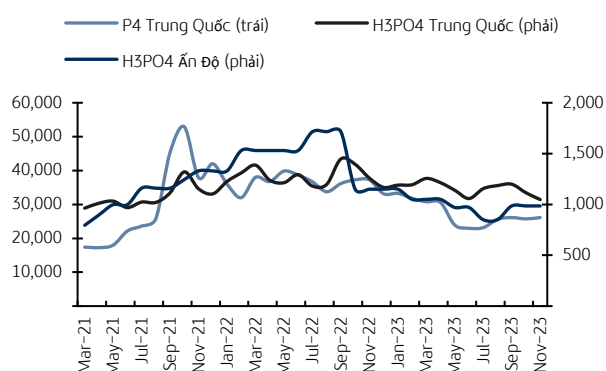
	9M22	9M23	YoY %	KBSV's notes
Revenue (VNDbn)	11,333	7,360	-35%	<ul style="list-style-type: none"> - Yellow phosphorus revenue decreased 39% yoy, mainly due to (1) weak global consumption of household appliance and (2) increased internal use of yellow phosphorus to complete WPA and TPA orders from India and the US. - Revenue of WPA and fertilizers decreased by 38% yoy and 14% yoy, respectively, mainly due to price drops from high base levels over the same period.
Gross profit (VNDbn)	5,480	2,670	-51%	Product prices dropped sharply from high base levels while input electricity prices increased.
Gross profit margin (%)	48%	36%		
SG&A costs	-561	-450	-20%	
Operating income (VNDbn)	4,920	2,220	-55%	
Financial income (VNDbn)	336	549	63%	The income was mainly from the large cash balance accumulated from 2022 to prepare for Nghi Son Chemical Complex.
Financial expenses (VNDbn)	-74	-67	-9%	
Other incomes (net, VNDbn)	0.4	-1.5	-497%	
Profit before taxes (VNDbn)	5,181	2,701	-48%	
Profit after taxes (VNDbn)	4,917	2,507	-49%	
Net profit margin (%)	43%	34%		

Source: Duc Giang Chemicals, KB Securities Vietnam

Consumption of semiconductor equipment is expected to recover in 2024

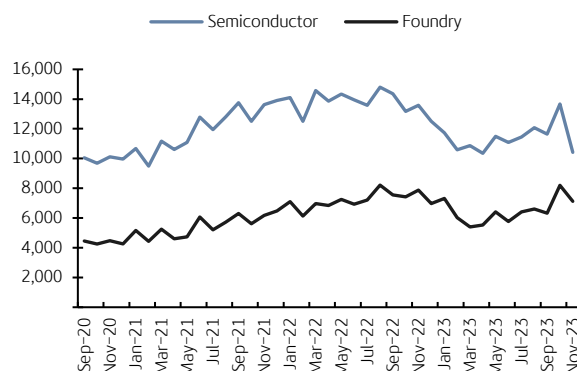
Global consumption of semiconductor equipment and foundry shows signs of recovery from the end of 1Q23. We believe that global demand for semiconductor equipment will grow in 2024 from low bases in 2023. Furthermore, we also expect that the Fed's policy easing in 2H24 may support the recovery trend of semiconductor consumption. Research organizations including World Semiconductor Trade Statistics and Gartner forecast global semiconductor industry growth in 2024 to reach 13.1% and 16.8% YoY, respectively. Accordingly, we expect yellow phosphorus and TPA prices to be more positive in 2024.

Fig 2. China & India – Yellow phosphorus and phosphoric acid prices ((RMB/ton, USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – Semiconductor equipment and foundry sales by month (USDmn)



Source: Bloomberg, KB Securities Vietnam

The global phosphate fertilizer supply and demand balance is favorable in 1H24

The world's largest phosphate fertilizer exporter, China, has not yet shown any moves to ease the ban on fertilizer export due to concerns about not ensuring domestic supply. India will have to stockpile DAP to get ready for the Rabi crop amid pressure on the government to ensure a smooth 2024 general election. We believe that the outlook for WPA price and consumption demand in 1H24 will be positive because India must boost imports to produce its own phosphate fertilizer. Domestic DAP fertilizer prices may also benefit if the global supply shortage situation does not improve.

The construction of Duc Giang Nghi Son Chemical Complex project is expected to start in 1H24

According to DGC management, the construction of the project will start no later than 2Q24. We started including the project in the forecast model with the conservative assumption that the project will be completed in 2Q25, contributing about VND670 billion to DGC's 2025 revenue with a GPM of 12%. In the following years, it is assumed that revenue from the project will grow at a CAGR of 20% until reaching a revenue level with maximum capacity of VND1,500 billion/year. The project is expected to help DGC penetrate the potential caustic soda market, which is also a step in the company's completing the production value chain with the large Tay Nguyen bauxite project in the long term.

Forecast & valuation

Table 2. DGC – 2023–2024F business results

	2022	2023F	YoY %	2024F	YoY %	KBSV's notes
Revenue (VNDbn)	14,444	10,019	-31%	11,638	16%	
Yellow phosphorus and phosphoric acid	11,848	7,707	-35%	9,161	19%	2023F: KBSV lowered the forecast for DGC's revenue by 15% compared to the last update report because 3Q23 business results were much lower than expected. 2024F: Revenue from yellow phosphorus should rise 21% YoY from 2023 low base thanks to expectations of demand recovery and contribution from the new plant. WPA revenue is expected to rebound 10% YoY thanks to stable demand from India in the context of tight DAP fertilizer supply due to China's export restrictions. TPA revenue should grow about 21% YoY as DGC focuses on boosting production to serve customers in the US and East Asia.
Fertilizers	1,788	1,463	-18%	1,594	9%	Phosphate fertilizer prices are projected to be stable thanks to favorable supply and demand in the world market.
Others	808	848	5%	884	4%	
Gross profit (VNDbn)	6,750	3,637	-46%	4,306	18%	Electricity costs are expected to increase sharply by 25% YoY due to (1) higher electricity prices and (2) promoted TPA production. The costs of apatite ore should plunge thanks to the contribution of the new mine.
Gross profit margin (%)	47%	36%		37%		
SG&A costs (VNDbn)	-752	-590	-22%	-686	16%	
Operating income (VNDbn)	5,998	3,047	-49%	3,620	19%	
Financial income (VNDbn)	533	720	35%	684	-5%	The large cash balance is accumulated from 2022. The investment in Nghi Son Chemical Complex should be disbursed in 1H24.
Financial expenses (VNDbn)	-150	-94	-37%	-156	66%	
Other income (net, VNDbn)	-6.0	-2.0	-67%	-2	0%	
Profit before taxes (VNDbn)	6,376	3,671	-42%	4,146	13%	
Profit after taxes (VNDbn)	6,037	3,487	-42%	3,939	13%	
Net profit margin (%)	42%	35%		34%		

Source: Duc Giang Chemicals, KB Securities Vietnam

Valuation: HOLD recommendation with target price VND95,300 per share

We use FCFF and P/E comparison (with 2024F EPS) to give a HOLD rating to DGC with a target price of VND95,300/share, equivalent to an upside of 5.3% compared to the closing price of VND90,500 on December 22, 2023. The target P/E level is DGC's average P/E in the period 2019–2023.

Table 3. DGC – FCFF valuation

Risk-free rate	5.0%	Present value of terminal value (VNDbn)	16,041
Equity risk premium	8.2%	Total present value for the period 2023–2027	14,434
Beta	1.50	Total present value	30,475
Average interest rate	7.0%	Plus: Cash & Short-term investments	9,274
Taxes	5.0%	Minus: Net Debt	-1,559
Weighted cost of capital	14.1%	Minus: Minority interest	-579
Terminal growth rate	1.5%	Equity value	37,611
		Number of shares outstanding (million shares)	379.80
		Equity value/share (VND)	99,028

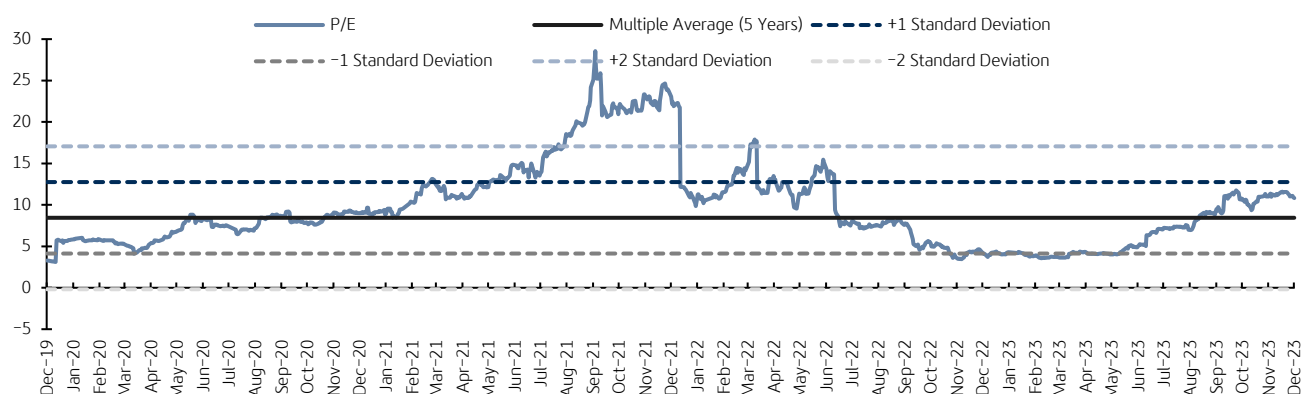
Source: Bloomberg, KB Securities Vietnam

Table 4. DGC – Final valuation

Method	Target price	Weight	Weighted price
FCFF	99,028	50%	49,514
P/E (9x)	91,530	50%	45,765
Target price (rounded)			VND95,300
Current price (Dec 22, 2023)			VND90,500
Upside			5.3%

Source: KB Securities Vietnam

Fig 5. DGC – P/E in 2019–2023 (x)



Source: Bloomberg, KB Securities Vietnam

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

Buy:	Hold:	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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