

Duc Giang Chem (DGC)

Brighter outlook for 2024

December 22, 2023

Analyst Pham Minh Hieu hieupm@kbsec.com.vn

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

Consumption of semiconductor equipment is expected to recover in 2024

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

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

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

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.

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.

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.

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%.

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	265/11
(VNDbn/USDmn)	
Foreign ownership	18.9%
Major shareholder	Mr Dao Huu Huyen (18.38%)

Share price performance							
(%)	1M	3M	6M	12N			
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%	 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

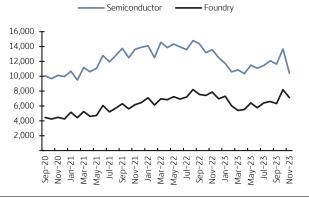
Consumption of semiconductor equipment is expected to recover in 2024

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)



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

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

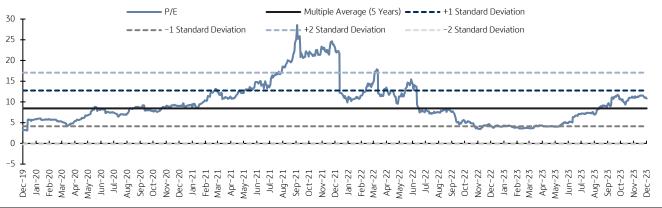
Source: Bloomberg, KB Securities Vietnam

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
Curent 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

DGC - 2021A-2024F financials

Income Statement (VND billion)	2021A	2022A	2023F	2024F
Net sales	9,550	2022A 14,444	10,019	11,638
Cost of sales	-6,368	-7,694	-6,382	-7,332
oss Profit	3,182	6,750	3,637	4,306
ancial income	171	533	720	684
ncial expenses	-68	-150	-94	-125
which: interest expenses	-14	-18	-37	-62
oss) from joint ventures (from 2015)	0	0	0	
elling expenses	-504	-600	-450	-523
eneral and admin expenses	-137	-152	-140	-163
perating profit/(loss)	2,644	6,381	3,673	4,179
Other incomes	7	7	3	3
Other expenses	15	13	5	5
et other income/(expenses)	-8	-6	-2	-2
ncome from investments in other entities	0	0	0	0
et accounting profit/(loss) before tax	2,636	6,375	3,671	4,177
rporate income tax expenses	-123	-339	-184	-209
orofit/(loss) after tax	2,514	6,037	3,487	3,968
ority interests	126	472	92	105
ibutable to parent company	2,388	5,565	3,395	3,863
argin ratio				
	2021A	2022A	2023F	2024F
Gross profit margin	33.3%	46.7%	36.3%	37.0%
EBITDA margin	29.5%	43.5%	33.7%	35.4%
EBIT margin	26.6%	41.5%	30.4%	31.1%
Pre-tax profit margin	27.6%	44.1%	36.6%	35.9%
Operating profit margin Net profit margin	27.7% 26.3%	44.2% 41.8%	36.7% 34.8%	35.9% 34.1%
Net profit margin	20.3%	41.0%	34.6%	34.1%
ash Flow Statement				
Dillion)	2021A	2022A	2023F	2024F
·				
Net profit/(loss) before tax	2,637	6,376	3,671	4,177
Depreciation and amortisation	279	285	327	495
Profit/loss from investing activities	-316	0	0	0
Interest expense Operating profit/(loss) before changes in	14	18	37	62
Working Capital	2,840	6,363	4,035	4,734
(Increase)/decrease in receivables	36	12	197	-117
(Increase)/decrease in inventories	-692	389	-18	-151
Increase/(decrease) in payables	766	-426	64	63
(Increase)/decrease in prepaid expenses	-129	-17	-17	-17
et cash inflows/(outflows) from operating	2.620	F 027	2.252	2.621
ctivities Purchases of fixed assets and other long	2,620	5,937	3,353	3,621
erm assets	-253	-157	-829	-2,321
Proceeds from disposal of fixed assets	0	5	5	5
Loans granted, purchases of debt nstruments	-3,458	-7,232	-2,692	-2,692
ostruments Collection of loans, proceeds from sales of	-3,458	-1,232	-2,692	-2,692
ebts instruments	1,417	3,430	1,217	1,217
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	53	128	0	0
let cash inflows/(outflows) from investing ctivities	-2.241	_2 020	_2 205	_2 777
Proceeds from issue of shares	-2,241 0	-3,828 85	-2,285 0	-3,777 0
Payments for share returns and repurchases	0	0	0	0
·			468	
Proceeds from borrowings	3,110	2,949		668
Repayment of borrowings	-3,410	-3,321	0	-45
Finance lease principal payments	0	0	0	0
Dividends paid	-237	-411	-380	-380
Interests, dividends, profits received	0	0	0	0
let cash inflows/(outflows) from financing ctivities	-537	-697	88	243
let increase in cash and cash equivalents	-158	1,412	1,156	87
Cash and cash equivalents at the beginning of		·		
period	282	124	1,536	2,692
Cash and cash equivalents at the end of period	124	1,536	2,692	2,779
Chamicals VP Socurities Viete	0.000			

Source: Duc Giang Chemicals, KB Securities Vietnam

6

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh - Head of Research

binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh - Analyst

linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga - Senior Analyst

ngaphb@kbsec.com.vn

Nguyen Duong Nguyen - Analyst

nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang - Analyst

giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh - Analyst

anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu - Analyst

hieupm@kbsec.com.vn

Research Division

research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh - Head of Macro & Strategy

anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh - Analyst

thanhhd@kbsec.com.vn

Vu Thu Uyen - Analyst

uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong - Analyst

congth@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

Support team

Nguyen Cam Tho - Assistant

thonc@kbsec.com.vn

Nguyen Thi Huong - Assistant

huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam Tel: (+84) 24 7303 5333 - Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam Tel: (+84) 24 7305 3335 - Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam Tel: (+84) 28 7303 5333 - Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 - Ext: 2656 Private Customer Care Center: (+84) 24 7303 5333 - Ext: 2276

Email: ccc@kbsec.com.vn Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(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	Undernerform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.