

STOCK PITCH REPORT

December 18, 2024

Dong Hai Ben Tre (DHC)

Gross profit margin is set for growth

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Buy

Target price	VND42,000
Support/Entry 1	VND34,600–35,000
Upside 1	20%
Support/Entry 2	VND31,000–33,000
Upside 2	31%

Note:

Investors need to combine the assessment of market trend, the attractiveness of investment catalysts and their risk appetite to manage the stock exposure in each price zone accordingly. Since the determination of each support/entry level is based on different time frames, we do not provide a fixed stop loss. In general, stop loss levels should be set tighter for near supports/entries (5–7%) and wider for far supports/entries (10–15%).

Business operation

Dong Hai Joint Stock Company of Bentre (DHC), formerly a state-owned enterprise, was privatized in 2003. DHC’s primary business activities include the production of industrial paper rolls (Kraftliner, Testliner, Medium) and carton packaging manufacturing. DHC is among the leading domestic paper manufacturers, with its products mainly distributed in the Mekong Delta, Southeastern provinces, and Ho Chi Minh City.

Stock price relative comparison

DHC is currently trading below its 5-year average P/B ratio. With expectations of a recovery in profit margins and the upcoming launch of its third plant, we anticipate that DHC could trade at a higher P/B ratio of 1.7. While ROE is expected to recover, it is unlikely to reach its previous peak levels.

INVESTMENT CATALYSTS

Gross profit margin should recover as the input and output price gap improves

Selling prices, which have been on the rise since September, are projected to maintain a gradual upward trend, aligning with the resurgence of domestic trade and consumption.

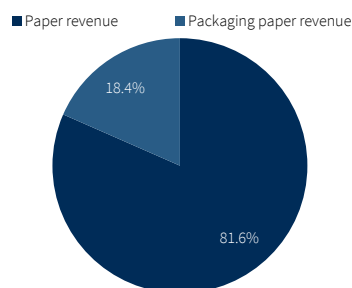
Giao Long 3 is set to bolster long-term growth

DHC has obtained the investment registration certificate for its third packaging production facility, Giao Long 3 Factory. Once operational, it is expected to operate at 110% of the designed capacity.

Packaging paper demand is projected to strengthen in 2025F, coupled with a promising long-term outlook

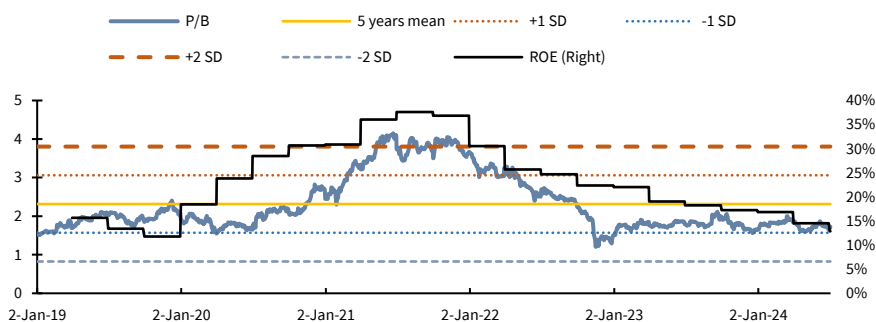
The packaging paper market presents significant growth potential driven by: (i) rapidly increasing demand; (ii) burgeoning e-commerce activity and the increasing popularity of online shopping; and (iii) sustainability trends.

Revenue composition (2023)



Source: Company reports, KB Securities Vietnam

DHC – P/B and ROE (x, %)



Source: Bloomberg, KB Securities Vietnam

INVESTMENT CATALYSTS

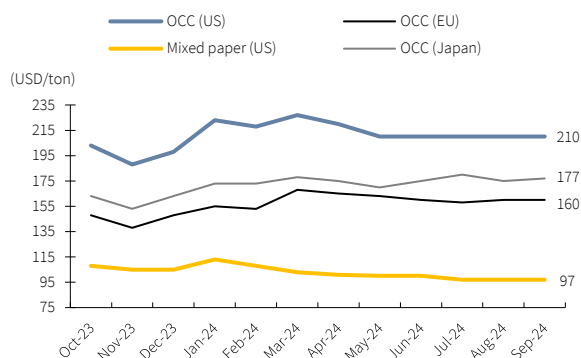
1. Gross profit margin should recover as the input and output price gap improves

Stable input prices combined with an increase in output prices help improve the profit margin

DHC is well-positioned to manage the cost of goods sold (COGS) due to stable input costs. The average import price of old corrugated containers (OCC) in the Southeast Asia region remained stable in 3Q2024 (Figure 1). As of its 3Q financial statements, DHC reports VND195.3 billion in raw material inventory and VND72 billion in finished goods inventory. Nearly 60% of DHC’s raw material costs come from recovered paper imported from the U.S. and Europe, meaning transportation costs significantly impact its expenses. We anticipate that a significant drop in sea freight rates, following a peak in July 2024, will help lower DHC’s costs.

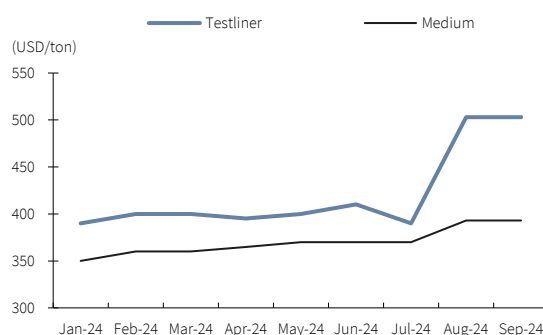
Output prices are showing signs of recovery, supporting an improvement in the gap between paper prices and OCC prices (input costs). Specifically, the export price of Testliner (which closely mirrors the selling price of DHC’s finished Testliner) experienced a notable rebound in September (Figure 2). KBSV expects selling prices to gradually recover, supported by a rebound in domestic trade and consumption, especially as the Lunar New Year approaches. In addition, selling prices are bolstered by the recovery in consumer demand and paper consumption. According to the Vietnam Pulp and Paper Association (VPPA), packaging paper consumption is on the rise. Total consumption reached over 3.86 million tons in 9M2024, up 10.6% YoY. Notably, demand for testliner and medium paper grew more than 13% YoY, while coated packaging paper saw growth of around 23% YoY. This growth in packaging paper consumption is primarily driven by the increased demand for paper packaging in key export sectors, including computers and components, phones and components, textiles, footwear, wood, and wood products.

Fig 1. Southeast Asia – Average import price of OCC (CIF, to major ports) (USD/ton)



Source: Vietnam Pulp and Paper Association, KB Securities Vietnam
OCC prices include the cost of the paper itself, the insurance during transportation, and the freight charges to bring it to major ports in Southeast Asia.

Fig 2. Vietnam – Testliner & medium export prices (USD/ton)



Source: Vietnam Pulp and Paper Association, KB Securities Vietnam

2. Giao Long 3 is set to bolster long-term growth

Giao Long 3 is expected to make a significant contribution to DHC's production capacity growth

DHC received the investment registration certificate for its third packaging production facility (Giao Long 3 Factory) at the 2024 Ben Tre Investment Promotion Conference. Following this, DHC submitted an approval application for the environmental impact assessment (EIA) report and fire safety measures, with completion expected by the end of 1Q2025. Once operational, the plant is projected to operate at 110% of its designed capacity, enabling the company to produce higher-quality products with improved profit margins.

Giao Long 3 will produce a new paper line, Kraftliner

Giao Long 3 will produce a new paper product, Kraftliner. To accommodate this new product line, the plant will require modern machinery and equipment to produce paper from virgin pulp. As a result, the expected investment in the Giao Long 3 will be higher than that of Giao Long 2. However, Kraftliner, a premium packaging paper, commands higher selling prices and offers better profit margins (estimated to be about 30% higher than DHC's current product lines). Known for its durability, tear resistance, strength, moisture resistance, and smooth surface that enhances print quality, Kraftliner is used as the outer layer of cartons and paper boxes. This product is designed to meet the growing demand for high-value export items that require premium packaging, such as electronics, pharmaceuticals, and automotive parts.

Giao Long 3 Factory:

Total investment: VND1.8 trillion, funded by VND360 billion in equity, VND201 billion expected to be raised from a rights issue in 1Q2025 (VND25,000 per share, with a 1:10 ratio), and the remaining VND1.239 trillion financed through long-term debt.

Production capacity: 343,000 tons per year (equivalent to 1,000 tons per day).

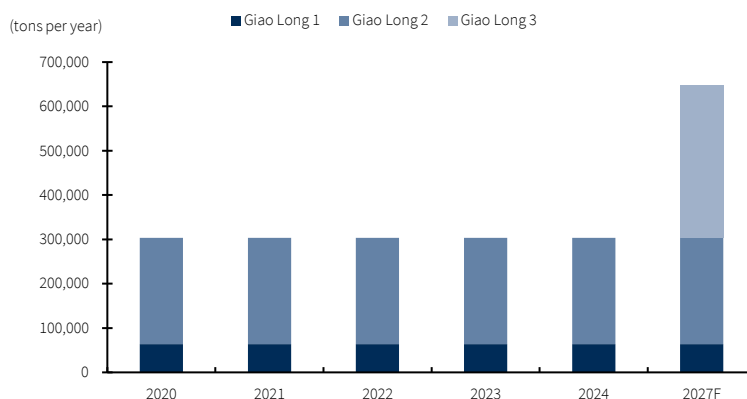
Main products: Kraftliner and Testliner paper.

Construction timeline: From 2Q2025 to 4Q2026.

Trial operation: From the first half of 2027.

Commercial operation: From 3Q2027.

Fig 3. DHC – Designed capacity of production facilities (tons/year)



Source: Dong Hai Ben Tre, KB Securities Vietnam

3. Packaging paper demand is projected to strengthen in 2025F, coupled with a promising long-term outlook

Packaging paper consumption is fueled by the recovery of domestic consumption and export activities

In the short term, KBSV expects packaging paper consumption to continue its recovery in 2025 due to:

(1) A pickup in domestic consumption: According to data from the General Statistics Office (GSO), retail sales of goods rose by 8.3% YoY in November 2024, marking a significant improvement in 3Q and early 4Q after months of slow growth. For the first 11 months of 2024, retail sales reached VND4,487.3 trillion, up 8.1%, driven by essential goods such as food, beverages, and household products.

(2) Positive export performance, especially to major markets like China: The expected stabilization of China's economy is anticipated to support export activities. Moreover, favorable free trade agreements (FTAs) are enhancing export activities in Vietnam, which in turn is boosting the demand for paper packaging.

The packaging paper market presents significant growth potential

In the long term, the packaging paper market holds substantial growth potential due to:

(1) Strong demand growth forecast: According to a report by Mordor Intelligence Inc., the packaging paper market in Vietnam is expected to reach USD4.14 billion by 2029, with a compound annual growth rate (CAGR) of 9.73% from 2024 to 2029.

(2) Burgeoning e-commerce activity and the increasing popularity of online shopping: According to government forecasts, by 2025, over half of Vietnam's 100 million people will engage in online shopping. Packaging will play a critical role in product packaging and customer attraction.

(3) Sustainability trends: The "Race to Net Zero" campaign, aiming for net-zero emissions by 2050, has been approved by the Vietnamese government. The eco-friendly packaging sector is gaining importance, particularly in the food and beverage industry. As a result, the demand for transitioning to paper packaging is expected to increase.

RISKS

Fluctuations in input costs

OCC is the primary raw material for DHC, representing over 70% of the company's production costs. The supply is mainly sourced from imports from the U.S., EU, and Japan. A shortage of OCC, combined with sharply rising shipping costs, could significantly impact DHC's input costs and reduce profit margins.

Slower-than-expected demand recovery

A slower-than-expected recovery in domestic consumption, coupled with weaker demand from key export markets like China, may affect DHC's selling prices and revenue growth moving forward.

Increased industry competition

The paper and carton packaging industry is highly competitive, with both domestic and international players competing for market share. This puts pressure on selling prices and necessitates continuous product improvements and innovations to remain competitive.

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Investment ratings & definitions

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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