

COMPANY: DONG HAI BEN TRE JSC (DHC)

<GIAO LONG 2 FACTORY PUT INTO PRODUCTION>

DONG HAI BEN TRE JSC

Sector: Paper manufacturing – Paper and pulp

Report date: Oct 30 2020

Recommendation: Accumulate

Target price: VND 50,605

Upside/Downside (%): 13%

Current price: VND 45,300

Company background

Founded in 1994, Dong Hai Ben Tre manufacture Kraft Paper based in Ben Tre province.

Key figures

Market cap (VND billion)	2,568
Outstanding shares (million)	56,6
Average 1M volume (shares)	637,231
Foreign ownership	28.57%
P/E trailing 4Q	6.54x
Dividend yield	6.24%

Stock performance


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Financial summary	2017A	2018A	2019A
Net sales (VND bn)	810	926	1,430
Net sales growth	21%	14%	54%
Gross profit (VND bn)	131	204	303
Gross profit margin	16%	22%	21%
Net income (VND bn)	80	134	181
Net income growth	-6%	67%	35%
EPS (VND)	2,706	3,178	3,383
EPS growth	-21%	17.5%	6.5%
ROE	11%	16%	16%
P/E (x)	17.3	9.4	11.2

Source: Company data

Business Overview

DHC is a paper manufacturer. Their main product is kraft paper, which divides into Testliner paper and Medium paper. They have 2 paper factory and 1 packaging factory.

Capacity	Ton/year	Capaccity	Year of operation	Revenue 2019
Giao Long 1	60,000	100%	Before 2018	528 bil VND
Giao Long 2	220,000	70%	Jul-19	556 bil VND
Packing 1	25,000,000 sqm/year	85%	2010	350 bil VND
Packing 2	42,000,000 sqm/year	-	2021	-

Source: DHC, IVS research

Investment Thesis:

- Selling price recover and higher demand from China and domestic market;
- Giao Long 2 put into production since Q4/2019, triple the capacity and revenue;
- Domestic demand starts to recovery after sunk in April.

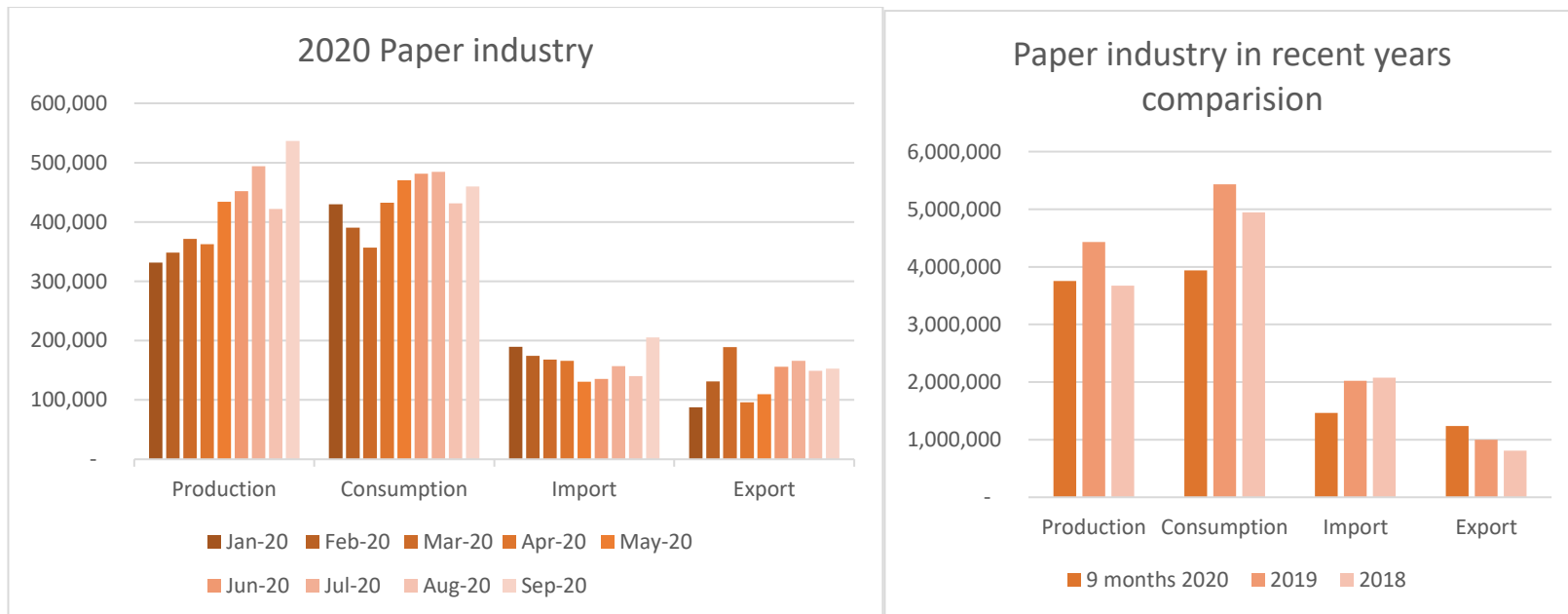
Risk:

- Supply might increase significantly in next few years, pushing down the price and causing excess capacity for the industry.

In Q3 2020, DHC's revenue reached 702 Bil VND, (+112% y-o-y), Net profit after tax is about 68 bil VND (+129% y-o-y). Cumulative revenue and NPAT for 9 months 2020 reached 2,021 bil VND and 237.3 bil VND, grow 164% and 211% y-o-y respectively. Thanks to the new Giao Long 2 factory, which started its production lines in Q4 2019, it increase DHC manufacturing capacity to 280,000 tons/year from 60,000 tons/year.

Domestic and exporting market demand are recovering after the pandemic is under control.

Although domestic paper consumption for 7 months of 2020 reduces 2.45% y-o-y, we see that this has recovered quickly from the dip of April. Paper production and export keep growing pace, which are 12.2% y-o-y and 100,6% y-o-y respectively. The pandemic is under control in China market boosting the demand for exporting (China market account for 72.8% of export with growth of 203% y-o-y). Addition of capacity by Giao Long 2 factory helps DHC to fill supply shortage in domestic market before other rivals can catch up.

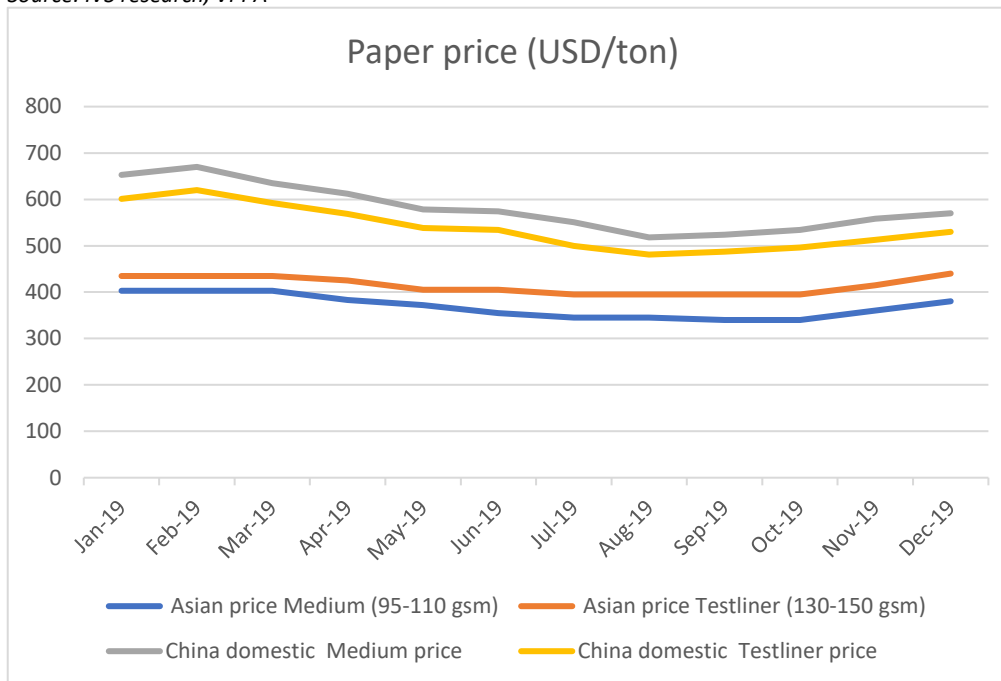


Source: VPPA, IVS research

China OCC import (ton)	2017	2018	2019	Oct-20
RCP	23,350,600	17,030,000	10,360,000	6,750,000
Growth		-27%	-39%	-35%

China consumption	2018	2019
Testliner(ton)	23,450,766	24,030,000
Medium(ton)	22,129,008	23,740,000
China production	2018	2019
Testliner(ton)	21,449,559	21,900,000
Medium(ton)	21,050,635	22,200,000

Source: IVS research, VPPA



Till 2021, China will come to ban all recycled fiber import, which are the main material for paper production

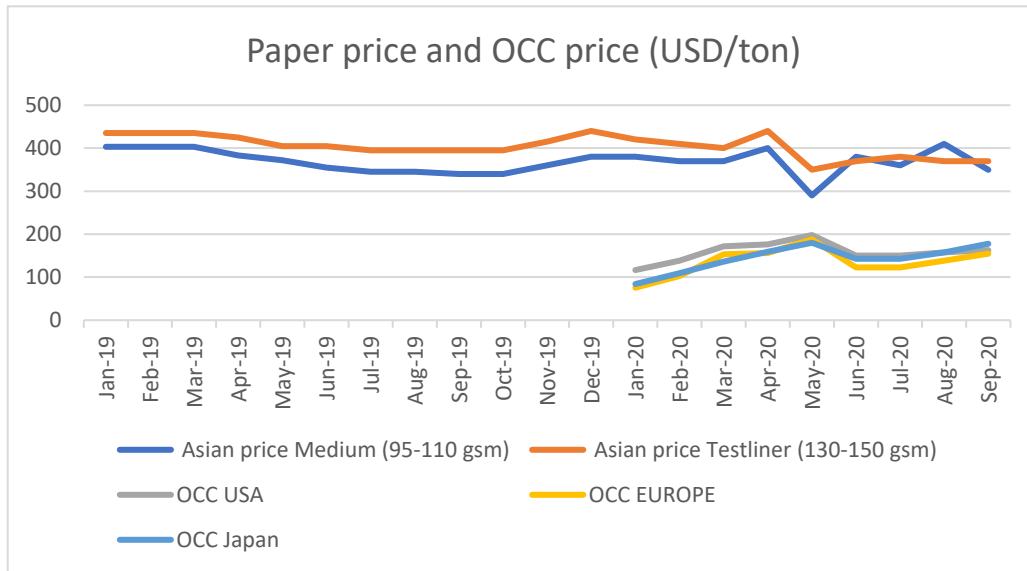
The OCC paper import has been reducing significantly since 2017 due to the solid waste import ban by Chinese government. This impact on the price of OCC and also boosting the demand for importing alternative sources of kraft paper. The RCP price in China domestic market has been higher than other countries, in addition with reduction in paper manufacturer since 2014, which cause shortage of paper supply. Prices of China domestic paper have also been higher than importing.

Therefore, DHC can take advantage of this situation in short-term to export to China market. Actually, paper exporting in recent years has grew substantially.

Selling prices are recovering after the dip during the pandemic

Selling prices of testliner and medium paper have been increasing since the dip of April. Along with the increase of OCC price, the GPM of DHC lower in Q2 and Q3 compared to Q1 2020. Since consumption in Vietnam normally peak in Q4, we expect selling prices would be higher, which improve GPM while OCC price has not yet recovered to pre pandemic level. China would stop importing OCC in 2021 and the total quota for 2020 may limit at 7 mil tons, which would impact negatively on global OCC price. We think this would be the catalyst for DHC's gross profit.

Giao Long 2 factory is the source of growth



Source: IVS research, VPPA

Giao long 2 factory with capacity of 220,000 tons/year, is 3,6 times greater than Giao Long 1 factory. According to DHC, due to reduction in selling price, growth of revenue in 9 months is due to greater sale units than expectation. We think Giao Long 2 can run at more than 70% of capacity, and with recover of selling price in Q4, DHC may go beyond their current plan for the year. Also, Giao Long 2 factory was invested at lowest cost per capacity compared with other factories in the industry.

Risks

We think the shortage of supply is just remaining only in short term. According to VPPA, the supply will be increasing very fast until 2025. We estimate that until 2021, there would be addition of 2,480,000 tons/year of capacity from current manufacturers in the industry. In 2019, all the industry only run at 70% of current capacity. We consider this is the great risk for DHC business performance after other rivals start their new production lines.

	31/12/2018	Addition	Year
Chanh Duong paper	550,000	NI	-
Lee&Man VN	420,000	700,000	Not yet approve
Cheng Loong Paper	300,000	700,000	Q3 2020
VinaKraft	258,000	250,000	2,019

SaiGon paper	232,440	NI	-
AnBinh paper	75,000	NI	-
DHC	60,000	220,000	Q3 2019
Thuan An paper	-	250,000	Q4 2020
Miza	-	120,000	Q4 2020
Hoang van Thu	-	100,000	Q2 2020
Marubeni	-	350,000	Q4 2020
Rang Dong	-	70,000	Q3 2019
Viet Tri Paper	-	150,000	Q1 2021
Khoi Nguyen paper	-	100,000	Q4 2021
Hung Ha	-	100,000	Q4 2020
Phat Dat	-	70,000	Q3 2020

Valuation

We forecast the revenue for 2020 would be 2,642 billion VND, 13% higher than DHC plan. Net profit would be forecasted at 317 bil VND, 58% higher than DHC plan. But in 2023, we think the supply in the whole industry would increase substantially, so that push down selling price and cause excess capacity.

We value DHC at 50,605 VND/share, 13% higher than price closed in 16/10/2020 at 45,300 VND/share. We recommend **ACCUMULATE** for DHC.

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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