



## Company Report: Duc Giang Chemicals Group Joint Stock Company (DGC)

Analyst:  
**Nguyen Duc Binh**  
[binhnd@gtjas.com.vn](mailto:binhnd@gtjas.com.vn)  
 (024) 35.730.073 – ext: 704

22/04/2024

### DGC Update Report: Still at an attractive valuation

DGC shares have had very positive developments since the beginning of the year until now. The stock price has reached the target price of VND128,000/share we set out in the report on December 25, 2023, in the trading sessions of March 14 and 15, 2024. We assess that the stock price has had positive developments partly thanks to the expectation that businesses will benefit from the developments of the semiconductor industry, and partly thanks to the positive sentiment in the stock market in the recent period. However, currently the stock price has decreased to VND108,000/share (closing price on April 19, 2024).

DGC's 2023 revenue reached VND9,761 billion, down 32% yoy. 2023 PAT reaches VND3,242 billion, down 46% yoy. Revenue and PAT in 2023 were lower than our forecast made on December 25, 2023. Besides, the business also issued a rather conservative business plan for 2024 with a consolidated revenue target of VND10,202 billion, equivalent to +4.6% yoy, and a PAT target of VND3,100 billion, equivalent to -4.4% yoy. Preliminary business results for the first quarter: revenue is estimated to be 2,200 billion VND, equivalent to -11% yoy; profit after tax is estimated to be 700 billion VND, equivalent to -15% yoy.

We updated our forecast on DGC's earnings and our stock valuation. We give an **ACCUMULATE** recommendation on **DGC** stock with a target price in 6-18 months of **VND117,000/share**. This valuation is equivalent to a P/E forward of 12.01x and an upside of +8.33% compared to the stock's closing price on April 19, 2024 (VND108,000/share).

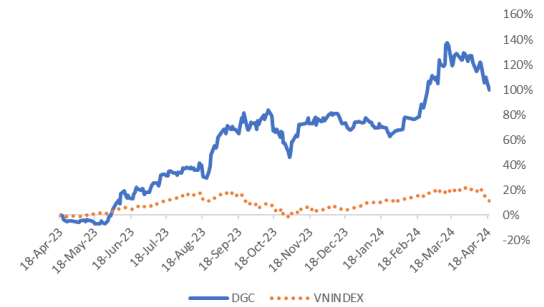
Recommendation: **ACCUMULATE**

6-18m TP:  
(22-Apr-2024) **VND 117,000**

6-18m TP:  
(25-Dec-2023) VND 128,000

Current price: VND 108,000

Price performance (12m)



Price change	1M	3M	12M
%	-8.63	+17.14	+100.00
%VN-Index change	-5.53	+0.50	+11.36
Avg price (VND)	119,116	109,530	85,995

Sources: Guotai Junan (VN), investing.com

Year	Net Sales (VND b)	PATMI (VND b)	Assets (VND b)	Equity (excl. MI) (VND b)	EPS (VND)	ΔEPS (%)	DPS (VND)	ROAA (%)	ROAE (%)
2020A	6,236.49	906.67	5,876.15	3,910.99	5,733	35.18	1,500	17.11	26.21
2021A	9,550.58	2,388.15	8,520.39	6,076.67	6,047	5.48	1,000	33.18	47.82
2022A	14,445.00	5,565.01	13,405.18	10,451.21	13,774	127.78	4,000	50.76	73.05
2023A	9,761.06	3,099.99	15,535.91	11,696.64	7,673	-44.29	3,000	21.43	29.27
2024F	12,000.00	3,700.00	17,386.00	13,090.00	9,742	26.96	N/A	22.48	29.85

Outstanding shares (million shares)	379.78	Major shareholders (%)	Dao Huu Huyen 18.38 Ngo Thi Ngoc Lan 6.64 Dao Huu Kha 5.97
Market cap (VND b)	42,193.38	Free float (%)	60.00
3m average matched volume (million shares)	2.94	ROAA trailing 4Q (%)	21.43
52w high/low (VND)	132,000/50,000	ROAE trailing 4Q (%)	29.27

Sources: the Company, FiinPro X, Guotai Junan (VN)

## UPDATING OPERATING RESULTS, ANNUAL GENERAL MEETING, AND OTHER NEWS

**Operating results in 2023:** In fiscal year 2023, the company recorded revenue of VND9,761 billion, down 32% compared to the previous year; profit after tax was VND3,242 billion, down 46% yoy. The reason is that the yellow phosphorus market was not favorable in 2023, with high competitive pressure both domestically and internationally, product prices decreased, and demand was lower than usual. Revenue and profit in 2023 were lower than our forecast in the report dated December 25, 2023.

**Preliminary operating results in Q1/2024:** Revenue is estimated to be VND2.2 trillion (down 11% yoy and down 8% compared to the previous quarter). Net profit is estimated to reach VND700 billion (down 15% yoy and down 6% compared to the previous quarter). The Chairman of the Board of Directors said that Q1 operating results were partly affected because of the Tet holiday.

**Business plan for 2024:** At the Annual General Meeting of Shareholders on March 29, the company's shareholders approved the business plan with a consolidated revenue target of VND10,202 billion, equivalent to +4.6% yoy, and a profit after tax target of VND3,100 billion, equivalent to -4.4% yoy. Some securities companies evaluated this to be a prudent business plan and commented that the DGC's board of directors often issues prudent annual plans. We also assess that DGC can achieve higher business results than the mentioned targets in 2024. However, we decided to adjust our forecast for DGC's 2024 revenue based on its business plan as well as the preliminary business results in the first quarter of 2024.

### Progress of projects:

- **Project Nghi Son:** The project was delayed in the past because it received some complaints and had to deal with legal issues. The company's Chairman of the Board of Directors shared at the Annual General Meeting of Shareholders that the project has made certain progress: the local government has finalized the amount to be paid to displaced parties in March 2024. Therefore, the project can be expected to begin construction in June this year. It is expected to take about 1 year to complete phase 1 of the project. When reaching maximum capacity, phase 1 of the project can generate revenue up to USD100 million/year (about VND2,500 billion/year). DGC planned to spend VND500 billion in 2024 to implement phase 1 of this project. Also, regarding this project, the Chairman of the Board of Directors Dao Huu Huyen also shared that PVC production at the Nghi Son project (the next phase) may have to be delayed because the company need to recheck the technology and wait for more information on the Bauxite project in Tay Nguyen. It may not be until 2028 that the firm will begin the PVC production at the Project Nghi Son.
- **Bauxite project in Tay Nguyen:** The company is continuing to research and survey to obtain an investment license. The company reported it has signed a memorandum of understanding with the Dak Nong province. DGC expects the project to be approved for investment in the next 2 years, and to go into operation in 2028. Therefore, the project is expected to come into operation 1 year later than the original plan as well as 1 year later than our initial projections. Regarding capital to implement the project, the company reported that Vietcombank had signed a commitment to lend the company VND14,500 billion.

## Other news

- DGC plans to use 10 billion VND to expand Field 25 in 2024. During the mining process, DGC realized that the actual reserves at the field may be higher than initially expected, so it will expand the mining operations in Field 25. This is positive news for the business: DGC can use 100% self-mined ore from 2025 and this will help slightly improve the gross margin of the business's yellow phosphor segment in the period 2025-2027.
- DGC also has plans to restructure the group in 2024 (merging PAT into DGC).
- DGC spent about 253 billion to buy Dai Viet industrial alcohol factory in Dak Nong. The Group will transfer the factory to Duc Giang Dak Nong LLC and establish Duc Giang industrial alcohol factory under this subsidiary. Mr. Dao Huu Huyen, Chairman of the Board of Directors, shared at the annual General Meeting of Shareholders: "We visited the factory. This company has available sources of raw materials and a list of customers to sell and export, so we buy them. And the equipment of this business [...] in my opinion is very good [...]".

## UPDATING PROJECTIONS, VALUATION, RECOMMENDATION

<i>(unit: VND b)</i>	2023F	2024F	2025F	2026F	2027F	2028F	2029F
<b>Net Sales</b>	10,875	15,270	20,740	26,600	48,000	55,060	59,957
<b>%net sales yoy growth</b>	-24.71%	40.41%	35.82%	28.25%	80.45%	14.71%	8.89%
<b>Gross Profit</b>	4,000	6,413	7,881	9,310	15,360	19,822	23,983
<b>%gross margin</b>	36.78%	42%	38%	35%	32%	36%	40%
<b>SG&amp;A</b>	(680)	(820)	(1,361)	(1,929)	(2,526)	(3,152)	(3,309)
<b>EBIT</b>	3,320	5,593	6,520	7,381	12,834	16,670	20,673
<b>Avg Invested Capital</b>	3,057	6,318	11,818	21,893	36,043	50,193	64,343
<b>WACC</b>	N/A	13%	13%	13%	13%	13%	13%

Financial projections for DGC (GTJASVN Research, 25-Dec-2023). We also assumed  $\omega = 0.90$ .

<i>(unit: VND b)</i>	2023A	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Net Sales</b>	9,748	12,000	16,000	22,500	27,500	37,500	48,750	60,000
<b>%net sales yoy growth</b>	-32.51%	23.10%	33.33%	40.63%	22.22%	36.36%	30.00%	23.08%
<b>Gross Profit</b>	3,440	4,800	6,683	9,225	11,468	14,775	17,599	20,640
<b>%gross margin</b>	35.3%	40.0%	40.5%	41.0%	41.7%	39.4%	36.1%	34.4%
<b>SG&amp;A</b>	(594)	(680)	(800)	(1,170)	(1,458)	(2,025)	(2,681)	(3,360)
<b>EBIT</b>	2,846	4,120	5,883	8,055	10,010	12,750	14,918	17,280
<b>Avg Invested Capital</b>	2,623	3,259	3,990	13,740	34,165	53,140	60,540	58,565
<b>WACC</b>	N/A	13.0%	13.0%	12.7%	12.4%	12.1%	12.0%	11.9%

Updated financial projections for DGC (GTJASVN Research, 22-Apr-2024). We adjusted our assumption on  $\omega$  and set  $\omega = 0.93$ .

We revise DGC's financial forecast as follows, based on updated information from the financial statements, information from the Annual General Meeting of Shareholders, and other news:

- We adjust downward the 2024 net revenue forecast based on the company's business plan and its preliminary operating results of Q1/2024. We change the net revenue forecasts for the period 2025-2029 due to updated information on the business's investment plan and project progress.

- We adjust the average invested capital and SG&A forecasts for the 2024-2029 period based on new revenue forecasts and updated information on investment plans and project progress. We also change the gross margin forecast for the period 2024-2029 due to the change in revenue structure forecast.
- We conduct additional forecasts for 2030.
- Changing assumptions about WACC: we forecast that WACC will gradually decrease in the period 2024-2030 from 13% to 11.9% because we expect DGC to increase the use of debt to finance its projects.
- Changing the assumption about  $\omega$ : we assess that DGC has certain competitive advantages that can help the business maintain its position in the chemical industry after 2030, so we adjust  $\omega = 0.93$ .

Based on our revised forecasts of DGC's business results in the period 2024-2030 and based on several assumptions about the company, we value **DGC** shares using discounted residual operating income valuation method and set a 6-18 months' target price of **VND117,000/share** for DGC stock. This valuation is equivalent to upside +8.33% compared to the stock's closing price on April 19, 2024 (VND108,000/share) and equivalent to a forward P/E of 12.01x. Based on the target price, we give an **ACCUMULATE** recommendation for DGC stock.

## INVESTMENT RISKS

Risks related to apatite ore supply. Risks on progress of projects. Risks related to the recovery in prices and output of yellow phosphorus, phosphoric acid, and fertilizer products.

Valuation risk: Our stock valuation is based on several assumptions about the Company's business operations. These assumptions cannot be completely correct. In addition, the company's ever-changing internal and external environment may cause the information and assumptions used in our valuation as well as our valuation result in this report to no longer be appropriate after the report is released.

**COMPANY RATING DEFINITION**

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

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

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## GUOTAI JUNAN VIETNAM RESEARCH & INVESTMENT STRATEGY

### Nguyen Duc Binh

Senior Research Analyst

[binhd@gtjas.com.vn](mailto:binhd@gtjas.com.vn)

(024) 35.730.073 - ext: 704

### Tran Thi Hong Nhung

Deputy Director

[nhungth@gtjas.com.vn](mailto:nhungth@gtjas.com.vn)

(024) 35.730.073 - ext: 703

22/04/2024



CHỨNG KHOÁN GUOTAI JUNAN (VIỆT NAM)  
GUOTAI JUNAN SECURITIES (VIETNAM)

DGC

CONTACT	Hanoi Head Office	HCMC Branch
Advising: (024) 35.730.073	R9-10, 1 <sup>st</sup> Floor, Charmvit Tower, 117 Trần Duy Hưng, Hà Nội	3 <sup>rd</sup> Floor, No. 2 BIS, Công Trường Quốc Tế, P. 6, Q.3, Tp.HCM
Stock ordering: (024) 35.779.999	Tel: (024) 35.730.073	Tel: (028) 38.239.966
Email: <a href="mailto:gtja@gtjas.com.vn">gtja@gtjas.com.vn</a> Website: <a href="http://www.gtjai.com.vn">www.gtjai.com.vn</a>	Fax: (024) 35.730.088	Fax: (028) 38.239.696

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