



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

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24/12/2024

### DGC valuation update report



#### REPORT SUMMARY

The current stock price of DGC is around the target price we set on April 22, 2024. Apart from lowering our revenue and profit projections for the company in 2024, we have not changed our long-term outlook for the business. DGC's outlook remains positive due to the recovery of its core segment, the potential from new products, and the prospects from the company's large-scale projects. We have updated the stock valuation and set a new 6-18 month target price for DGC at VND 126,000 per share. Based on the current stock price (the reference price on December 24, 2024 is VND 116,500 per share), we recommend a "ACCUMULATE" rating for DGC's stock, with an expected upside of +8.2%.

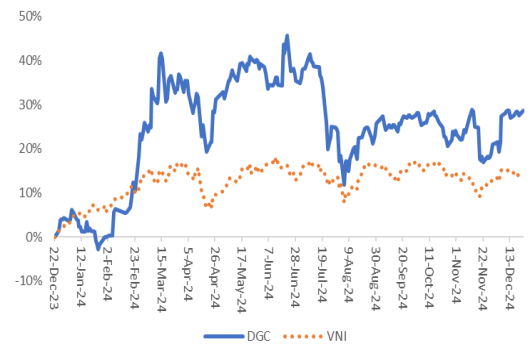
Recommendation: **ACCUMULATE**

6-18m TP: **VND126,000**

Previous 6-18m TP  
(dividend-adjusted) **VND114,000**

Current price: **VND116,500**

#### Price performance (12M)



Price change	1M	3M	12M
%	10.01	1.04	28.73
% VNIndex change	2.75	-0.80	14.40
Avg price (VND)	112,676	112,915	113,052

Sources: Guotai Junan (VN), investing.com

Year	Net Sales (VND b)	PATMI (VND b)	Assets (VND b)	Equity net MI (VND b)	EPS (VND)	DPS (VND)	ROAA (%)	ROAE (%)
2021A	9,550.58	2,388.15	8,520.39	6,076.67	6,047	1,000	33.18	47.82
2022A	14,445.00	5,565.01	13,405.18	10,451.21	13,774	4,000	50.76	73.05
2023A	9,761.06	3,099.99	15,535.91	11,696.64	7,673	3,000	21.43	29.27
2024F	10,202	3,000	15,600	13,500	7,899	3,000	19.3	23.8

Outstanding shares (in millions)	379.78	Major shareholders (%)	Đào Hữu Huyền 18.4 Ngô Thị Ngọc Lan 6.6 Đào Hữu Kha 6.0
Market cap (VND b)	43,826	Free float (%)	58
10-day average volume (shares)	1,577,380		
52w high/low (VND)	128.31/85.67		

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

## BUSINESS PERFORMANCE AND FINANCIALS UPDATE

In Q3 2024, DGC recorded revenue of VND 2,558 billion, a 4% increase compared to the same period in 2023. Gross profit reached VND 881 billion, up 5%, with a gross margin of 34.4%. DGC's net profit for the quarter was VND 738 billion, down 8% compared to the same period last year. For the first nine months of the year, the company reported total revenue of VND 7,447 billion and net profit of VND 2,322 billion, a decrease of 7% compared to the same period last year.

For 2024, DGC targets consolidated revenue of VND 10,202 billion, an increase of nearly 5% compared to 2023, but expects a decline of around 4.4% in net profit, to VND 3,100 billion. Based on the nine-month business results in 2024, we assess that DGC can achieve its 2024 financial target, but it will not meet the projections we had expected in the report dated April 22, 2024. We have revised our 2024 revenue forecast from VND 12,000 billion to align with the company's target of VND 10,202 billion. Net profit for 2024 is also expected to meet the company's plan.

One of the reasons DGC is facing challenges this year is due to a yellow phosphorus furnace having to halt operations for repairs, along with a reduction in its self-supplied apatite ore due to damages from Typhoon Yagi. Additionally, the yellow phosphorus market in 2024 has not performed as expected.

As of the end of Q3 2024, DGC's total assets amounted to approximately VND 16,197 billion, with cash and deposits amounted to about VND 11,366 billion, accounting for 70% of total assets. The company has earned over VND 400 billion in interest from deposits first 9 months this year. This shows that DGC's financial situation is very healthy. One reason for this is that the company has been accumulating financial resources in preparation for its major projects: the Nghi Son project in Thanh Hoa and the Bauxite project in the Central Highlands.

DGC announced its plan to allocate approximately VND 1,140 billion to pay dividends to shareholders at VND 3,000 per share. The record date for dividend payment is November 20, 2024, and the payment date is December 20, 2024.

## OUTLOOK UPDATE

### Recovery of the Yellow Phosphorus and Phosphoric Acid Markets:

Global demand for semiconductor chips is expected to continue rising sharply due to the growth of industries such as electric vehicles and artificial intelligence. DGC is well-positioned to supply raw materials to this sector, especially yellow phosphorus, which is a critical component in chip production. Yellow phosphorus is an essential raw material in the production of microchips and semiconductors. Around 20% of current phosphorus demand comes from the semiconductor industry, highlighting the sector's importance to yellow phosphorus price and consumption. As demand for chips increases, yellow phosphorus price also tends to rise. DGC's yellow phosphorus and phosphoric acid segments are expected to recover in both sales quantity and sales price in 2025, with projected increases of approximately 16% in output and 5% in price.

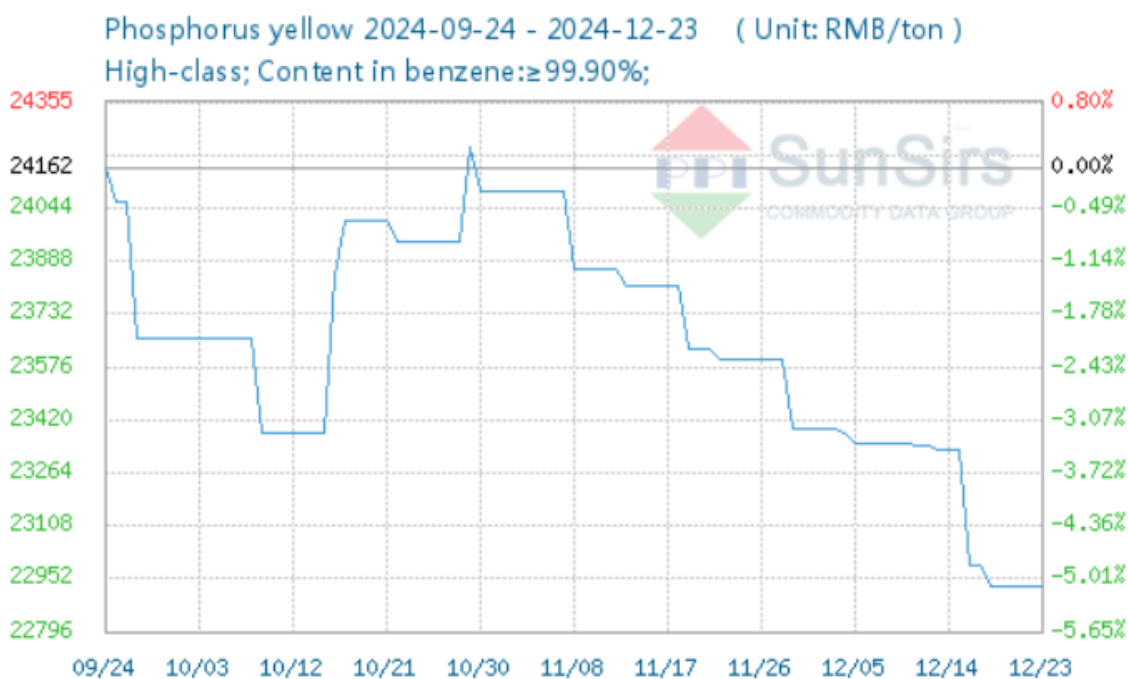
### DGC's Preparations for the Recovery of the Phosphorus Market:

- **Increased capacity:** DGC completed the acquisition of Phosphorus 6 Joint Stock Company in 2024, which increased yellow phosphorus production capacity by 9,800 tons per year, raising the total capacity by about 16%.

The company is also planning to merge PAT into DGC. However, the merger is facing some challenges, with shareholders of both companies expressing concerns over associated costs, including an estimated VND 200 billion in taxes that DGC will need to pay for the merger. Nevertheless, Mr. Đào Hữu Huyền, DGC's chairman, emphasized that having too many stock tickers

on the market is not desirable and believes that a single, stronger stock ticker would be beneficial for the group.

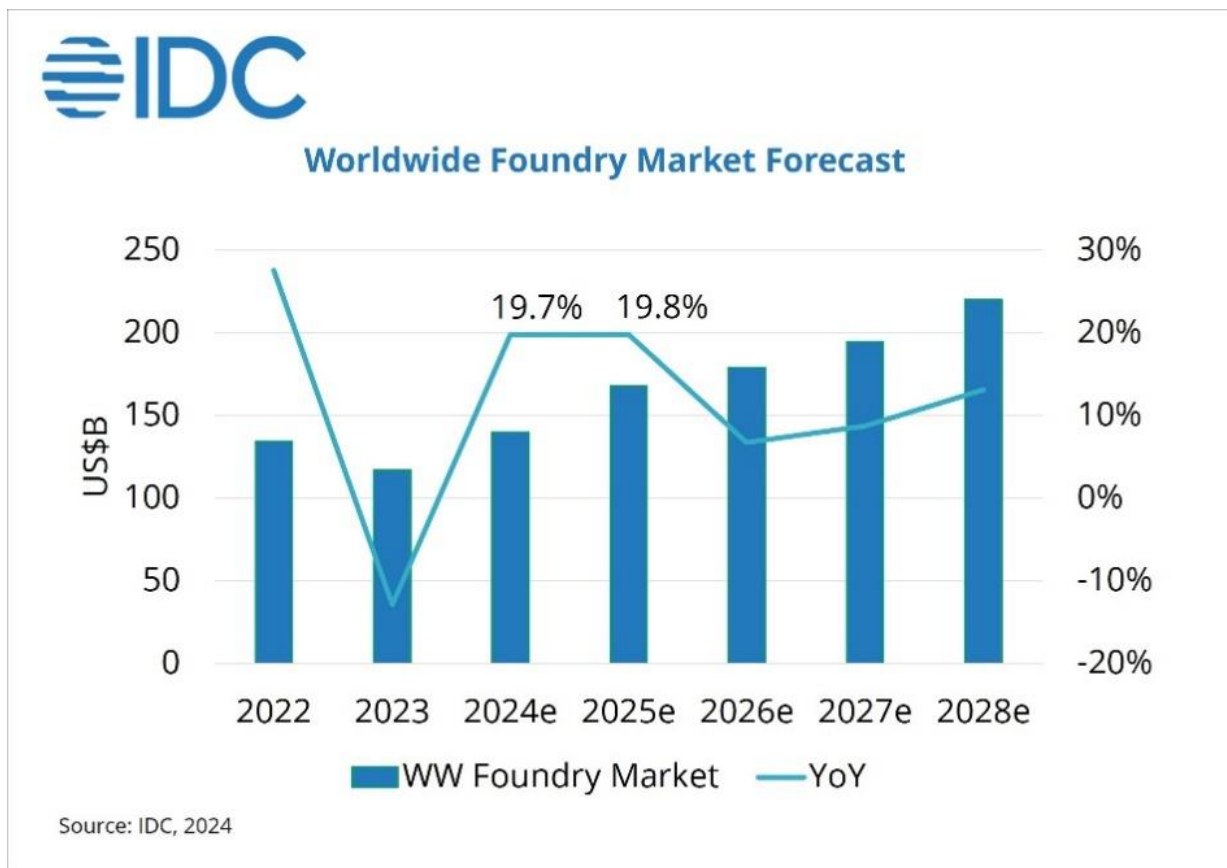
- **Expansion of Mining Area 25:** During the mining process, DGC found that the actual reserves at Mining Area 25 are higher than initially expected, so it has started and is in the process of expanding this mining area. After successful expansion, DGC’s self-mined ore ratio will increase from the current 80% to 90% by 2025, further improving input costs. Apatite ore makes up 60% of the company’s input costs, and it is expected that the expansion of Mining Area 25 will help DGC save approximately VND 200 billion in annual input costs.
- **Searching for New Mines:** DGC is also actively looking for opportunities to acquire mineral mines to secure raw material supply, thereby reducing production costs and improving profitability.
- **Expanding Exports:** DGC is seeking ways to expand its export markets for yellow phosphorus, particularly in India, where demand is rising due to government subsidies. India imports yellow phosphorus for fertilizer and herbicide production. Due to a lack of apatite ore and high agricultural demand, India is the world’s largest importer of yellow phosphorus. In addition, DGC is ramping up exports of its phosphorus fertilizer products to India, and to other markets such as ASEAN countries.
- **Transition to Value-added Products:** The company is transitioning from selling raw yellow phosphorus to higher-value products such as phosphoric acid used in chip production.



*The price trend of yellow phosphorus (Source: SunSirs). The price of yellow phosphorus shows signs of decreasing in the short term, but we expect an improvement in 2025.*

**Potential from New Products:** DGC will expand into new business areas such as alcohol and lithium batteries starting in 2025, in addition to its traditional products like yellow phosphorus and fertilizers.

- **Lithium Battery Products:** DGC has acquired Tia Sáng Battery Company with the goal of expanding into lithium battery production, an essential product in the rapidly growing electric vehicle industry.
- **Ethanol Production:** DGC has acquired the Dai Viet Alcohol plant and plans to establish the Duc Giang alcohol plant with a capacity of 50,000 tons per year. This project is expected to generate annual revenue of approximately VND 1,000 billion, with an estimated profit of around VND 100 billion. The plant is expected to begin operations by the end of 2024 and start generating revenue in 2025.



The latest report from IDC Corporate in December 2024 forecasts that global semiconductor foundry revenue will grow by 19.8% year-on-year in 2025 and continue to experience strong growth in the following years.

## UPDATE ON MAJOR PROJECTS

### Nghi Son - Duc Giang Chemical Complex Project

- **Area:** Approximately 30 hectares, divided into 3 implementation phases.
- **Total Investment:** VND 12,000 billion.
- **Design Capacity:** 136,000 tons of chemicals per year.

#### Implementation Phases:

- **Phase 1:** Expected to start in Q4/2024 and be operational by Q1/2026.  
Investment: VND 2,400 billion. Capacity: 50,000 tons of NaOH per year.
- **Phases 2 and 3:** Will include the production of products like PVC plastic and other chemicals, with a total capacity of up to 136,000 tons of chemicals per year upon completion of the entire project.

DGC plans to start the Nghi Son project in December 2024, with an estimated construction period of around one year. Currently, it is unclear whether the project has already started, but we believe the target for the complex to become operational by Q1/2026 is achievable. The Nghi Son project is expected to contribute about VND 3,000 – 4,000 billion to DGC’s annual revenue. This project is expected to contribute approximately 12% of DGC’s annual revenue from 2026, providing a foundation for sustainable growth in the future. Despite some previous delays, the company is committed to executing the project according to the established plan.

### DGC’s Bauxite - Aluminum Project in Dak Nong Province

As one of the company’s largest and most important projects, the investment scale reaches up to USD 2.3 billion.

- **Total Investment:** VND 57,000 billion (approximately USD 2.3 billion).
- **Extraction Scale:** Expected to extract about 14.4 million tons of bauxite ore per year.
- **Location:** Tuy Duc and Dak Song districts, Dak Nong Province.

DGC has signed a memorandum of understanding with the Dak Nong Provincial People’s Committee

regarding the investment in the project and is awaiting government instructions to issue a special policy mechanism for the project.

According to the mineral planning for the period 2021-2030, with a vision to 2050, approved by the Prime Minister in Decision No. 866 on July 18, 2023, Dak Nong holds total bauxite reserves of over 1,784 billion tons (accounting for more than 57% of the country's total reserves). The bauxite in Dak Nong is considered of higher quality compared to other regions, with an alumina content of nearly 40%. The company's leadership has shared its plans for the project. The project is expected to receive a license in 2-3 years and be completed within 2-3 years after that. Therefore, the project is anticipated to be operational around 2028-2030. With an expected production capacity of 3 million tons of alumina, the group could generate an annual revenue of approximately USD 1.5 billion at current alumina prices.

## RISK UPDATE

### Instability in Supply and Demand of Key Products:

Yellow phosphorus is a key product for DGC, contributing more than 50% of its revenue. However, the yellow phosphorus market often experiences complex fluctuations. For example, in the past three months, despite strong demand for yellow phosphorus in semiconductor chip production, demand from the agriculture and fertilizer sectors was weak, and producers of yellow phosphorus in China lowered prices due to reduced input costs. As a result, the price of yellow phosphorus has been on a downward trend in recent months. Despite this, we expect the yellow phosphorus market to recover in both price and output in 2025, with anticipated increased demand from fertilizer producers and continued strong demand from chip manufacturers. However, the yellow phosphorus market still carries complex risks that could significantly impact product prices and DGC's revenue growth.

### ESG Risks of the Nghi Son Project:

- **Environmental Risks:** The project is located near the Khe Sau reservoir, which provides drinking water for over 100 households and irrigation for agricultural land. Local residents have expressed concerns about the potential risk of water pollution from chemical production activities. Environmental impacts from the project could affect both the project's timeline and pose risks after the project is completed and operational. DGC has plans to protect the Khe Sau reservoir, but environmental risks remain a factor that needs monitoring.
- **Job Creation:** Once operational, the project is expected to create thousands of jobs for local residents, improving living standards, contributing to the economic development of the area, and significantly contributing to Thanh Hoa Province's budget via taxes. This is a positive social contribution. However, there are also labor-related risks, such as shortages of workers and senior staffs for the project, risks related to ensuring labor conditions, and risks concerning labor costs.

### Potential Impact of Upcoming U.S. President Donald Trump's Policies on DGC:

If Trump imposes stricter tariffs on imports from Vietnam, this could increase costs for DGC. The company's main export markets are India, Japan, South Korea, and Taiwan (which together account for approximately 60% of DGC's total export revenue), but DGC also exports to the U.S. (accounting for less than 10% of the company's export revenue). Additionally, DGC's revenue could be impacted if its customers are negatively affected by Trump's policies.

Another risk is that Trump's policies could lead U.S. tech companies to limit foreign direct investment (FDI). However, we currently assess the risk related to President Trump's policies for DGC as relatively low.

In addition to the above risks, the company also faces other potential risks, such as supply risks related to apatite ore, risks regarding permits and project timelines, and risks related to product exports.



## VALUATION UPDATE

The current stock price of DGC is around the target price we set on April 22, 2024. Apart from reducing our revenue and profit forecasts for the company in 2024, we have not changed our assessment of the company's long-term outlook. DGC's outlook remains positive due to the recovery of its core business, the potential from new products, and the prospects from the company's major projects.

We have updated the stock valuation based on the company's outlook and set a new 6-18 month target price for DGC at VND 126,000 per share. Based on the current stock price (the reference price on December 24, 2024, is VND 116,500 per share), we recommend an "ACCUMULATE" rating for DGC's stock, with an expected upside of +8.2%.

Our stock valuation is based on several assumptions regarding the company's business operations. These assumptions may not be entirely accurate. Additionally, both internal and external factors affecting the company can cause the information and assumptions used in this valuation, as well as the results presented in this report, to become outdated and no longer applicable after the report is published.



## APPENDIX 1: FINANCIAL REPORT DATA

Balance Sheet - VNDbn	2021A	2022A	2023A	Q4/2023	Q1/2024	Q2/2024	Q3/2024
<b>CURRENT ASSETS</b>	5,997.35	10,985.29	12,466.65	12,466.26	11,468.46	12,220.64	13,031.02
Cash and cash equivalents	123.96	1,535.47	1,060.57	1,060.57	113.20	500.02	248.49
Short-term investments	3,631.68	7,471.32	9,342.00	9,342.00	9,456.51	9,739.15	11,117.86
Account receivable	780.77	918.72	1,129.51	1,129.51	961.45	958.02	878.70
Inventories	1,386.43	999.98	854.91	854.95	859.03	978.92	738.17
Other current assets	74.51	59.79	79.65	79.22	78.28	44.53	47.80
<b>LONG-TERM ASSETS</b>	2,523.05	2,419.89	3,133.87	3,025.39	2,990.15	3,211.07	3,165.95
Long-term trade receivables	9.24	28.96	31.22	31.22	32.50	32.50	32.50
Fixed assets	1,973.87	1,781.23	2,456.83	2,099.79	2,118.40	2,365.32	2,276.13
Investment properties	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term incomplete assets	171.60	233.58	225.37	225.37	176.91	408.57	452.02
Long-term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term assets	368.34	376.11	420.44	669.01	662.35	404.67	405.31
Goodwill	3.72	3.17	64.55	348.24	304.69	60.95	59.14
<b>TOTAL ASSETS</b>	8,520.39	13,405.18	15,600.51	15,491.65	14,458.62	15,431.71	16,196.97
<b>LIABILITIES</b>	2,188.39	2,571.53	3,563.18	3,492.61	1,948.61	2,027.32	2,055.81
<b>Current liabilities</b>	2,188.29	2,571.43	3,492.91	3,492.34	1,933.68	1,958.69	1,987.96
Trade accounts payable	683.40	326.04	190.11	190.11	260.74	237.58	221.72
Short-term unrealized revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short-term borrowings	841.91	467.62	1,328.01	1,328.01	920.57	818.25	791.56
<b>Long-term liabilities</b>	0.10	0.10	70.27	0.27	14.93	68.63	67.85
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unrealized revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term borrowings	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>OWNER'S EQUITY</b>	6,332.00	10,833.65	12,037.33	11,999.04	12,510.01	13,404.39	14,141.15
<b>Capital and reserves</b>	6,332.00	10,833.65	12,037.33	11,999.04	12,510.01	13,404.39	14,141.15
Paid-in capital	1,710.81	3,797.79	3,797.79	3,797.79	3,797.79	3,797.79	3,797.79
Share premium	1,786.67	1,786.67	1,786.67	1,786.67	1,786.67	1,786.67	1,786.67
Owner's other capital	-849.23	-849.23	-849.23	-849.23	-849.23	-849.23	-849.23
Undistributed earnings	2,946.71	5,083.86	5,999.14	5,887.22	6,011.15	6,891.32	7,597.30
Minority interests	255.34	382.45	330.30	403.93	344.64	358.89	390.94
<b>Budget sources and other funds</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL RESOURCES</b>	8,520.39	13,405.18	15,600.51	15,491.65	14,458.62	15,431.71	16,196.97

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DGC

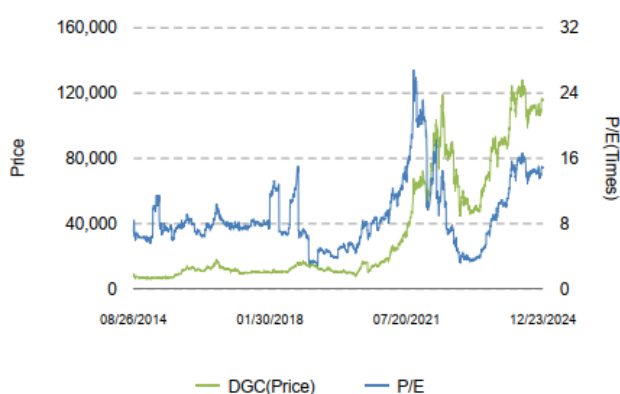
Company Report

Income Statement - VNDbn	2021A	2022A	2023A	Q4/2023	Q1/2024	Q2/2024	Q3/2024
Sales	9,550.58	14,445.00	9,761.06	2,389.05	2,385.82	2,506.02	2,559.43
Net sales	9,550.39	14,444.11	9,748.01	2,387.71	2,384.76	2,504.51	2,558.09
Gross profit	3,182.36	6,750.35	3,439.98	784.49	766.15	983.40	881.42
Financial income	170.67	533.26	739.26	194.31	165.18	165.10	150.54
Financial expenses	-68.11	-149.75	-98.47	-35.60	-17.97	-15.95	-22.19
of which: interest expenses	-13.66	-17.60	-31.95	-7.72	-8.51	-5.31	-3.92
Gain/(loss) form joint venture	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Selling expenses	-503.82	-600.39	-435.69	-95.40	-105.00	-116.87	-168.19
General and admin expenses	-136.60	-151.83	-158.57	-49.30	-40.37	-40.49	-39.89
Operating profit/(loss)	2,644.49	6,381.65	3,486.51	798.50	768.00	975.19	801.68
Net other income/(expenses)	-7.38	-5.90	-1.38	0.13	1.26	-9.15	-1.66
Net accounting profit/(loss) before tax	2,637.11	6,375.75	3,485.13	798.63	769.26	966.04	800.02
Business income tax expenses	-123.34	-338.76	-243.46	-52.91	-65.36	-85.75	-62.00
Net profit/(loss) after tax	2,513.78	6,036.98	3,241.66	745.71	703.91	880.29	738.03
Minority interests	125.63	471.98	141.68	26.19	31.29	19.55	32.05
Attribute to parent company	2,388.15	5,565.01	3,099.99	719.52	672.62	860.74	705.98

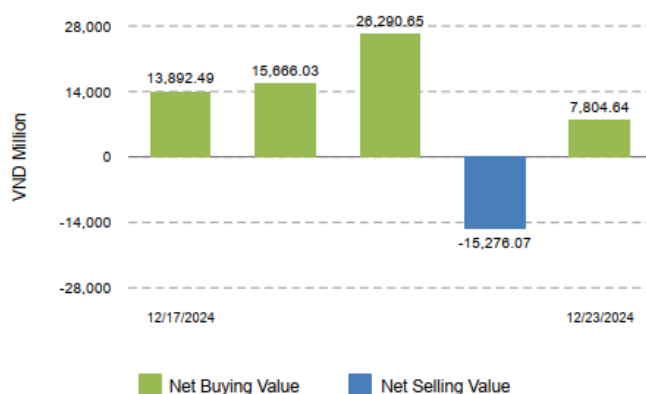
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## APPENDIX 2: HISTORICAL VALUATION DATA AND NET BUY/SELL DATA OF FOREIGN INVESTORS

Valuation History



Foreign Net Buying/Selling



DGC

Company Report



**COMPANY RATING DEFINITION**

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

<b>Rating</b>	<b>Definition</b>
<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

<b>Rating</b>	<b>Definition</b>
<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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