

22 Jul 2022

# Duc Giang Chemicals (DGC)

Non-rated

## Shine bright like a diamond

### 2Q22: Another booming business results

In 2Q22, DGC released the highest result through their operation with a revenue of VND4,002bn (+96% yoy and +10% qoq) and a NPAT of VND1,894bn (+469% yoy and +26% qoq) mainly thanks to high selling prices of yellow phosphorus (P<sub>4</sub>). P<sub>4</sub>'s output in 2Q22 was estimated at 14,190 tonne, down 8% vs 1Q22. Although the reducing in trading volume, P<sub>4</sub> export price was shine in 2Q22. As we estimated, DGC's yellow phosphorus was trading at VND142mn/tonne in the second quarter, up 100% yoy and 6% qoq. Unsurprisingly, P<sub>4</sub> export revenue accounted for 69% of DGC's total revenue in 2Q22. Thus, yellow phosphorus is still the key growth driver of DGC, at least in 2H22F.

### Gross margin has been improved

By taking advantage of the autonomy of input apatite ore from the Field 25, DGC can expand their gross margin continuously since 4Q21. In 2Q22, DGC enjoyed 6.2%p qoq and 28.8%p yoy stretch in gross margin, and recorded a rate of 53.1%. In 2Q22, DGC's SG&A to sales was 5%, felt by 2%p yoy, and maintain the same level as 1Q22. It seems that strictly control SG&A expenses partly contributed the improve in net profit. The net profit margin expanded 5.8%p qoq and 31.0%p yoy and hit 47.3% in 2Q22, which is the all-time high level.

### 2H22F outlook still solid

Although there is negative signal on yellow phosphorus price in Jul-22 (P<sub>4</sub> price downed 12% vs Jun), we believe that P<sub>4</sub> industry still has potential growth drivers. Firstly, the lack of clarity in the application of a policy to limit the export of phosphate fertilizers in China will make producers in this country more hesitant to exploit P<sub>4</sub>. Secondly, in the first half of 2022, giants such as Apple and Toyota blame shortage of chip and electronic components for their unsatisfied output. The output is expected to recover since 3Q22F when China relaxes their lockdown measures and opens up global transportation. We believe these reasons will become the main driving forces for P<sub>4</sub> industry in coming 2H22F.

### Stock Data

VNIndex (Jul 22, pt)	1,195
Stock price (Jul 22, VND)	98,200
Market cap (USD mn)	1,558
Shares outstanding (mn)	371
52-Week high/low (VND)	134,700/42,318
6M avg. daily turnover (USD mn)	14.07
Free float / Foreign ownership (%)	57.1/14.5
Major shareholders (%)	
Chairman and relatives	38.00
Vietnam Enterprise Investments Limited	1.97

### Performance

	1M	6M	12M
Absolute (%)	(12.3)	44.0	148.2
Relative to VNIndex (%p)	(14.9)	62.2	154.4

### Stock price trend



Source: Bloomberg

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	626	51	128	7,621	209.0	51	28.3	22.1	8.1	50.0	n.a
2018A	6,090	939	873	4,136	(46.0)	939	52.1	35.4	8.9	20.0	n.a
2019A	5,091	592	567	1,284	(33.7)	1,254	168.2	120.4	20.6	17.3	440.5
2020A	6,237	987	907	2,599	102.4	2,821	83.1	75.8	18.5	25.2	n.a
2021A	9,550	2,542	2389	6,436	147.7	0	33.6	30.5	12.7	48.4	339.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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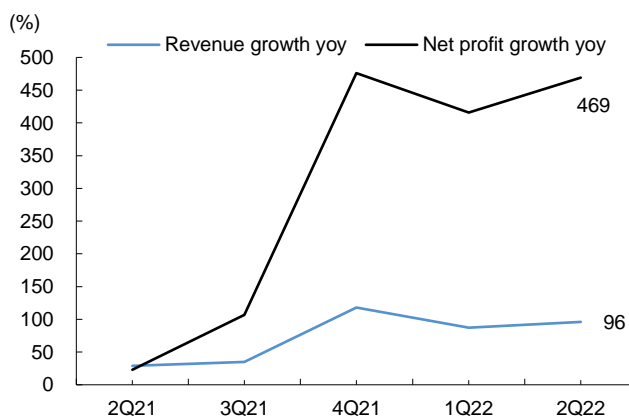
### Long-term catalyst

We appreciate DGC’s strategy on how to keep them at the top. They know very clearly the fluctuated risk of commodity prices, and then take advantage of the abundant cash generated during the period when P<sub>4</sub> prices stay at high level reinvest in other area (in the end of 2Q22, total cash balance accounted for 53% of DGC’s total assets). For instance, in 2023F, DGC will introduce the Long Bien apartment project (Ha Noi) with the estimated revenue of VND2,000bn. In 2024F-2026F, VND9,000bn will be added to DGC’s total revenue from the Duc Giang – Nghi Son project. These income sources will make up for the shortfall caused by the end of glory days for yellow phosphorus.

### Valuation

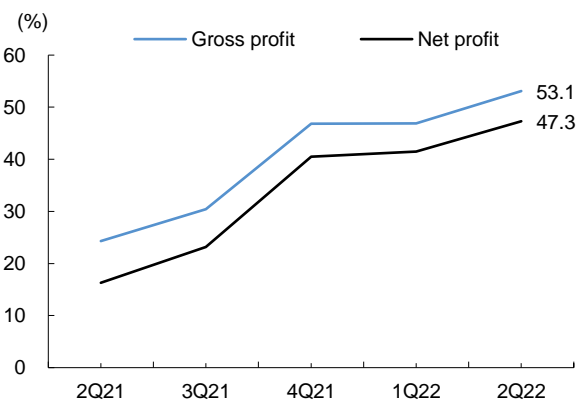
DGC is trading at 7.6x TTM PE, far below 2-yr average of 11.6x, and 4.1x PB, higher than 2-yr average of 3.5x. We think this valuation does not fully reflect the risk to the volatility of yellow phosphorus prices.

**Figure 1. Revenue and Net profit growth rate yoy**



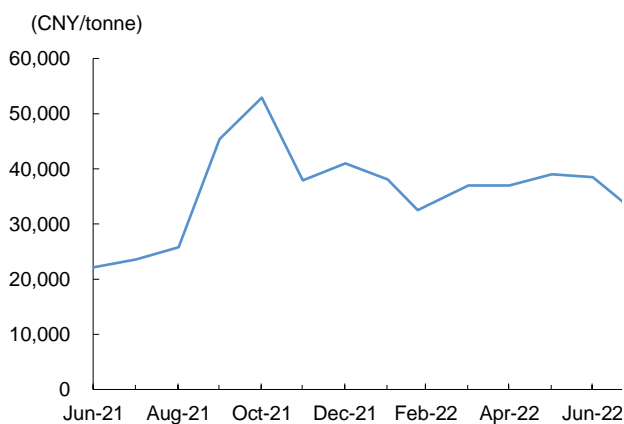
Source: Company data, KIS

**Figure 2. Gross margin and Net margin qoq**



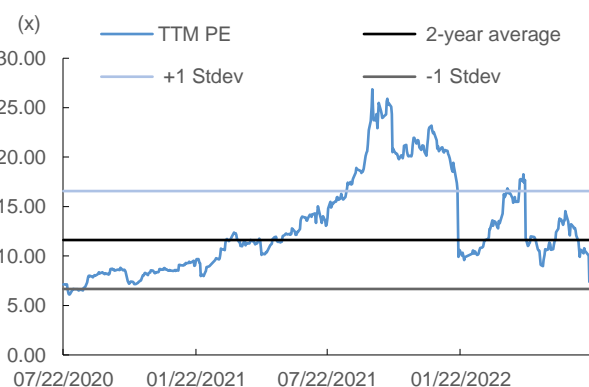
Source: Company data, KIS

**Figure 3. China yellow phosphorus price**



Source: Sunsirs, KIS

**Figure 4. DGC PE**



Source: Fiinpro, KIS

**Table 1. DGC's Earnings estimates**

(VND bn, %, tonnes)

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22F	4Q22F
<b>Revenue</b>	<b>1,949</b>	<b>2,039</b>	<b>2,106</b>	<b>3,456</b>	<b>3,634</b>	<b>4,002</b>	<b>3,669</b>	<b>3,654</b>
<i>Chg. (% yoy)</i>	28.2	29.4	35.3	118.2	86.5	96.3	74.2	5.7
<b>GP</b>	<b>431</b>	<b>495</b>	<b>640</b>	<b>1,616</b>	<b>1,706</b>	<b>2,125</b>	<b>1,835</b>	<b>1,827</b>
<i>Chg. (% yoy)</i>	40.8	13.5	79.3	325.3	295.8	329.3	186.7	13.1
<b>OP</b>	<b>288</b>	<b>344</b>	<b>487</b>	<b>1,424</b>	<b>1,515</b>	<b>1,934</b>	<b>1,652</b>	<b>1,644</b>
<i>Chg. (% yoy)</i>	45.5	17.4	105.5	454.1	426.0	462.2	239.2	15.4
<b>EBT</b>	<b>310</b>	<b>354</b>	<b>516</b>	<b>1,457</b>	<b>1,586</b>	<b>1,996</b>	<b>1,321</b>	<b>1,315</b>
<i>Chg. (% yoy)</i>	47.5	25.0	108.0	461.5	411.9	463.8	156.0	-9.7
<b>NP</b>	<b>292</b>	<b>333</b>	<b>488</b>	<b>1,400</b>	<b>1,507</b>	<b>1,894</b>	<b>1,057</b>	<b>1,052</b>
<i>Chg. (% yoy)</i>	46.3	23.5	107.3	476.0	416.1	468.8	116.6	-24.9

Source: Company data, KIS

### ■ Company overview

Duc Giang Chemicals (DGC: HXS) was a state-owned enterprise under the General Department of Chemicals of Vietnam, established in 1963 and became a public company since 2007. Currently, DGC is the leader in yellow phosphorus producer in Viet Nam. DGC is one of the main yellow phosphorus suppliers for Korea, Japan and India. DGC's business core has a relatively high and stable growth rate around 50%/year.

**Balance sheet**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Current assets	371	2,136	2,262	3,434	5,997
Cash & cash equivalents	83	520	770	1,840	3,756
Accounts & other receivables	240	750	634	849	781
Inventory	35	797	808	697	1,386
Non-current assets	516	2,594	2,459	2,443	2,523
Fixed assets	36	2,327	2,303	2,030	1,974
Investment assets	450	178	52	181	172
Others	44	159	154	281	443
<b>Total assets</b>	<b>887</b>	<b>4,730</b>	<b>4,721</b>	<b>5,876</b>	<b>8,520</b>
Advances from customers	1	23	48	34	166
Unearned revenue	0	0	0	0	0
Trade payables	68	206	130	137	683
Others	151	203	357	489	497
ST debt & due bonds	0	1,133	735	1,149	842
LT debt & bonds	0	0	0	0	0
<b>Total liabilities</b>	<b>220</b>	<b>1,565</b>	<b>1,270</b>	<b>1,809</b>	<b>2,188</b>
Controlling interest	1,625	2,857	3,127	3,911	6,077
Capital stock	500	1,078	1,294	1,488	1,711
Capital surplus	1	1,787	1,787	1,787	1,787
Other reserves	105	379	522	(503)	(368)
Retained earnings	60	914	836	1,140	2,947
Minority interest	0	123	128	156	255
Shareholders' equity	666	3,165	3,452	4,067	6,332

**Cash flow**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
C/F from operations	(43)	564	847	1,073	2,620
Net profit	128	873	572	948	2,515
Dep'n & Amort'n	11	213	258	268	279
Net incr. in W/C	(182)	(522)	17	(143)	(174)
C/F from investing	113	(636)	(478)	(1,101)	(2,241)
Capex	(8)	(403)	(111)	(243)	(253)
Incr. in investment	121	(233)	(367)	(858)	(1,988)
C/F from financing	(8)	264	(515)	183	(537)
Incr. in equity	0	0	0	0	0
Incr. in debt	(8)	264	(407)	377	(301)
Dividends	0	0	(162)	0	(237)
C/F from others	0	0	0	0	0
<b>Increase in cash</b>	<b>63</b>	<b>192</b>	<b>(147)</b>	<b>155</b>	<b>(158)</b>

**Income statement**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Sales	626	6,090	5,091	6,237	9,550
COGS	509	4,728	4,084	4,757	6,368
<b>Gross profit</b>	<b>116</b>	<b>1,362</b>	<b>1,006</b>	<b>1,479</b>	<b>3,182</b>
SG&A expenses	66	423	415	493	640
<b>Operating profit</b>	<b>51</b>	<b>939</b>	<b>592</b>	<b>987</b>	<b>2,542</b>
Financial income	90	48	62	122	171
Interest income	6	17	31	79	159
Financial expenses	1	56	58	85	68
Interest expenses	0	26	28	20	14
Other non-operating profit	0	(22)	3	(22)	(7)
Gains (Losses) in associates, subsidiaries and JV	0	(2)	0	0	0
<b>Earnings before tax</b>	<b>328</b>	<b>254</b>	<b>597</b>	<b>(22)</b>	<b>2,638</b>
Income taxes	12	34	28	53	123
<b>Net profit</b>	<b>128</b>	<b>873</b>	<b>572</b>	<b>948</b>	<b>2,515</b>
Net profit of controlling interest	128	870	567	907	2,389
<b>EBITDA</b>	<b>1,152</b>	<b>850</b>	<b>1,254</b>	<b>2,821</b>	<b>0</b>

**Key financial data**

FY-ending Dec.	2017A	2018A	2019A	2020A	2021F
Per-share data (VND, adj.)					
EPS	955	1,938	1,284	2,599	6,436
BPS	2,664	10,281	10,475	11,658	17,058
DPS	0	0	490	0	637
Growth (%)					
Sales growth	(76.1)	873.5	(16.4)	22.5	53.1
OP growth	(79.1)	1,759.4	(37.0)	66.7	157.6
NP growth	(46.9)	577.4	(34.8)	60.0	163.5
EPS growth	(1.3)	102.8	(33.7)	102.4	147.7
EBITDA growth	(79.1)	1,759.4	(37.0)	66.7	157.6
Profitability (%)					
OP margin	8.1	15.4	11.6	15.8	26.6
NP margin	20.5	14.3	11.2	15.2	26.3
EBITDA margin	8.1	15.4	11.6	15.8	26.6
ROA	8.9	31.1	12.1	17.9	34.9
ROE	12.6	45.6	17.3	25.2	48.4
Dividend yield	#DIV/0!	#DIV/0!	440.5	#DIV/0!	339.0
Dividend payout ratio	0.0	0.0	38.2	0.0	9.9
Stability					
Net debt (VND bn)	(83)	613	(35)	(691)	(2,914)
Net debt/equity (%)	(10.0)	20.0	0.0	(20.0)	(50.0)
Valuation (x)					
PE	226.1	111.5	168.2	83.1	33.6
PB	81.1	21.0	20.6	18.5	12.7
EV/EBITDA	1,059.4	71.6	120.4	75.8	30.5

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