

19 Oct 2022

# DUC GIANG CHEMICALS (DGC)

NONRATED

## Every cloud has a silver lining

### 3Q22: Lag in business results

- On Oct 19, DGC posted 3Q22 business results with a revenue of VND3,696bn (-7.6% qoq and +75.5% yoy), 9% lower than their 3Q22's target, and a NPAT of VND1,514bn (-20% qoq and +210% yoy), 16% higher than the target. The qoq revenue drop was attributed to selling price decline. In 3Q22, we estimate yellow phosphorus (P<sub>4</sub>) selling prices could be VND122mn/tonne, -13% qoq (2Q22: VND141mn/tonne), while the output could stay flattish (around 14,000 – 15,000 tonnes).
- In 9M22, DGC recorded a VND11,332bn revenue (+86% yoy) and VND4,917bn NPAT (+342% yoy), fulfilling 94%/140% of its full-year guidance.
- The fall in selling prices leads to a lag in gross margin. In 3Q22, the gross margin was 44.5%, -8.7%p qoq, 14.1%p yoy. However, the company still kept the SG&A to sales at a “comfortable” level, which was under 5%, far lower than the average level of 7% in 2021. The net margin went down from the peak of 47.4% in 2Q22 to 41.0% in 3Q22.

### A positive signal from P<sub>4</sub>'s selling price in 4Q22F

- In Oct, the P<sub>4</sub> selling price is about VND137mn/tonne, +3% mom and far higher than the average price in 3Q22. We think this price level could be maintained through 4Q22F due to 1) P<sub>4</sub> demand in semiconductor and electronic batteries is still there, and 2) the export limitation of phosphate fertilizer from China could make producers afraid to explore apatite ores, then this country still has to find suppliers in Vietnam to make up for the lack of P<sub>4</sub> used in high-technology industries.
- At the last AGM, the company set out a lot of projects such as Nghi Son – Duc Giang (limestone mining projects), Duc Giang real estate project, and the newest - Dak Nong project (bauxite ore mining). However, based on the information in the FS, we think these projects just entered the exploration phase, and so hardly any projects can be completed at the end of 2022F.
- DGC is trading at 6.2x TTM PE, far below the 3-yrs average of 9.0x, and 3.4x PB, higher than the 3-yrs average of 2.7x.

	2017A	2018A	2019A	2020A	2021A
Sales (VND bn)	626	6,090	5,091	6,237	9,550
chg. (% YoY)	(76.1)	873.5	(16.4)	22.5	53.1
Operating profit (VND bn)	51	939	592	987	2,542
Net profit (VND bn)	128	870	567	907	2,389
EPS (VND)	955	1,938	1,284	2,599	6,436
chg. (% YoY)	(1.3)	102.8	(33.7)	102.4	147.7
EBITDA (VND bn)	61	1,152	849	1,254	2,821
PE (x)	11.3	4.9	5.4	8.9	12.2
EV/EBITDA (x)	25.4	4.9	3.8	5.6	8.8
PB (x)	2.0	1.4	0.9	1.9	4.5
ROE (%)	14.4	45.0	16.8	23.6	45.0
Dividend yield (%)	-	4.9	9.9	3.8	0.6

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

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### Stock Data

VNIndex (Oct 19, pt)	1,056
Stock price (Oct 19, VND)	81,400
Market cap (USD mn)	1,260
Shares outstanding (mn)	380
52-Week high/low (VND)	134,700/59,540
6M avg. daily turnover (USD mn)	12.72
Free float / Foreign ownership (%)	58.1/15.1
Major shareholders (%)	
Chairman and relatives	38.00
Vietnam Enterprise Investments Limited	1.97

### Performance

	1M	6M	12M
Absolute (%)	(13.4)	(30.7)	16.9
Relative to VNIndex (%p)	(1.1)	(6.5)	40.2

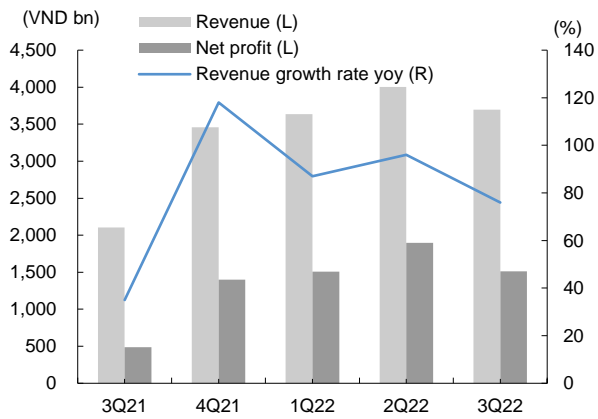
### Stock price trend



Source: Bloomberg

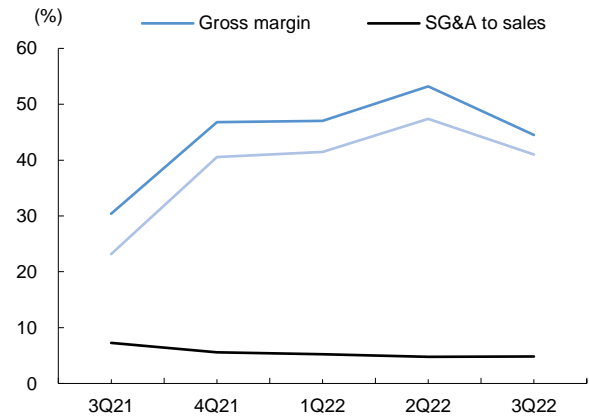
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**Figure 1. Revenue and revenue growth rate yoy**



Source: Company data, KIS

**Figure 2. Gross margin and Net margin by quarters**



Source: Company data, KIS

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