



# Duc Giang Chemicals (DGC)

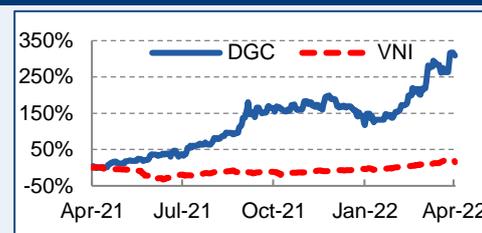
# Earnings Flash

Industry:	Chemicals		2021	Q1/22	2022F
Report Date:	April 20, 2022	Rev growth	53.1%	86.5%	47.6%
Current Price:	VND243,000	EPS growth	163.5%	370.4%	102.1%
Target Price **:	VND224,000	EPS growth*	161.2%	370.4%	102.1%
Upside to TP:	-7.8%	GPM	33.3%	47.0%	41.8%
Dividend Yield:	1.7%	NPM	25.0%	36.8%	34.2%
TSR:	-6.1%	EV/EBITDA	14.0x	N/A	7.2x
Rating **:	BUY	P/E*	19.4x	N/A	9.6x

		DGC	Peers	VNI	
Market Cap:	USD1.8bn	P/E (ttm)	12.9x	14.3x	16.1x
Foreign Room:	USD0.6bn	P/B (curr)	5.5x	2.3x	2.4x
ADTV30D:	USD19.7mn	Net D/E	-54.9%	43.5%	N/A
State Ownership:	0.0%	ROE (ttm)	57.7%	17.6%	15.4%
Outstanding Shares:	171.1 mn	ROA (ttm)	44.6%	7.3%	2.5%
Fully Diluted Shares:	171.1 mn				
3-yr PEG:	1.0				

\*\* Last updated on February 25, 2022

\* Recurring EPS



## Company Overview

Duc Giang Chemicals Group is Vietnam's leading producer of phosphorus chemicals, which serve agricultural and electronic applications, among others. In addition, DGC is set to become the country's preeminent player in chlor-alkali-vinyl chemicals, which is crucial to the general manufacturing and construction sectors.

Vinh Bui  
Analyst  
[vinh.bui@vcsc.com.vn](mailto:vinh.bui@vcsc.com.vn)  
+84 28 3914 3588 ext. 191

Vy Nguyen  
Manager  
[vy.nguyen@vcsc.com.vn](mailto:vy.nguyen@vcsc.com.vn)  
+84 28 3914 3588 ext. 147

## Positive business momentum, ASP uptrend continues

- DGC released stellar Q1 2022 results that are in line with our expectations, including revenue VND3.6tn (USD156mn; +86% YoY — 26% of our 2022F) and NPAT-MI of VND1.3tn (USD58mn; +370%YoY — 28% of our 2022F). We attribute these earnings surges primarily to record-high selling prices and cost savings from DGC's phosphate rock mine.
- YTD, yellow phosphorus (P<sub>4</sub>) prices quoted by Vietnamese producers have increased from USD7,000/tonne to USD7,500/tonne. In addition, wet phosphoric acid (WPA) prices have rallied from USD665/tonne to USD900/tonne (50% P<sub>2</sub>O<sub>5</sub> content) YTD.
- We believe Q2 2022 earnings will grow vs Q1 2022 because we expect (1) Q2 2022 ASP to be higher than in Q1 2022, which will more than offset input price increases, and (2) DGC will operate at a full capacity utilization in Q2 2022, whereas the company conducted maintenance of its WPA line for a few weeks in Q1 2022.
- We see potential upside to our current forecasts as the market prices of DGC's products have been trending above our expectations.

**P<sub>4</sub> and WPA prices have climbed to new highs.** P<sub>4</sub> prices quoted by Vietnamese producers have increased from USD7,000/tonne to USD7,500/tonne YTD vs an average of USD2,500/tonne in 2016-2020 and USD5,500 in China currently. We attribute the elevated Vietnamese prices to (1) surging Chinese P<sub>4</sub> production costs and booming demand from the electric vehicle sector in China, (2) China's 20% export tariff on P<sub>4</sub> vs 5% by Vietnam, (3) disruptions to Kazakh competitors' supply chain amid the Russia-Ukraine conflict, and (4) Vietnamese producers' strengthening pricing as Vietnam typically accounts for half of global P<sub>4</sub> exports. In addition, WPA prices have rallied from USD665/tonne to USD900/tonne (50% P<sub>2</sub>O<sub>5</sub> content) YTD as global fertilizer market has tightened amid military conflicts and trade restrictions.

**Nevertheless, we maintain our view that DGC's selling prices will soften in 2023.** Firstly, China is easing restrictions on P<sub>4</sub> production amid booming demand from the electric vehicle industry, which could ease the current supply shortage. Per the Chinese *Financial Associated Press*, the country approved total new P<sub>4</sub> capacity of 356,000 tonnes per annum, which is set to come online in 2023-2024 (China's current capacity is 1.4 million tonnes per annum). Secondly, input prices could soften as the global supply chain stabilizes. Lastly, the currently record high fertilizer prices could lead to demand destruction.

**A summary of DGC's Q1 2022 results is presented on the next page.**

## DGC's Q1 2022 results

VND bn	Q1 2021	Q4 2021	Q1 2022*	YoY	Q1 2022 as % of VCSC's 2022F	2022F
<b>ASP (VND mn/tonne)**</b>	<b>46</b>	<b>104</b>	<b>118</b>	<b>158%</b>	<b>130%</b>	<b>91</b>
Industrial phosphorus chemicals	60	140	160	166%	123%	130
Agricultural phosphates	35	70	72	106%	126%	57
<b>Revenue</b>	<b>1,949</b>	<b>3,456</b>	<b>3,634</b>	<b>86%</b>	<b>26%</b>	<b>14,098</b>
Industrial phosphorus chemicals	1,017	2,214	2,480	144%	27%	9,143
Agricultural phosphates	781	1,160	1,010	29%	22%	4,677
Other	151	83	144	29%	52%	277
<b>Gross profit</b>	<b>431</b>	<b>1,616</b>	<b>1,706</b>	<b>296%</b>	<b>29%</b>	<b>5,890</b>
Selling expenses	-115	-143	-149	30%	28%	-534
G&A expenses	-29	-49	-42	48%	25%	-169
<b>EBIT</b>	<b>287</b>	<b>1,423</b>	<b>1,515</b>	<b>428%</b>	<b>29%</b>	<b>5,187</b>
Financial income	33	65	84	156%	31%	272
Financial expense	-10	-27	-13	31%	24%	-54
Others	0	-5	0	21%	0%	0
<b>PBT</b>	<b>310</b>	<b>1,457</b>	<b>1,586</b>	<b>412%</b>	<b>29%</b>	<b>5,405</b>
<b>NPAT-MI</b>	<b>284</b>	<b>1,305</b>	<b>1,336</b>	<b>370%</b>	<b>28%</b>	<b>4,827</b>

Margins	Q1 2021	Q4 2021	Q1 2022	2022F
GPM	22.1%	46.8%	47.0%	41.8%
EBIT margin	14.7%	41.2%	41.7%	36.8%
EBITDA margin	18.2%	43.3%	43.7%	39.0%
NPAT-MI margin	14.6%	37.8%	36.8%	34.2%

Source: DGC, VCSC \*Q1 2022 revenue breakdown and ASP are VCSC's estimates; \*\*based on phosphorus content, our proxy sales volume

## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

**Risks:** Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

## Disclaimer

### Analyst Certification of Independence

We, Vinh Bui and Vy Nguyen, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2013 Viet Capital Securities Company "VCSC". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

**U.K. and European Economic Area (EEA):** Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.

## Contacts

### Corporate

[www.vcsc.com.vn](http://www.vcsc.com.vn)

#### Head Office

Bitexco Financial Tower, 15th Floor  
2 Hai Trieu Street, District 1, HCMC  
+84 28 3914 3588

#### Transaction Office Nguyen Hue

Vinatex Building, 1st & 3rd Floor  
10 Nguyen Hue Street, District 1, HCMC  
+84 28 3914 3588 (417)

#### Transaction Office Dong Da

9 Nguyen Ngoc Doan,  
Dong Da District, Hanoi  
+84 24 6262 6999

#### Hanoi Branch

109 Tran Hung Dao  
Hoan Kiem District, Hanoi  
+84 24 6262 6999

#### Transaction Office Nguyen Cong Tru

Floor 6B, 236-238 Nguyen Cong Tru Street  
District 1, HCMC  
+84 28 3914 3588 (400)

#### Transaction Office ABS

Sailing Tower, 8th Floor,  
111A Pasteur Street, District 1, HCMC  
+84 28 3914 3588 (403)

### Research

**Research Team:** +84 28 3914 3588  
[research@vcsc.com.vn](mailto:research@vcsc.com.vn)

**Alastair Macdonald, Head of Research, ext 105**  
[alastair.macdonald@vcsc.com.vn](mailto:alastair.macdonald@vcsc.com.vn)

#### Banks, Securities and Insurance

##### Long Ngo, Associate Director, ext 123

- Truc Ngo, Analyst, ext 116
- Ngoc Huynh, Analyst, ext 138
- Nhan Nguyen, Analyst, ext 139

#### Macro

##### Luong Hoang, Manager, ext 364

- Nguyen Truong, Senior Analyst, ext 132

#### Consumer

##### Nam Hoang, Manager, ext 124

- Ha Dao, Senior Analyst, ext 194
- Ha Huynh, Analyst, ext 185
- Huy Phan, Analyst, ext 173

#### Oil & Gas and Power

##### Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Manager, ext 135
- Duc Le, Analyst, ext 196

#### Real Estate and Infrastructure

##### Hong Luu, Senior Manager, ext 120

- Dang Thai, Senior Analyst, ext 149
- Duc Pham, Analyst, ext 174

#### Materials and Industrials

##### Vy Nguyen, Manager, ext 147

- Vinh Bui, Analyst, ext 149

#### Retail Client Research

##### Duc Vu, Senior Manager, ext 363

- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363
- Ha Bui, Analyst, ext 364

### Brokerage and Institutional Sales & Trading

#### Tuan Nhan

##### Managing Director, Brokerage & Institutional Sales & Trading

+84 28 3914 3588, ext 107  
[tuan.nhan@vcsc.com.vn](mailto:tuan.nhan@vcsc.com.vn)

#### Quynh Chau

##### Managing Director Brokerage

+84 28 3914 3588, ext 222  
[quynh.chau@vcsc.com.vn](mailto:quynh.chau@vcsc.com.vn)

#### Dung Nguyen

##### Director Institutional Sales & Trading

+84 28 3914 3588, ext 136  
[dung.nguyen@vcsc.com.vn](mailto:dung.nguyen@vcsc.com.vn)