



Duc Giang Chemicals (DGC)

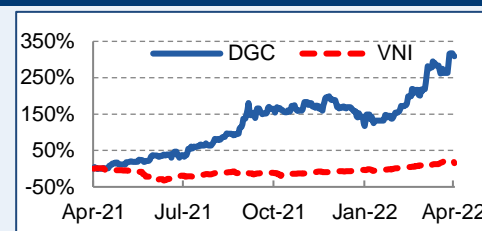
Earnings Flash

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

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

** 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.

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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 (P₄) 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% P₂O₅ 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.

P₄ and WPA prices have climbed to new highs. P₄ 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 P₄ production costs and booming demand from the electric vehicle sector in China, (2) China's 20% export tariff on P₄ 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 P₄ exports. In addition, WPA prices have rallied from USD665/tonne to USD900/tonne (50% P₂O₅ 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 P₄ 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 P₄ 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
ASP (VND mn/tonne)**	46	104	118	158%	130%	91
Industrial phosphorus chemicals	60	140	160	166%	123%	130
Agricultural phosphates	35	70	72	106%	126%	57
Revenue	1,949	3,456	3,634	86%	26%	14,098
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
Gross profit	431	1,616	1,706	296%	29%	5,890
Selling expenses	-115	-143	-149	30%	28%	-534
G&A expenses	-29	-49	-42	48%	25%	-169
EBIT	287	1,423	1,515	428%	29%	5,187
Financial income	33	65	84	156%	31%	272
Financial expense	-10	-27	-13	31%	24%	-54
Others	0	-5	0	21%	0%	0
PBT	310	1,457	1,586	412%	29%	5,405
NPAT-MI	284	1,305	1,336	370%	28%	4,827

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

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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
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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.

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