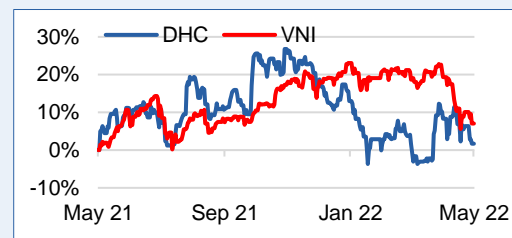


# Dong Hai Ben Tre (DHC) [BUY +33.3%]

# Update Report

<b>Industry:</b>	<b>Packaging Paper</b>		<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Report Date:</b>	<b>May 16, 2022</b>					
Current Price:	VND73,300	Rev Growth	44.2%	4.6%	3.0%	4.6%
Current Target Price:	VND95,200	EPS Growth	23.2%	12.9%	11.5%	8.7%
Previous Target Price:	VND90,300	GPM	16.2%	17.8%	18.3%	18.4%
Upside to TP:	+29.9%	NPM	11.6%	12.5%	13.5%	14.0%
Dividend Yield:	3.4%	EV/EBITDA	8.7x	7.4x	7.2x	6.8x
TSR:	+33.3%	P/OCF	33.3x	6.4x	7.1x	6.7x
		P/E	10.9x	9.6x	8.6x	7.9x



Market Cap:	USD221mn		<b>DHC</b>	<b>Peers</b>	<b>VNI</b>
Foreign Room:	USD36mn	P/E (ttm)	12.3x	10.9x	12.9x
ADTV30D:	USD0.4mn	P/B (curr)	2.8x	1.2x	2.0x
State Ownership:	0%	Net D/E	0.1x	0.5x	N/A
Outstanding Shares:	70.0 mn	ROE	26.1%	10.7%	15.8x
Fully Diluted Shares:	70.0 mn	ROA	20.6%	4.3%	2.6x

## Company Overview

Dong Hai Ben Tre (Dohaco) is a medium-sized packaging paper company in Vietnam with a 2021 market share of ~5%, per our estimate. DHC owns two recycled paper mills and a packaging factory in Ben Tre Province in southern Vietnam. DHC's main products include packaging papers and corrugated carton boxes.

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## Profit margins to improve as COVID-19 disruptions ease

- We upgrade our rating from OUTPERFORM to BUY as we are optimistic on DHC's ability to capture the long-term growth of Vietnam's packaging paper consumption — which is recovering from the effects of COVID-19 — thanks to the company's cost competitiveness and capacity expansion.
- We raise our target price (TP) by 5% as we roll it forward to mid-2023 vs YE2022 previously while largely maintaining our aggregate 2022F-2024F NPAT-MI forecast. Although the QoQ softening of input old-corrugated container (OCC) costs tracked behind of our expectations in Q1 2022, DHC's GPM was in line with our expectations thanks to stronger-than-expected ASPs.
- We forecast an 11% EPS CAGR for 2021-2024F thanks to stronger paper demand and a potential recovery in OCC supply from COVID-19 disruptions, which bode well for DHC's margins.
- Our TP puts DHC's 2022F/2023F P/E at 12.5x/11.2x vs a 10Y peer median TTM P/E of 11x.
- Upside catalyst: Realization of new Giao Long 3 factory that could expand DHC's paper capacity by at least 120%. Our projections have not factored in this factory as its timeline is not yet concrete. DHC's management is still working on its specific capacity and capex plans for Giao Long 3, which could be announced in at the company's AGM in June 2022.
- Key downside risk to our view: Pressure on selling prices due to capacity additions by competitors.

**DHC's profit margins are rebounding thanks to softer COVID-19 disruptions.** In Q1 2022, DHC's GPM rebounded by 6.9 ppts QoQ to 18.5% as OCC costs subsided on the back of the economic reopening in Asia that bolstered OCC supply while paper ASPs inched up 30 bps QoQ amid a continued recovery of packaging paper demand. Going forward, we expect the industry's supply-demand dynamics will continue to improve, in turn supporting DHC's profit margins. According to the Vietnam Pulp and Paper Association (VPPA), Japanese OCC prices slumped to USD2728/tonne in May 2022 from a peak of USD313/tonne in September 2021. Per our projections, DHC's GPM will expand from 16.2% in 2021 to 17.8%/18.4% in 2022F/2024F.

**DHC's second packaging factory (P2) will bolster the packaging segment.** Based on our estimate, P2 will expand DHC's current packaging capacity by 130%. In Q1 2022, the capacity utilization rate of DHC's existing packaging factory remained elevated at 102% thanks to a strong recovery in packaging demand — especially in the Mekong Delta region that is the mainstay market of DHC's packaging business. DHC is also considering to invest in another packaging factory (P3) — whose size could be at least similar to P2's — in 2023-2024. Based on our projections, the packaging segment will respectively contribute 15%/18%/22% to DHC's total revenue in 2022F/2023F/2024F vs 11% in 2021.

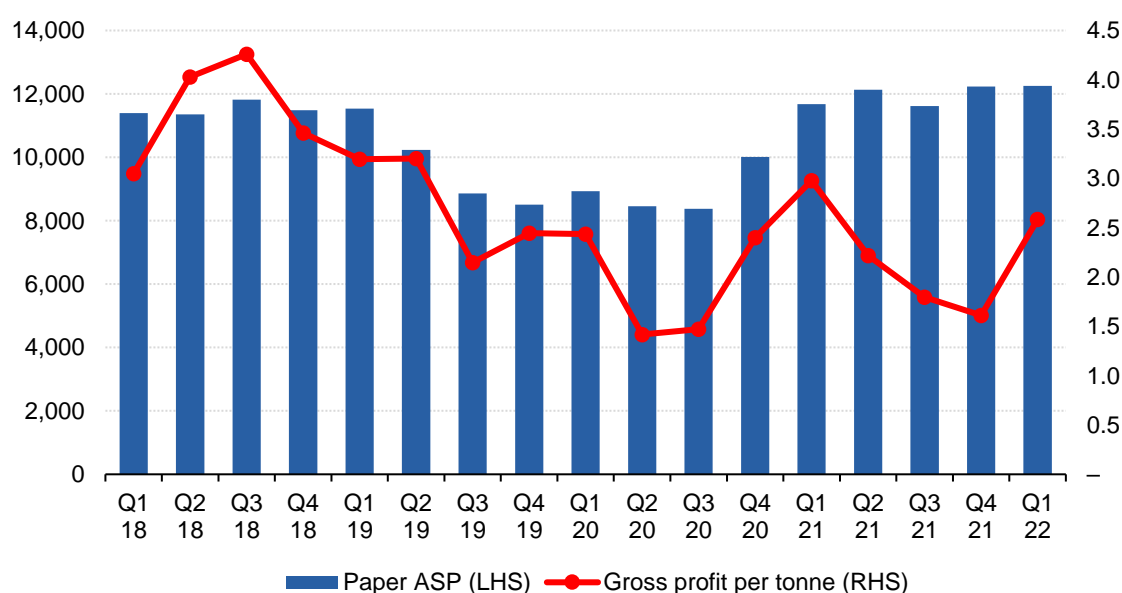
## Q1 2022: Earnings dip due to high input costs

Figure 1: DHC's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	VCSC comments on Q1 2022
<b>Revenue</b>	<b>1,017</b>	<b>1,032</b>	<b>1%</b>	
Paper*	921	905	-2%	Sales volume edged down 6% due to (1) increased usage of in-house paper for packaging production as DHC's paper capacity is already fully utilized, in addition to (2) weak export demand from China.  ASP inched up 5% in accordance with an increase in input OCC prices.
Packaging*	96	117	22%	Sales volume advanced 10% YoY, per our estimate.
Others*	0	9	N.M.	
<b>Gross profit</b>	<b>235</b>	<b>191</b>	<b>-19%</b>	
<b>Operating profit</b>	<b>187</b>	<b>138</b>	<b>-26%</b>	
<b>Profit before tax</b>	<b>183</b>	<b>135</b>	<b>-26%</b>	
<b>NPAT-MI</b>	<b>173</b>	<b>118</b>	<b>-32%</b>	
<b>Gross profit per tonne of paper (VND mn) *</b>	<b>3.0</b>	<b>2.6</b>	<b>-13%</b>	Due to high input OCC and transportation costs that more than offset ASP increases — which we mainly attribute to lingering COVID-19 disruptions.  That said, this rate rebounded 61% QoQ in Q1 2022 thanks to a recovery in packaging paper demand.
GPM	23.1%	18.5%		
OPM	18.4%	13.3%		
PBT margin	18.0%	13.1%		
NPM	17.0%	11.4%		
Effective tax rate	5.4%	12.9%		Due to the fading of Giao Long 2 factory's tax incentives. We note that the Giao Long 2 factory — which commenced operation in Q3 2019 — will enjoy a 0% tax rate for the first two years of operation and 10% for the ensuing four years.

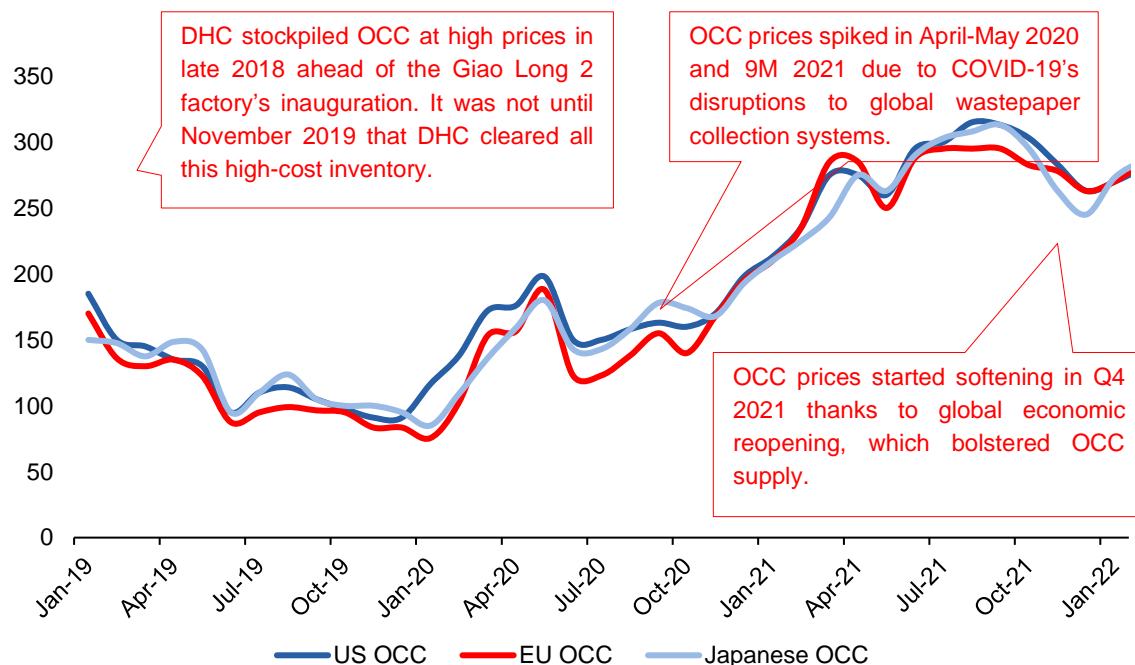
Source: DHC, VCSC (\*VCSC estimates)

Figure 2: DHC's quarterly paper ASP (VND per kg) and gross profit per tonne (VND mn)



Source: DHC, VCSC

**Figure 3: Southeast Asia's imported OCC prices from 2019-2022 (USD per tonne)**



Source: VPPA, VCSC compilation

**Figure 4: China's medium paper prices from 2019-2022 (USD per tonne)**



Source: National Bureau of Statistics of China, Bloomberg, VCSC (data to May 16, 2022)

## 2022F: We keep our NPAT-MI forecast nearly unchanged

Figure 5: VCSC's forecasts for 2022

VND bn	2021	Old 2022F	New 2022F	YoY	VCSC comments on New 2022F
<b>Revenue</b>	<b>4,164</b>	<b>4,189</b>	<b>4,354</b>	<b>5%</b>	
					Sales volume to edge down 1% due to increased usage of in-house paper for packaging production as DHC's paper capacity is already fully utilized.
Paper*	3,725	3,557	3,697	-1%	We assume ASP to stay flat (decline 4% in our previous report) as a recovery in packaging paper demand will offset an expected softening in input OCC prices. We increase our ASP assumption as both Q1 2022's ASP and OCC costs tracked ahead of our expectations.
Packaging*	440	632	657	49%	We assume the P2 factory will commence operation and operate at 35% of its capacity in 2022. Per our estimate, the P2 factory will expand DHC's packaging capacity by 130% and account for 32% of its total packaging sales in 2022F.
<b>Gross profit</b>	<b>673</b>	<b>770</b>	<b>774</b>	<b>15%</b>	
<b>Operating profit</b>	<b>511</b>	<b>611</b>	<b>609</b>	<b>19%</b>	
<b>Profit before tax</b>	<b>512</b>	<b>623</b>	<b>619</b>	<b>21%</b>	
<b>NPAT-MI</b>	<b>481</b>	<b>545</b>	<b>544</b>	<b>13%</b>	
<b>Gross profit per tonne of paper (VND mn)*</b>	<b>2.2</b>	<b>2.5</b>	<b>2.5</b>	<b>16%</b>	Primarily due to our view of more favorable supply-demand dynamics (i.e., firmer demand against fewer disruptions to the global OCC supply chain).
GPM	16.2%	18.4%	17.8%		
OPM	12.3%	14.6%	14.0%		
PBT margin	12.3%	14.8%	14.2%		
NPM	11.6%	13.0%	12.5%		
Effective tax rate	5.9%	12.5%	12.2%		Owing to the Giao Long 2 factory's tax incentives gradually phasing out.

Source: DHC, VCSC (\*VCSC estimates)

## Valuation

In this report, we roll over our target price to mid-2023. Moreover, we maintain a 50/50 mix of DCF/PER to value DHC as well as keep our target P/E of 11x, which is broadly in line with the 10-year average of peer median TTM P/E of 11x. Our selected peer group for DHC consists of packaging paper companies in emerging Asian markets.

Our forecasts and valuation have not incorporated the potential Giao Long 3 factory due to its uncertain execution timeline. Nevertheless, given that DHC has proven its ability to quickly fill up new capacity as it did with the Giao Long 2 factory, we believe the realization of the Giao Long 3 factory should materially support the company's growth outlook and in turn our valuation.

**Figure 6: Summary of VCSC's valuation for DHC**

Method	Fair value (VND/share)	Weighting	Contribution (VND/share)
DCF	101,835	50%	50,917
P/E @ 11.0x	88,544	50%	44,272
<b>Target price</b>			<b>95,200</b>
Implied 2022F/2023F P/E @ TP			12.5x/11.2x

Source: VCSC

**Figure 7: DCF valuation for DHC**

Cost of capital	Current	Previous	FCFF (five years)	VND bn
Beta	1.2	1.2	PV of Free Cash Flows	2,905
Market risk premium	7.0%	7.0%	PV of Terminal Val (0% g)	4,392
Risk-free rate	5.5%	5.5%	<b>PV of FCF and TV</b>	<b>7,297</b>
Cost of Equity	13.6%	13.6%	+ Cash & ST investments	151
Cost of Debt	7.3%	7.3%	- Debt	-319
Debt %	35.0%	35.0%	- Minority Interest	0
Equity %	65.0%	65.0%	<b>Equity Value</b>	<b>7,128</b>
Corporate Tax%	20.0%	20.0%	Shares (million)	70
<b>WACC %</b>	<b>10.9%</b>	<b>10.9%</b>	<b>Value per share, VND</b>	<b>101,835</b>

Source: VCSC

**Figure 8: Cash flow projections for DHC**

VND bn	2022F	2023F	2024F	2025F	2026F
Earnings before interest and tax	<b>622</b>	<b>690</b>	<b>753</b>	<b>781</b>	<b>810</b>
less: tax	-76	-81	-92	-97	-150
add: depreciation	109	88	88	88	85
less: net capex	-81	-39	-39	-39	-39
(increase) / decrease in NWC	159	45	36	54	58
<b>Free cash flow</b>	<b>733</b>	<b>702</b>	<b>746</b>	<b>787</b>	<b>765</b>
<b>PV of FCF</b>	<b>696</b>	<b>602</b>	<b>576</b>	<b>549</b>	<b>481</b>
<b>Cumulative PV of FCF</b>	<b>696</b>	<b>1,298</b>	<b>1,874</b>	<b>2,423</b>	<b>2,905</b>

Source: VCSC

**Figure 9: Sensitivity analysis of our target price for DHC in relation to WACC and terminal growth rate in our DCF valuation, ceteris paribus**

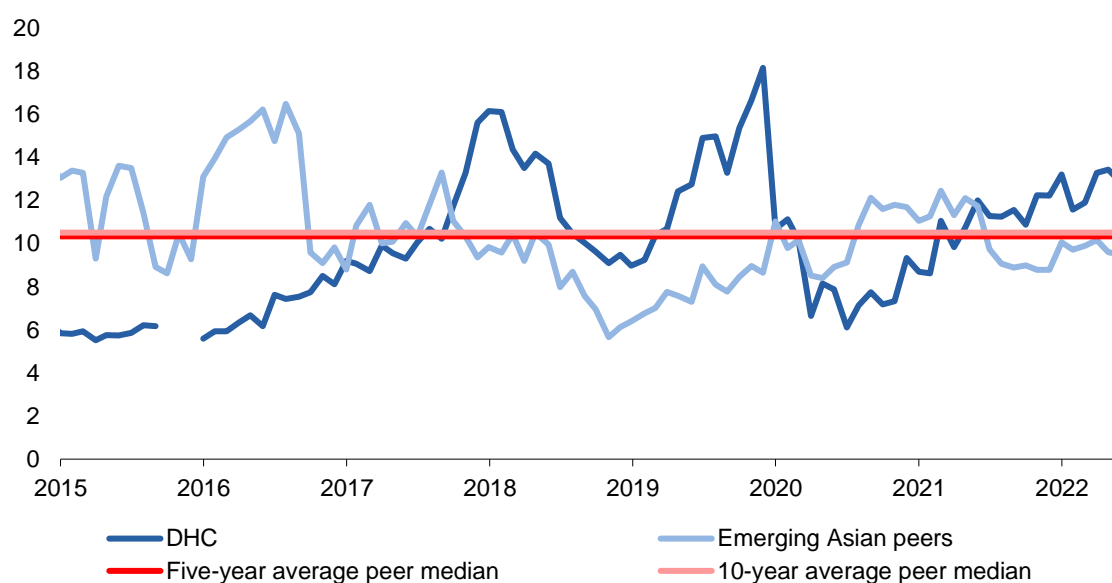
Target price (VND)		WACC				
		9.9%	10.4%	10.9%	11.4%	11.9%
Terminal growth (g)	0.0%	100,300	97,600	<b>95,200</b>	93,000	91,000
	1.0%	104,700	101,600	98,700	96,200	93,800
	2.0%	110,300	106,500	103,000	100,000	97,200
	3.0%	117,600	112,700	108,500	104,700	101,400
	4.0%	127,300	120,900	115,500	110,800	106,700

Source: VCSC

**Figure 10: Comparable universe**

Company	Country	Market Cap (USD mn)	TTM Sales Growth (%)	TTM EPS Growth (%)	ROE (%)	Net D/E (x)	NPM (%)	LQ P/B (x)	TTM P/E (x)	TTM EV/EBITDA (x)
Nine Dragons	Hong Kong	3,987	22%	-0%	13.0%	0.5	9.0%	0.6	4.5	6.2
Shandong Sun	China	4,982	44%	-0%	13.8%	0.8	7.4%	1.7	13.0	N/A
SCG Packaging	Thailand	6,503	40%	14%	8.4%	0.3	5.9%	2.3	28.6	15.7
Lee & Man	Hong Kong	1,975	26%	-11%	9.7%	0.4	10.0%	0.5	5.0	8.9
Indah Kiat	Indonesia	2,862	18%	79%	11.7%	0.5	15.0%	0.6	5.4	4.7
Shanying	China	1,925	22%	-24%	7.6%	1.4	3.6%	0.7	9.7	N/A
Fajar Surya Wisesa	Indonesia	1,057	46%	-29%	13.0%	1.2	5.0%	3.1	24.6	17.3
Xiamen Hexing	China	611	28%	-33%	6.0%	0.5	1.2%	1.2	19.5	N/A
Long Chen	Taiwan	861	36%	149%	8.9%	1.4	4.2%	0.9	10.9	10.3
Chen Loong	Taiwan	1,240	12%	6%	15.1%	0.6	8.8%	1.4	9.3	7.9
Zhejiang Rongsheng	China	536	40%	16%	15.8%	-0.3	11.4%	1.8	12.2	N/A
Yibin	China	263	-3%	N/A	3.6%	3.3	1.0%	2.8	78.4	N/A
Muda	Malaysia	162	N/A	N/A	N/A	0.4	4.5%	0.5	9.0	6.8
<b>Peer median</b>		<b>1,240</b>	<b>27%</b>	<b>0%</b>	<b>10.7%</b>	<b>0.5</b>	<b>5.9%</b>	<b>1.2</b>	<b>10.9</b>	<b>8.4</b>
<b>Peer mean</b>		<b>2,074</b>	<b>28%</b>	<b>15%</b>	<b>10.5%</b>	<b>0.8</b>	<b>6.7%</b>	<b>1.4</b>	<b>17.7</b>	<b>9.7</b>
<b>DHC</b>	<b>Vietnam</b>	<b>221</b>	<b>29%</b>	<b>-10%</b>	<b>26.1%</b>	<b>0.1</b>	<b>10.2%</b>	<b>2.8</b>	<b>12.3</b>	<b>9.4</b>

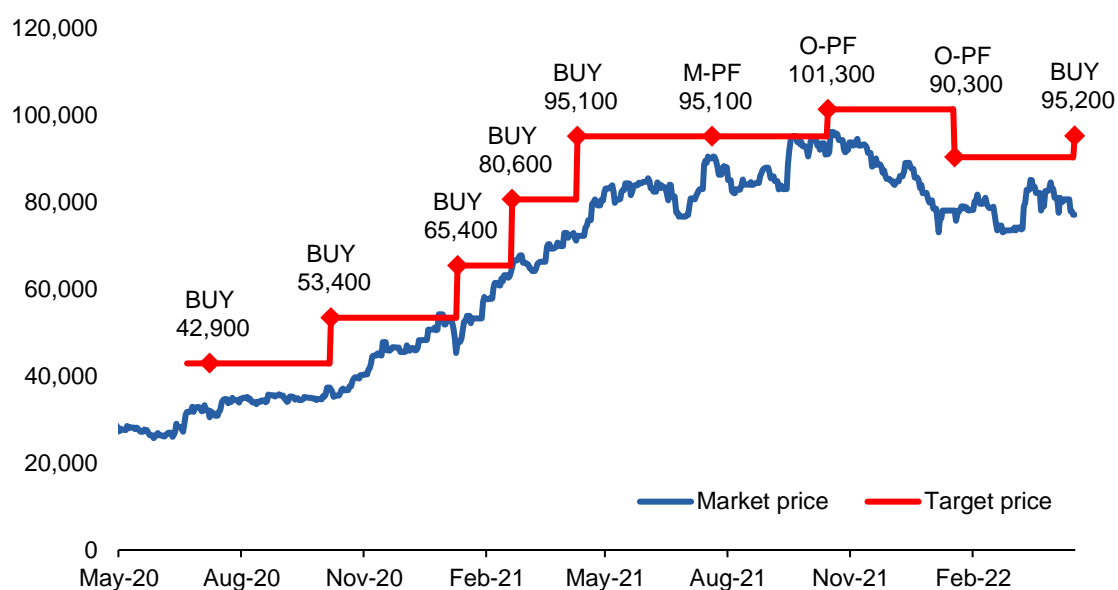
Source: Bloomberg, VCSC (data as of May 16, 2022)

**Figure 11: DHC's TTM P/E vs peers (x)**


Source: Bloomberg, VCSC

## Recommendation History

Figure 12: Recommendation history; share prices (VND) adjusted for share splits



Source: Bloomberg, VCSC

## Financial Statements

P/L (VND bn)	2021	2022F	2023F	2024F
<b>Revenue</b>	<b>4,164</b>	<b>4,354</b>	<b>4,484</b>	<b>4,691</b>
COGS	-3,492	-3,581	-3,664	-3,827
<b>Gross profit</b>	<b>673</b>	<b>774</b>	<b>820</b>	<b>865</b>
Sales & Marketing exp	-120	-125	-128	-131
General & Admin exp	-42	-40	-41	-43
<b>Operating Profit</b>	<b>511</b>	<b>609</b>	<b>651</b>	<b>690</b>
Financial income	15	21	47	73
Financial expenses	-17	-14	-14	-15
- o/w, interest expense	-16	-14	-14	-15
Share profit/loss from associates	1	1	1	1
Net other income/(loss)	2	2	2	2
<b>Profit before Tax</b>	<b>512</b>	<b>619</b>	<b>687</b>	<b>751</b>
Income Tax	-30	-76	-81	-92
<b>NPAT before MI</b>	<b>481</b>	<b>544</b>	<b>606</b>	<b>659</b>
Minority interests	0	0	0	0
<b>NPAT less MI, reported</b>	<b>481</b>	<b>544</b>	<b>606</b>	<b>659</b>
<b>NPAT less MI, adjusted<sup>(1)</sup></b>	<b>481</b>	<b>544</b>	<b>606</b>	<b>659</b>

EBITDA	612	717	739	778
EPS basic reported, VND	6,739	7,611	8,488	9,226
EPS basic adjusted <sup>(1)</sup> , VND	6,739	7,611	8,488	9,226
EPS fully diluted <sup>(1)</sup> , VND	6,739	7,611	8,488	9,226
DPS, VND	2,500	2,800	3,200	3,400
DPS/EPS (%)	37%	37%	38%	37%

(1) Adjusted for one-offs

Ratios	2021	2022F	2023F	2024F
<b>Growth</b>				
Revenue growth	44.2%	4.6%	3.0%	4.6%
Op profit growth	17.0%	19.3%	6.9%	6.0%
PBT growth	24.8%	21.1%	11.0%	9.3%
EPS growth, adjusted	23.2%	12.9%	11.5%	8.7%

<b>Profitability ratios</b>				
Gross Profit Margin	16.2%	17.8%	18.3%	18.4%
EBIT margin	12.3%	14.0%	14.5%	14.7%
EBITDA margin	14.7%	16.5%	16.5%	16.6%
NPAT-MI Margin, adj.	11.6%	12.5%	13.5%	14.0%
ROE	31.1%	29.0%	26.9%	24.7%
ROA	20.6%	20.7%	19.7%	18.7%

<b>Efficiency ratios</b>				
Days Inventory On Hand	33	32	31	30
Days Accts, Receivable	52	52	48	47
Days Accts, Payable	41	42	46	48
Cash Conversion Days	44	43	33	28

<b>Liquidity/Solvency</b>				
Current Ratio x	1.7	2.1	2.6	3.0
Quick Ratio x	1.2	1.7	2.2	2.6
Cash Ratio x	0.1	0.8	1.4	1.9
Debt / Assets x	0.1	0.1	0.1	0.1
Debt / Capital x	0.2	0.1	0.1	0.1
Net Debt / Equity x	0.1	-0.2	-0.3	-0.5
Interest Coverage x	32.4	43.8	45.7	46.8

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	98	650	1,149	1,671
ST investments	44	44	44	44
Accounts receivable	655	591	590	605
Inventories	320	314	309	310
Other current assets	53	47	44	41
<b>Total Current Assets</b>	<b>1,170</b>	<b>1,646</b>	<b>2,137</b>	<b>2,671</b>
Fixed assets, gross	1,670	1,751	1,790	1,829
- Depreciation	-463	-572	-660	-748
Fixed assets, net	1,207	1,180	1,130	1,081
LT investments	5	5	5	5
LT assets other	19	19	19	19
<b>Total LT assets</b>	<b>1,231</b>	<b>1,203</b>	<b>1,154</b>	<b>1,104</b>
<b>Total Assets</b>	<b>2,401</b>	<b>2,849</b>	<b>3,290</b>	<b>3,775</b>

Accounts payable	371	448	478	520
Short-term debt	305	313	320	335
Other ST liabilities	28	34	39	46
Total current liabilities	704	794	838	901
Long term debt	0	0	0	0
Other LT liabilities	0	0	0	0
<b>Total liabilities</b>	<b>704</b>	<b>794</b>	<b>838</b>	<b>901</b>

Preferred Equity	0	0	0	0
Share premium	235	235	235	235
Paid in capital	700	700	700	700
Retained earnings	703	1,036	1,407	1,799
Other equity	59	83	110	141
Minority interest	0	0	0	0
<b>Total equity</b>	<b>1,697</b>	<b>2,055</b>	<b>2,453</b>	<b>2,875</b>
<b>Total liabilities &amp; equity</b>	<b>2,401</b>	<b>2,849</b>	<b>3,290</b>	<b>3,775</b>

Y/E shares out, mn	70.0	70.0	70.0	70.0
Y/E treasury shares, mn	0	0	0	0

Cash Flow (VND bn)	2021	2022F	2023F	2024F
<b>Beginning Cash Balance</b>	<b>202</b>	<b>98</b>	<b>650</b>	<b>1,149</b>
Net Income	481	544	606	659
Dep, & amortization	101	109	88	88
Change in Working Cap	-190	159	45	36
Other adjustments	-10	-11	-12	-13
<b>Cash from Operations</b>	<b>154</b>	<b>800</b>	<b>727</b>	<b>770</b>

Capital Expenditures, net	-52	-81	-39	-39
Investments, net	-33	0	0	0
<b>Cash from Investing</b>	<b>-86</b>	<b>-81</b>	<b>-39</b>	<b>-39</b>

Dividends paid	-112	-175	-196	-224
Δ in Share Capital	0	0	0	0
Δ in ST debt	15	8	7	14
Δ in LT debt	-145	0	0	0
Other financing C/F	0	0	0	0
<b>Cash from Financing</b>	<b>-172</b>	<b>-167</b>	<b>-189</b>	<b>-210</b>

<b>Net change in cash</b>	<b>-104</b>	<b>552</b>	<b>500</b>	<b>521</b>
<b>Ending Cash Balance</b>	<b>98</b>	<b>650</b>	<b>1,149</b>	<b>1,671</b>

Source: Company data, VCSC

## 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
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