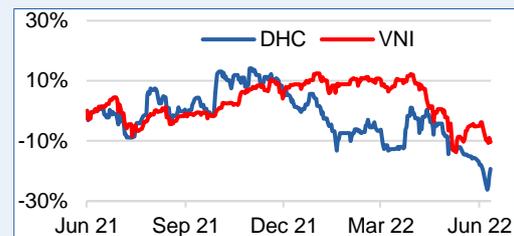


Industry:	Paper & Packaging		2021	2022F	2023F	2024F
Report Date:	June 20, 2022	Rev Growth	44.2%	4.6%	3.0%	4.6%
Current Price:	VND67,900	EPS Growth	23.2%	12.9%	11.5%	8.7%
Current Target Price*:	VND95,200	GPM	16.2%	17.8%	18.3%	18.4%
Upside to TP:	+40.2%	NPM	11.6%	12.5%	13.5%	14.0%
Dividend Yield:	3.7%	EV/EBITDA	8.0x	6.9x	6.7x	6.3x
TSR:	+43.9%	P/OCF	30.8x	5.9x	6.5x	6.2x
Rating*:	BUY	P/E	10.1x	8.9x	8.0x	7.4x



		DHC	Peers	VNI
Market Cap:	USD205mn	11.4x	10.9x	13.2x
Foreign Room:	USD35mn	P/E (ttm)	11.4x	10.9x
ADTV30D:	USD0.5mn	P/B (curr)	2.6x	1.2x
State Ownership:	0%	Net D/E	0.1x	0.5x
Outstanding Shares:	70.0mn	ROE	26.1%	10.7%
Fully Diluted Shares:	70.0mn	ROA	20.6%	4.3%

* TP and rating last updated on May 13

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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Third paper factory announced, conservative guidance

We attended DHC's AGM in Ben Tre Province on June 17. Our takeaways are as follows.

- Management's estimated H1 2022 NPAT-MI of VND250bn (USD11mn; -17% YoY; 46% of our 2022F) is in line with our expectation. We attribute the YoY decline to 1) tax incentives at DHC's second paper factory phasing out in 2022, and 2) Q1 2021's low input material cost which caused a high base in earnings for comparison YoY.
- DHC's 2022 guidance:
 - Revenue of VND3.9tn (USD170mn; -6% YoY; 90% of our forecast).
 - PBT of VND515bn (USD22mn; flat YoY; 83% of our forecast).
 - NPAT of VND450bn (USD20mn; -7% YoY; 83% of our forecast).
 - We note that DHC has a track record of exceeding its profit guidance. In 2021, DHC's NPAT surpassed its annual target by 7%. As such, we do not anticipate material downside risk to our 2022 forecasts, pending a fuller review.
- In order to supplement working capital, DHC will issue shares via ESOP and a rights issue at VND27,000/share that are equivalent to 14% of existing shares in total.
- Management expects paper demand and selling prices to improve in August due to seasonality and that there could be further improvement when China lifts its 'zero-COVID' restrictions.
- The Giao Long 3 factory (DHC's main growth driver, which is set to increase DHC's current paper capacity by 140%) could come online in 2025 instead of 2026 as conservatively guided. Because we have not incorporated this factory into our forecast, we see potential upside to our earnings forecasts for 2025 onwards, pending a fuller review.

Price spreads compressed in Q2 2022 vs Q1 2022 but could improve going forward. Old corrugated container (OCC) input prices remained stable in Q2 2022 vs Q1 2022 despite having declined significantly vs H2 2021 when there were supply chain disruptions due to COVID-19, per management. OCC prices in the US, EU, Japan and Vietnam are around USD260-280/tonne on average. Meanwhile, paper selling prices have softened by ~10% in Q2 2022 vs Q1 2022 due to weak demand from China amid the country's strict COVID-19 containment measures. Management expects paper demand and selling prices to improve in August due to seasonality and that there could be further improvement when China lifts COVID-19 related restrictions on activity.

DHC is confident about its short-term sales volume and long-term expansion despite competition from larger FDI players. In the short term, DHC believe it can maintain operations at near full capacity utilization whereas many of its smaller competitors have had to cut production because DHC does not export to China. In the longer term, DHC is confident that its investment cost

will remain the most competitive in the domestic market, being only one third of its peers' average, supporting its capacity expansion while maintaining efficiency. DHC attributes its cost advantage to several factors such as favorable market timing, designing factories and selecting machinery on its own and dealing directly with subcontractors instead of indirectly via a main contractor.

Third paper factory (Giao Long 3): DHC plans to spend VND1.8tn (USD78mn) on a new paper factory with a production capacity of 370,000 tonnes/year— equivalent to 140% its current capacity. This factory is set to come online in 2025 and is located near DHC's current factories. DHC plans to acquire approval for its environmental impact report, fire protection and construction permits by YE2022. Once all approvals are in place, construction should take 24 months and test runs could take six months.

Packaging: second factory ('P2') is ramping up utilization, third factory ('P3') project announced. Per our estimate, P2 has expanded DHC's current packaging capacity by 130%, having come online since April 2022. A new subsidiary which owns P3 will have registered capital of VND250bn (USD11mn) and is set to come online in 2024 with a capacity at least equal to P2. We have not yet incorporated P3 into our forecasts.

2022-2026 guidance:

- We view DHC's 2022-2025 revenue and NPAT profit targets as conservative — equivalent to 91% and 84% of our forecasts (on an aggregate basis) and implying 0% and 6% 2021-2025G CAGRs, respectively.
- The company's 2026 targets exceed our forecasts we believe because we have not yet incorporated Giao Long 3 and P3 into our forecasts.

Figure 1: DHC's 2022-2026 guidance

DHC's guidance	2022	2023	2024	2025	2026
Paper output (thousand tonnes)	304	304	304	304	535
Packaging output (million products)	57	75	81	89	99
Revenue (VND bn)	3,900	4,080	4,140	4,213	6,692
NPAT (VND bn)	450	495	550	600	810

Source: DHC, VCSC

Figure 2: One minor change in the Board of Directors

Old BOD	Position	New BOD (2022-2026 term)	Position
Mr. Luong Van Thanh	Chairman, Deputy CEO	Mr. Luong Van Thanh	Chairman, Deputy CEO
Mr. Le Ba Phuong	Vice Chairman, CEO	Mr. Le Ba Phuong	Vice Chairman, CEO
Mr. Marco Martinelli	BOD member	Mr. Marco Martinelli	BOD member
Mr. Nguyen Thanh Nghia	BOD member	Mr. Nguyen Thanh Nghia	BOD member
Mr. Le Quang Hiep	BOD member	Mr. Duong Thanh Cong	BOD member

Source: DHC, VCSC

Figure 3: DHC's approved proposal for ESOP and a rights issue

	Rights issue	ESOP
Timeline	Late 2022	Late 2022
Number of shares to be issued	7.0 million shares (10.0% of current outstanding shares)	2.5 million shares (3.6% of current outstanding shares)
Exercise price/placement price	VND27,000/share (60% discount vs market price)	VND27,000/share (60% discount vs market price)
Proceeds	VND189bn (USD8.2mn)	VND68bn (USD2.9mn)
Lock-up period	N/A	Three years

Source: DHC, VCSC

Approved dividend plan:

FY2021 cash dividend: VND3,500/share, in which VND2,500 was paid via two tranches in July 2021 and May 2022 and the remaining VND1,000/share (yield of 1.5%) will be paid in August 2022.

FY2021 stock dividend: Every 100 existing shares will receive an additional 15 shares, which is slated to be executed before Q4 2022. Per management, the FY2021 stock dividend as well as the aforementioned ESOP and rights issue will have the same record date.

FY2022 dividend: VND3,000/share cash dividend or a stock dividend of three additional shares for every 10 existing shares — or any combination of the two.

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.
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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.

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