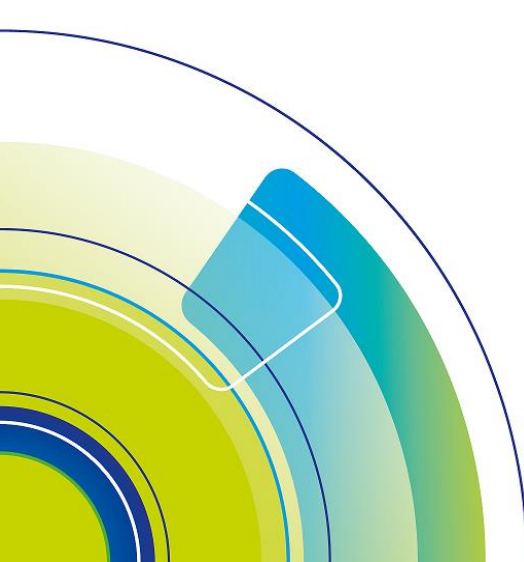




DHC Update - OUTPERFORM

September 6, 2024



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Flash News

Recommendation

OUTPERFORM

HOSE: DHC

Paper, Carton

Target price (VND) **42,400**

Current price (VND) **37,050**

Expected share price return 14.4%

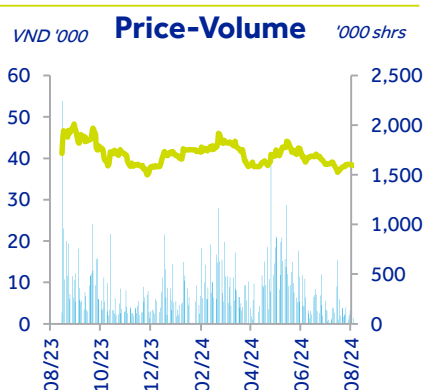
Expected dividend yield 5.4%

Expected total return **19.8%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	1.7	-2.7	-8.8	-2.6
Relative	-12.2	-5.3	-10.9	-9.2

Source: Bloomberg



Ownership

KWE Beteiligungen AG	14.8%
Le Ba Phuong	9.3%
Nguyen Thanh Nghia	7.8%
Nguyen Thi Thuy	7.1%

Stock Statistics

05-Sep-24

Bloomberg code

DHC VN

52-week range (VND) 35,800 – 48,950

Shares O/S (m) 80

Mkt cap (VND bn) 2,983

Mkt cap (USD bn) 121

Foreign room left (%) 10.7

Est. free float (%) 71.4

3m avg daily vol (shrs) 262,561

VND/USD 25,030

Index: VNIndex / HNX 1,268.21/234.96

Dong Hai Ben Tre JSC (HoSE: DHC)

For the 1H2024, DHC only reached a NPAT of VND116 bn, -34.8% YoY, completing 38.7% of the 2024 plan and 37.5% of ACBS's forecast. However, due to the stabilization of shipping costs, reducing pressure on imported recycled paper prices, we forecast that DHC's results in the 2H2024 will be more positive, resulting in VND272 bn of NPAT for 2024, -12.0% YoY. We revise down the 12-month target price to VND42,400/share, rating OUTPERFORM.

Although revenue in 6M2024 increased by 10.8% YoY, the gross margin continued to decline, leading to a 24.6% YoY drop in gross profit. This was mainly due to increased costs of imported old-corrugated-container (OCC) caused by soaring shipping freight, while output prices were pressured by competition from imported paper from China.

However, the packaging segment performed well in 6M2024, +33.5% YoY in production, thanks to the strong recovery of the agricultural and seafood export business in the Mekong Delta region - which is the main market of DHC. Nevertheless, the gross margin of this segment is relatively low, so its contribution to bottom line profit is insignificant. In addition, this segment could be expanded as the current production is reaching only 70% of its capacity.

DHC has obtained a construction permit for the Giao Long 3 facility and is expected to start building from Q1/2025 to Q4/2026. In the final plan, the designed capacity is 1,000 tons of paper/day, with two main product lines are Testliner and Kraftliner, and total investment of VND1,800 bn. Furthermore, DHC is going to finance the charter capital for the Giao Long 3 project through the issuance of stock option and ESOP, to be implemented in Q4/2024.

For 2024F, we expect DHC will achieve VND272 bn in NPAT, -12.0% YoY, as the results of the 2H2024 would be better than the 1H due to the temporary cooling of freight rates after peaking in mid-Jul 2024. Besides, the USD/VND exchange rate also began to stabilize from the end of Aug 2024, following the trend of lowering the Fed's interest rate.

For 2025F, DHC would achieve VND3,782 bn in revenue, +9.0% YoY and VND323 bn VND in NPAT, +18.9% YoY. All forecasts for 2025F have not been reflected with the impact of the construction of the Giao Long 3, which may start from early 2025. We will update when the company has a more specific capital mobilization and disbursement plan.

	2021	2022	2023	2024F	2025F
Net Sales (VNDbn)	4,165	3,936	3,260	3,469	3,782
Growth	44.2%	-5.5%	-17.2%	6.4%	9.0%
EBITDA (VNDbn)	603	543	454	426	493
Growth	12.5%	13.8%	13.9%	12.3%	13.0%
NPAT (VNDbn)	482	380	309	272	323
Growth	23.3%	-21.2%	-18.7%	-12.0%	18.9%
EPS (bonus-adjusted, VND)	5,851	4,559	3,745	3,295	3,919
Growth	22.3%	-22.1%	-17.9%	-12.0%	18.9%
ROE	28.4%	21.7%	16.7%	13.7%	15.6%
ROA	20.1%	13.2%	10.6%	7.3%	7.0%
Net debt/EBITDA (x)	0.5	0.6	1.0	2.9	4.2
EV/EBITDA (x)	5.4	6.1	7.6	9.9	10.2
P/E (x)	6.6	8.4	9.7	11.0	9.2
P/B (x)	1.6	1.6	1.6	1.5	1.4
Dividend (VND)	3,500	3,000	2,000	2,000	2,500
Dividend yield	9.4%	8.1%	5.4%	5.4%	6.7%

Gross margin kept declining, mainly due to the paper production segment

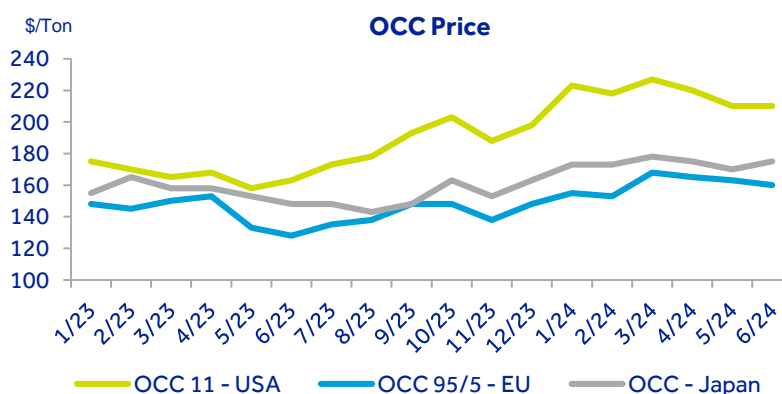
DHC reported its Q2/2024 results with VND1,016 bn in revenue, +26.8% YoY, VND110 bn in gross profit, -19.7% YoY, and VND60 bn in NPAT, -34.8% YoY. Accumulated in 6M2024, NPAT reached VND116 bn, -34.8% YoY, completing 38.7% of the company's plan and 37.5% of ACBS's forecast for 2024.

Although revenue increased by 10.8% YoY (mainly thanks to revenue growth from the packaging segment), reaching VND1,827 bn, the input costs of the paper production segment increased more sharply, causing the gross margin to decline (to 11.7% vs. 17.2% same period last year).

Unit: bn VND	Q2/2023	Q2/2024	YoY	6T2023	6T2024	YoY
Revenue	801	1,016	26.8%	1,649	1,827	10.8%
Gross profit	137	110	-19.7%	284	214	-24.6%
<i>Gross margin</i>	<i>17.1%</i>	<i>10.8%</i>		<i>17.2%</i>	<i>11.7%</i>	
Financial revenue	10	10	0.0%	19	19	0.0%
Interest expense	10	5	-50.0%	19	10	-47.4%
Selling expense	25	29	-16.0%	54	57	5.6%
Administrative expense	10	9	-10.0%	29	19	-34.5%
NPAT	91	60	-34.8%	178	116	-34.8%
<i>NPAT's margin</i>	<i>11.5%</i>	<i>5.9%</i>		<i>10.8%</i>	<i>6.3%</i>	

Sources: DHC, ACBS

In 6M2024, due to the political instability in the Red Sea region, shipping costs increased strongly, especially on the Asia-US route, affecting DHC's average input costs. Specifically, the proportion of OCC that DHC imports from the US and European markets accounts for nearly 60% of the total value of input materials. Therefore, the increase in freight costs has had a severe impact on DHC's costs. The average price of OCC in 6M2024 was recorded at 184 USD/ton, up 18.7% YoY, of which, the price of OCC from the US increased the most with 30.9% YoY, reaching 218 USD/ton; while the price of OCC from Japan increased 11.4% YoY, reaching 174 USD/ton.



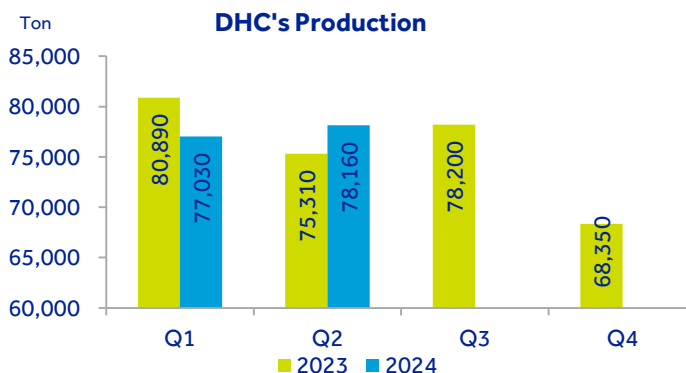
Sources: VPPA, ACBS

However, the price of Testliner – the major output product – also declined both in the export and import markets. Particularly, the Testliner's export price (which is the closest reference to DHC's finished Testliner selling price) decreased by 3.0% YoY in 6M2024, reaching 397 USD/ton. In addition, the average import price for Testliner and

Medium also decreased by 9.7% YoY, to 462 USD/ton and 11.2% YoY, to 492 USD/ton, respectively. The decline in paper prices was mainly due to excess supply from China.



DHC's paper production in 6M2024 was flat compared to the same period in 2023 (-0.7% YoY), reaching 155,190 tons. Of which, Q2/2024's production increased by 1.5% QoQ. The company did not disclose revenue by segment; however, with the above results, it can be said that the revenue of the paper production segment in 6M2024 grew negatively.



The packaging segment has shown improvement though its contribution is relatively small

In 6M2024, DHC's carton production increased by 33.5% YoY, reaching 37 mil units. This result was mainly driven by the recovery of the export market, especially for agricultural and seafood products in the Mekong Delta region. However, compared to the capacity of the two factories (108 mil units), the packaging factory is running at only about 70% of its capacity. The packaging segment contributes from 10% to 15% of DHC's total revenue and has a gross margin of around 13% in the 2021-2023 period, and a net margin of around 2-5%.

Progress of Giao Long 3

The adjusted Giao Long 3 project has been granted a construction permit. In particular, the capacity has been reduced from 1,200 tons of paper per day to 1,000 tons, with the main products being Testliner and Kraftliner. Accordingly, the capital has also been reduced to VND1,800 bn from VND2,600 bn. The construction will be started from Q1/2025 to Q4/2026. The project would undergo two quarters of trial operation until the end of Q2/2027 and would officially begin commercial operation from Q3/2027.

DHC's shareholders have approved a plan to raise capital for the project by issuing right option at a ratio of 10:1, with an expected price of VND25,000 per share. The expected amount of capital raised from right option would be VND201 bn, yet the company has not finalized the specific timeline.

Moreover, DHC plans to issue 3 mil shares through the Employee Stock Ownership Plan (ESOP) at a price of VND25,000 per share to supplement working capital (equivalent to VND75 bn). The expected implementation period for the ESOP program is Q4/2024, with a three-year lock-up period.

2024F-2025F Outlook

In the 1H2024, due to global political instability leading to increased freight rates and OCC raw material prices, but the output prices (Testliner and Medium) did not increase correspondingly, coupled with fierce competition from excess supply from China, DHC underwent unfavorable business results.

However, we expect the gross margin of the paper segment to improve in the 2H2024 as freight rates have shown signs of cooling after peaking in mid-Jul 2024. In addition, the packaging segment has maintained its current production volume thanks to the strong recovery of Vietnam's export activities. As a result, the whole year gross margin would reach 13.6% compared to 11.7% in the 1H2024, with VND3,469 bn in 2024's revenue, +6.4% YoY and VND272 bn in NPAT, -12% YoY.

Valuation

We updated our model with FCFF method, and adjusted target price from VND50,500/share (before a cash dividend of VND1,000/share) to VND42,400/share. This represents an 19.8% upside potential compared to the current market price, rating Outperform. At a price of VND 42,400/share, the implied 2024 P/E and P/B ratio would be 11.3 and 1.5 respectively. For 2025, the implied P/E & P/B ratio would be 9.5 and 1.5 respectively.

APPENDIX

FINANCIAL MODEL	Price: VND	37,050	Target: VND	42,400	Mkt cap VND bn	2,983
(VND bn except where stated)	2021	2022	2023	2024F	2025F	
Total Net Sales	4,165	3,936	3,260	3,469	3,782	
<i>Growth</i>	<i>44.2%</i>	<i>-5.5%</i>	<i>-17.2%</i>	<i>6.4%</i>	<i>9.0%</i>	
CoGS	3,492	3,324	2,756	2,999	3,232	
EBITDA	603	543	454	426	493	
<i>EBITDA margin</i>	<i>12.5%</i>	<i>13.8%</i>	<i>13.9%</i>	<i>12.3%</i>	<i>13.0%</i>	
Depreciation	103	101	104	104	104	
Operating profit	509	434	346	310	369	
<i>Operating profit margin</i>	<i>12.2%</i>	<i>11.0%</i>	<i>10.6%</i>	<i>8.9%</i>	<i>9.8%</i>	
Net interest expense	14.0	15.0	26.0	15.2	25.4	
<i>as % of avg net debt</i>	<i>4.9%</i>	<i>4.4%</i>	<i>5.6%</i>	<i>1.2%</i>	<i>1.2%</i>	
<i>Interest cover (x)</i>	<i>35.7</i>	<i>29.5</i>	<i>13.5</i>	<i>21.2</i>	<i>15.3</i>	
Tax	30	58	48	43	50	
<i>Tax rate</i>	<i>5.9%</i>	<i>13.2%</i>	<i>13.5%</i>	<i>13.5%</i>	<i>13.5%</i>	
NPAT	482	380	309	272	323	
<i>NPAT's margin</i>	<i>11.6%</i>	<i>9.7%</i>	<i>9.5%</i>	<i>7.8%</i>	<i>8.6%</i>	
Cash earning	585	481	413	376	427	
Number of shares: mil	70.0	70.0	80.5	91.5	91.5	
EPS: VND	6,729	5,243	3,745	2,898	3,446	
<i>Bonus factor (x)</i>	<i>0.9</i>	<i>0.9</i>	<i>1.0</i>	<i>1.1</i>	<i>1.1</i>	
Adjusted EPS: VND	5,851	4,559	3,745	3,295	3,919	
EPS growth	22.3%	-22.1%	-17.9%	-12.0%	18.9%	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023	2024F	2025F
Increase in working capital	309	242	231	51	104
Capex	156	77	88	1,000	1,000
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	10	94	(22)	164	80
Free cash flow	130	256	72	(511)	(597)
Share issues	-	3	-	-	-
Dividends paid	168	315	199	263	229
Increase in net debt	38	56	127	774	826
Net debt, end of year	283	339	466	1,240	2,066
Shareholders' equity	1,697	1,751	1,851	1,987	2,074
BVPS (VND)	24,243	25,014	22,994	21,707	22,653
<i>Net debt / equity (%)</i>	<i>16.7%</i>	<i>19.4%</i>	<i>25.2%</i>	<i>62.4%</i>	<i>99.6%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.5</i>	<i>0.6</i>	<i>1.0</i>	<i>2.9</i>	<i>4.2</i>
Total assets	2,401	2,881	2,914	3,703	4,640

KEY RETURN AND VALUATION RATIOS	2021	2022	2023	2024F	2025F
ROE	28.4%	21.7%	16.7%	13.7%	15.6%
ROA	20.1%	13.2%	10.6%	7.3%	7.0%
ROIC	24.2%	19.5%	13.7%	9.6%	9.1%
WACC	-	12.0%	12.0%	12.0%	12.0%
EVA	-	7.4%	1.7%	-2.4%	-2.9%
PER (x)	6.6	8.4	9.9	11.3	9.5
EV/EBITDA (x)	5.5	6.3	7.8	10.1	10.4
EV/FCF (x)	25.7	13.3	49.0	(8.4)	(8.6)
PBR (x)	1.6	1.6	1.7	1.5	1.5
PSR (x)	0.7	0.8	0.9	0.9	0.8
EV/sales (x)	0.8	0.9	1.1	1.2	1.4
Dividend yield	9.2%	7.9%	5.3%	5.3%	6.6%

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Our Recommendation System

BUY: prospective 12 month VND total return (including dividends) will be more than 20%.

OUTPERFORM: prospective 12 month VND total return (including dividends) will be 10% to 20%.

NEUTRAL: prospective 12 month VND total return (including dividends) will be -10% to 10%.

UNDERPERFORM: prospective 12 month VND total return (including dividends) will be will be -20% to -10%.

SELL: prospective 12 month VND total return (including dividends) will be lower than -20%.

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