DGC Update - BUY

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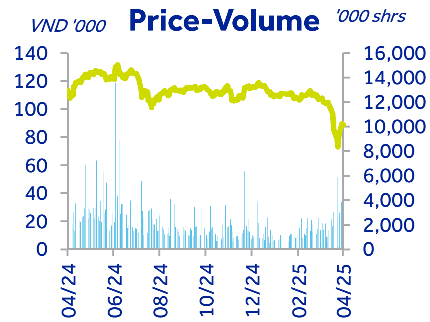
Update Report

Recommendation	**BUY**
	HSX: DGC
	Chemicals
Target price (VND)	**108,400**
Market price (VND)	**87,600**
Expected share price return	23.7%
Expected dividend yield	3.4%
Expected total return	**28.1%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-23.8	-16.4	-18.1	-17.2
Relative	-21.1	-9.0	-17.5	-19.9

Source: Bloomberg



Ownership

Dao Huu Huyen	18.4%
Ngo Thi Ngoc Lan	6.6%
Dragon Capital	6.1%

Stock Statistics	**15-Apr-25**
Bloomberg code	**DGC VN**
52-week range (VND)	73,100 - 134,000
Shares O/S (m)	380
Mkt cap (VND bn)	33,724
Mkt cap (USD m)	1,297
Est. Foreign room left (%)	33.6
Est. free float (%)	61.6
3m avg daily vol (shrs)	1,789,656
VND/USD	26,000
Index: VNIndex / HNX	1231.57/210.53

DUC GIANG CHEMICALS GROUP JSC (DGC VN)

According to the information from the AGM, DGC estimates Q1/2025 NPAT reached VND800 billion (+13.6% YoY), slightly below our expectations. With that, DGC has completed 27% of the annual plan and 24% of our latest forecast. For 2025, we project NPAT may grow by 7.8% YoY and give a target price of VND108,400/share by the end of 2025, equivalent to a total return of 28.1%. BUY.

DGC recorded revenue of VND9,865 billion (+1.2% YoY) and NPAT of VND3,109 billion (-4.1% YoY) in 2024. Revenue growth was supported by a 27% YoY increase in yellow phosphorus (P4) sales volume, despite the continued decline in average P4 prices (-9.5% YoY). Besides, DGC significantly reduced WPA sales volume to boost the production of DAP, MAP and other phosphate fertilizers amid an estimated 9% YoY increase in phosphate fertilizer prices. Despite a slightly improved gross margin, the decline in NPAT was mainly due to (1) a 12.2% YoY drop in financial income and (2) a 12% YoY increase in selling and administrative expenses.

For 2025, DGC set revenue target at VND10,385 billion (+5.2% YoY) and NPAT at VND3,000 billion (-3.4% YoY). The company will maintain its production strategy similar to 2024's — boosting P4 and fertilizer output, in light of China's temporary suspension of DAP/MAP exports starting from December 1, 2024.

The Nghi Son Caustic Soda Plant project officially began construction on February 17, 2025, and is expected to commence operation in Q2/2026. DGC management estimates the project will contribute VND2,000 billion in revenue and VND 200 billion in NPAT when operating at full capacity.

China's P4 prices are not expected to rise significantly in 2025 due to lower input costs. In particular, electricity input costs for P4 production in China are benefiting from La Niña condition in the first four months of the year and neutral weather for the remainder of 2025, in contrast to the previous El Nino condition. Furthermore, coking coal prices continued to decline in Q1/2025 due to the country's sluggish economic recovery and plans to cut steel production in 2025.

In addition, the semiconductor sector has not yet been subjected to reciprocal tariffs by President Donald Trump, though it may face a separate tariff scheme. This could hinder the expansion of data centers, production of tech devices and the training of AI models beyond the U.S., potentially slowing the semiconductor sector's growth and thus demand for P4.

For 2025, we forecast DGC may achieve revenue of VND11,388 billion (+15.4% YoY) and NPAT of VND3,353 billion (+7.8% YoY), underpinned by a recovery in P4 prices, high DAP/MAP prices, and VAT deduction on fertilizers helping offset rising electricity costs.

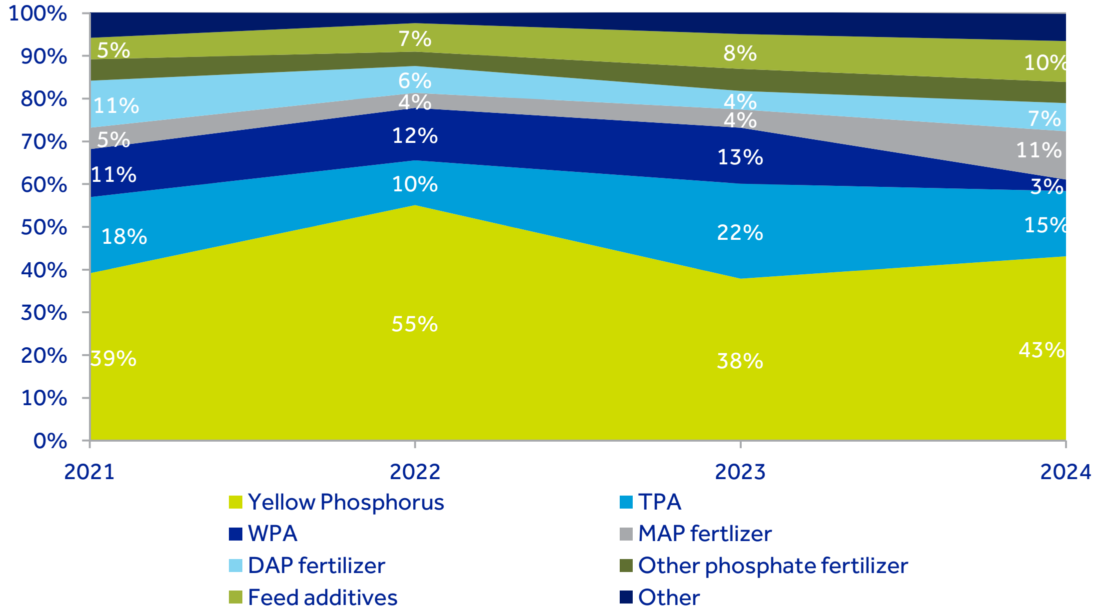
	2022	2023	2024	2025F	2026F
Net Sales (VNDbn)	14,444	9,748	9,865	11,388	12,163
Growth	*51.2%*	*-32.5%*	*1.2%*	*15.4%*	*6.8%*
EBITDA (VNDbn)	6,283	3,204	3,202	3,501	3,644
Growth	*122.8%*	*-49.0%*	*-0.1%*	*9.4%*	*4.1%*
PAT (VNDbn)	6,037	3,242	3,109	3,353	3,482
Growth	*140.2%*	*-46.3%*	*-4.1%*	*7.8%*	*3.8%*
EPS (bonus-adjusted, VND)	13,855	7,675	7,868	8,422	8,746
Growth	*133.0%*	*-44.6%*	*2.5%*	*7.0%*	*3.8%*
ROE	70.3%	28.4%	24.2%	22.8%	20.9%
ROIC	53.0%	19.3%	17.3%	17.0%	14.9%
Net debt/EBITDA (times)	(1.4)	(2.8)	(3.1)	(3.3)	(3.5)
EV/EBITDA (times)	3.9	7.6	7.3	6.2	5.6
PER (times)	6.3	11.4	11.1	10.4	10.0
PBR (times)	3.1	2.8	2.4	2.1	1.9
DPS (VND)	1,000	4,000	6,000	3,000	3,000
Dividend yield	1.2%	5.3%	7.3%	3.4%	3.4%

Growth in yellow phosphorus and fertilizer output propelled 2024 results

DGC recorded revenue of VND9,865 billion (+1.2% YoY) and NPAT of VND3,109 billion (-4.1% YoY) in 2024. Throughout the year, DGC ramped up its focus on P4 and fertilizer (DAP/MAP) segments, while scaling down other segments such as food-grade phosphoric acid (TPA) and WPA. A 27% YoY increase in P4 sales volume was a key driver for the company's revenue growth, even though average P4 prices continued to decline (-9.5% YoY) in 2024.

Meanwhile, WPA acid revenue dropped by 79.2% YoY, but this was offset by a 109.6% YoY increase in DAP and MAP fertilizer revenue, driven by a 95.4% YoY surge in sales volume and an estimated 9% YoY increase in phosphate fertilizer prices.

Sales contribution by segment, DGC



Gross profit margin slightly increased to 35.5% from 35.3% in 2023. The margin was supported by the continued decline in average coking coal prices, estimated to be down 17% YoY, due to falling coal prices in China as its economy failed to recover as expected and inventories remained high. However, the improvement in the margin was limited by a decline in apatite volume and an increase in electricity prices (up 4.5% from Nov 2023 and 4.8% from Oct 2024). DGC's self-sourced Apatite ore is estimated to decline due to the impact of typhoon Yagi. According to DGC, domestic Apatite ore is becoming increasingly scarce, with declining quality and rising prices.

	2024	YoY	Main drivers
Revenue	9,865	1.2%	P4 sale volume +27% YoY, DAP/MAP fertilizer volume +95,4% DAP/MAP sale prices +9% YoY
Gross Profit	3,499	1.7%	Coking coal price -17% YoY
Gross margin	*35.5%*	*0.2 pp*	
SG&A	655	11.9%	Higher transportation costs
SG&A/ Sale	*6.74%*	*0.7 pp*	
Financial Income	581	-9.3%	Interest income -13,7% YoY
NPAT	3,109	-4.1%	SG&A increase and financial income decrease

Progress on potential projects

Nghi Son Caustic Soda Plant Project

- Capacity: 50,000 tons of caustic soda (NaOH) + chlorine-based by-products (PAC, NaClO, HCl, etc.)
- Total investment capital: VND 2,400 billion
- Groundbreaking: February 17, 2025 and expected operation: from Q2/2026

NaOH is widely used in the production of paper, aluminum, and textiles/dyeing. Products from this project should be consume well given that domestic production capacity currently meets only about 50% of domestic demand. At full capacity of phase 1, according to DGC, the project is expected to generate VND2,000 billion in revenue, with a gross profit margin of 20% and NPAT of VND200 billion—lower than our forecast, which expected a gross profit margin of 27–30%.

However, fluctuations in Chinese caustic soda prices will strongly impact the project's profit margins. Domestic NaOH prices tend to move in line with Chinese prices, as China is the largest caustic soda producer globally, and approximately 50% of Vietnam's NaOH imports come from China.

In addition, domestic manufacturers have yet to secure a self-sufficient supply of input materials (industrial salt – NaCl) and have to import with quota limits, subject to high import tariffs. The upward trend in electricity prices in Vietnam, as EVN continues to operate at a loss, is another factor that will negatively impact the project's profit margins.

Source: Bloomberg

Duc Giang Residence Complex Project

The project covers a total area of 5.4 hectares, consisting of 1,000 apartment units and 60 townhouses in Long Bien, Hanoi. With an estimated selling price of VND40 million/m² for apartments and VND 100 million/m² for townhouses, DGC estimates total revenue at VND5,000 billion and NPAT at VND 1,000 billion. However, the project is still in the process of obtaining investment license, so we have not yet included it in our forecasts.

P4 prices are unlikely to rise significantly in 2025

Source: Sunsir, ACBS

Fluctuations in China's P4 market impact global and Vietnamese P4 prices, as China is the world's largest producer and consumer of yellow phosphorus. From late 2021 through 2022, drought conditions and rising coal prices significantly increased operating costs for power plants in China. To secure electricity supply for residential needs, the government was forced to restrict operations in several industrial sectors, including P4 production. The consequently limited supply and higher production costs led to a surge in P4 prices. However, after that, P4 prices dropped sharply—by 35% during 2023–2024, although they remain 50% higher than the 2015–2020 average, as China gradually lifted production restrictions to meet growing demand from the electric vehicle industry.

Regard 2025 Outlook, P4 prices are expected to stay relatively stable in 2025 due to lower input costs:

- Electricity costs for P4 production in China are benefiting from low-cost hydropower, thanks to: (1) La Niña weather pattern in the first four months of the year, and (2) neutral weather condition expected for the remainder of 2025 (compared to previous El Niño condition). Additionally, Yunnan Province, which accounts for 46% of China P4 capacity, relies heavily on hydropower for electricity.
- Coking coal prices in China declined 16% in 1Q2025 compared to the 2024 average. This trend is expected to continue, due to the country's sluggish economic recovery, high inventory levels, and planned steel production cuts, which reduce demand for coking coal.
- Chinese P4 plants are currently operating at only 50% capacity, meaning output could increase if demand rises, limiting the potential for sharp price increases.

Furthermore, the semiconductor industry has been excluded from President Donald Trump's reciprocal tariffs, but recent signals suggest that a separate tariff regime could soon be introduced by the U.S., aiming to repatriate the semiconductor and advanced tech supply chains. This could delay or scale back investment plans for electronics production, data center infrastructure and AI-related developments beyond the US. As a result, the upside potential for P4 price increases may remain limited, at least until there is more clarity and stability around these U.S. tariff policies.

Modest business plan for 2025

For 2025, DGC targets revenue of VND10,385 billion (+5.2% YoY) and NPAT of VND3,000 billion (–3.4% YoY). In terms of production strategy, DGC will maintain its 2024 direction, specifically: (1) Increasing P4 output while reducing TPA production, and (2) decreasing WPA output to increase the production of DAP and MAP fertilizers. We believe this strategy is appropriate given that China has temporarily suspended DAP/MAP fertilizer exports starting from December 1, 2024, due to rising domestic fertilizer prices.

According to information from the Annual General Meeting, in Q1 2025, DGC estimates to achieve revenue of VND2,700 billion (+13% YoY) and NPAT of VND800 billion (+13.6% YoY). With these results, DGC has completed 26.7% of its annual revenue target and 23.8% of our forecast.

2025 Forecast & Valuation

We forecast that DGC will reach revenue of VND11,388 billion (+15.4% YoY) and NPAT of VND3,353 billion (+7.8% YoY) in 2025. Key growth drivers include:

- P4 prices are projected to rise slightly by 3% YoY, driven by increased demand from the semiconductor industry. According to WSTS, the Asia-Pacific semiconductor market is expected to grow by 10.4% in 2025.
- Additional contribution from the ethanol segment (operations starting from November 2024), expected to operate at 70% capacity, higher than DGC's plan of 50%.
- Benefit from VAT deductions for the fertilizer segment starting July 2025.
- DAP/MAP fertilizer prices are expected to remain high due to China's export suspension.

However, profit growth will be negatively impacted by: (1) an estimated 4% increase in electricity costs, in line with the upward pricing trend, as EVN continues to operate at a loss, and (2) rising sulfuric acid prices in China, caused by maintenance activities at major smelters and a tight supply situation.

Using the discounted cash flow (DCF) method, we value DGC at VND108,400 per share by the end of 2025, representing a total return of 28.1%.

DGC FINANCIALS MODEL

(VND bn except where stated)	2022	2023	2024	2025F	2026F
Total Net Sales	**14,444**	**9,748**	**9,865**	**11,388**	**12,163**
Sales growth (%)	*51%*	*-33%*	*1%*	*15%*	*7%*
CoGS ex-dep'n	7,408	5,950	5,998	7,146	7,741
SG&A	752	594	665	740	778
SG&A as % of sales	*5%*	*6%*	*7%*	*7%*	*6%*
EBITDA	**6,283**	**3,204**	**3,202**	**3,501**	**3,644**
EBITDA margin (%)	*44%*	*33%*	*32%*	*31%*	*30%*
Depreciation	285	358	368	386	486
Operating profit	**5,998**	**2,846**	**2,833**	**3,115**	**3,158**
Operating profit margin (%)	*42%*	*29%*	*29%*	*27%*	*26%*
Net interest expense	(297)	(595)	(519)	(492)	(587)
as % of avg, net debt	*5%*	*7%*	*5%*	*5%*	*5%*
Tax	339	243	293	315	328
Effective tax rate (%)	*5%*	*7%*	*9%*	*9%*	*9%*
Minorities	472	142	121	154	160
NPAT-MI	**5,565**	**3,100**	**2,988**	**3,198**	**3,321**
Net profit margin (%)	*39%*	*32%*	*30%*	*28%*	*27%*
Cash earnings	5,850	3,458	3,356	3,585	3,807
Number of shares (m)	380	380	380	380	380
EPS (VND)	**13,855**	**7,675**	**7,868**	**8,422**	**8,746**
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0
Adjusted EPS (VND)	**13,855**	**7,675**	**7,868**	**8,422**	**8,746**
EPS growth (%)	*133%*	*-45%*	*3%*	*7%*	*4%*

KEY CASHFLOW AND BS ITEMS	2022	2023	2024	2025F	2026F
Increase in working capital	(1,006)	5	956	(919)	5
Capex	138	807	304	1,309	1,427
Other cash flow items	-	(764)	-	-	-
Free cash flow	**7,190**	**2,024**	**2,217**	**3,349**	**2,536**
Share issues (m)	85	-	-	-	-
Dividends paid	411	1,774	2,445	1,139	1,139
Increase in net debt	(5,625)	(535)	(747)	(1,855)	(1,023)
Net debt, end of year	**(8,539)**	**(9,075)**	**(9,821)**	**(11,677)**	**(12,700)**
Enterprise value	24,729	24,194	23,447	21,592	20,569
Shareholders' equity	**10,834**	**12,027**	**13,701**	**15,669**	**17,717**
BVPS (VND)	28,526	31,668	36,076	41,258	46,652
Net debt / equity (%)	*-78.8%*	*-75.5%*	*-71.7%*	*-74.5%*	*-71.7%*
Net debt / EBITDA (x)	(1.4)	(2.8)	(3.1)	(3.3)	(3.5)
Total assets	**13,405**	**15,536**	**15,821**	**19,254**	**21,456**

KEY RETURN AND VALUATION RATIOS	2022	2023	2024	2025F	2026F
ROE (%)	*70.3%*	*28.4%*	*24.2%*	*22.8%*	*20.9%*
ROA (%)	*54.7%*	*19.7%*	*18.1%*	*17.8%*	*15.5%*
ROIC (%)	*53.0%*	*19.3%*	*17.3%*	*17.0%*	*14.9%*
WACC (%)	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
EVA (%)	*38.0%*	*4.3%*	*2.3%*	*2.0%*	*-0.1%*
PER (x)	*6.3*	*11.4*	*11.1*	*10.4*	*10.0*
EV/EBITDA (x)	*3.9*	*7.6*	*7.3*	*6.2*	*5.6*
EV/FCF (x)	*3.4*	*12.0*	*10.6*	*6.4*	*8.1*
PBR (x)	*3.1*	*2.8*	*2.4*	*2.1*	*1.9*
PSR (x)	*2.3*	*3.4*	*3.4*	*2.9*	*2.7*
EV/sales (x)	*1.7*	*2.5*	*2.4*	*1.9*	*1.7*
Dividend yield (%)	*1.2%*	*5.3%*	*7.3%*	*3.4%*	*3.4%*

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Our Recommendation System

BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months
OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months
NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months
UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months
SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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