

**Vietnam: Industrials**
**17 November 2022**
**DHC VN**
**BUY**
**TP upside +93.8%**
**Close 17 November 2022**

Price	VND 32,800
12M Target	VND 63,571
Previous Target	VND 104.757
Change	-39%

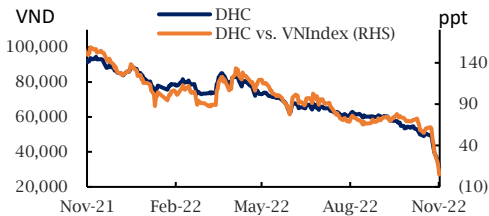
**What's new?**

- ▶ 9M22 PATMI fell by -23.9% YoY to VND 296bn on lower gross margin.
- ▶ Paper demand is still solid, with production capacity running at nearly full capacity.
- ▶ The balance sheet remains healthy. Net debt to equity was 12% as at 3Q22, down from 13.5% as at end-2021.
- ▶ Key risk: Input material costs.

**Our view**

- ▶ We cut our PAT forecasts by 30% YoY for 2022 and 32% for 2023 after slashing our ASP and GM assumptions.
- ▶ We cut our target price by -41% to VND 63,571 as a result of reduced earnings.
- ▶ The extreme selloff has been driven by margin calls, not DHC's business operations.
- ▶ Valuations are now extremely attractive: 4.6x 2023 PE ratio & cash dividend yield of 10.9%.

**Company profile:** DHC is Vietnam's fourth largest paper company with annual capacity of 288,000 MT after setting up new plants in 2021 and 2022. Core products are paper (80% of total revenues) and carton board (20% of revenues). Its main customers are Vietnam-based fisheries (59% of 9M22 revenues), agriculture (17%), and food (11%) producers. It also directly exports 20% of paper production to China, ASEAN, and the Middle East.

**Share price performance relative to VNI**


Market cap	US\$93mn
6M avg. daily turnover	US\$1.7mn
Outstanding shares	70mn
Free float	70%
FINI ownership	31.4%
Major shareholders	37.1%
Asset/equity	1.6x
2022E PE	4.9x
2022E P/B	1.1x
Trading platform	HOSE
FOL Room	17.6%

**Financial outlook (VND bn)**

Year to Dec	2021E	2022E	2023E	2024E
Sales	3,961	3,985	3,923	4,770
Op. profit	594	495	522	769
Net profit	561	479	511	752
EPS (VND)	6,945	6,707	7,151	10,529
EPS chg (%)	25.4	(3.4)	6.6	47.3
P/E (x)	4.7	4.9	4.6	3.1
ROE (%)	31.1	25.6	23.9	30.8
Div. yield (%)	7.6	7.6	10.9	16.1
DPS (VND)	2,500	2,500	3,575	5,265

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Bloomberg code: YUTA

**DOHACO (DHC VN)**
**Demand remains solid, but ASP is falling**

**9M22 financial performance.** DHC's 9M22 PATMI fell by 23.9% YoY to VND 296bn. The decline was mainly due to a 1.6% YoY drop in 9M22 revenue to VND 2,995bn on decreased ASPs. The selling price pressure also drove a 1.5% ppt YoY drop in 9M22 gross margin to 16.3%.

**Paper demand remains solid.** Paper production (80% of revenue) is running at near full capacity while packaging paper production is running at 50% of capacity. Management says that 4Q22 export demand for packaging paper is picking up as China reopens its economy.

**The balance sheet remains healthy...** Net debt to equity was 12% as at end of September, down from 13.5% as at end-2021. In addition, DHC's 9M22 operating profit was 28x its interest expenses.

**... and cash flow is strong.** Net cash inflow in 9M22 was VND 120bn, up by 20.5% YoY. DHC's cash conversion cycle has improved steadily since 2019 on improvements in inventory and sales outstanding days.

**Model revisit.** We cut our revenue forecast by -18% for 2022E and -29% for 2023E on reduced ASP assumptions. This drives a downward revision to our PAT forecasts of -30% YoY for 2022 and -32% for 2023. Our PAT forecasts are still 3% above the 2022E consensus but 6% below the 2023E consensus.

**We cut our target price by 41% to VND 63,571 per share,** implying 105% TSR. Our valuation is based on a weighted approach of FCFF (50%) and PER comps (50%). Key risks include the fluctuation in OCC price might impact DHC profit margin.

**Margin calls are driving the selloff,** not DHC's underlying operations. We see this as a tremendous opportunity for investors who can stomach further potential short-term volatility. The shares now trade at just 4.6x our revised 2023 PER, with a forecast cash dividend yield of 10.9%.

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## We slashing our target price by 41%, but we still recommend BUY

We reiterate our BUY recommendation but cut our target price by 41% to VND 63,571 per share, implying a 2023 PER ratio of 8.6x vs. the current market PE of just 4.6x. Our target price is based on a weighted approach comprising FCFF (50%) and a discount to regional comparable PERs (50%).

**Fig. 1: Reducing target price by 39%**

Valuation approach	Target Price	Weight	Downward revision
FCFF	61,143	50%	-34%
PER multiple	66,000	50%	-43%
<b>Overall</b>	<b>63,571</b>	<b>100%</b>	<b>-39%</b>

Source: YSVN

### FCFF valuation

Our FCFF model incorporates our reduced free cash flow assumptions in line with the lower ASP and gross margin assumptions. In addition, we have revised up our WACC to 12.4%, up from 10.5% previously; this is after adjusting for the increased risk free rate (i.e., 7.4%, which is now the SOE bank 12-month time deposit rate) and the empirical increase in the stock's Beta since our last valuation update.

**Fig. 2: Our FCFF valuation model incorporates our reduced cashflow forecasts. We have also increased our WACC to 12.4%.**

FCFF (VND bn)	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	495	522	769	936	1,116	1,229
Less: Tax	(34)	(28)	(42)	(50)	(84)	(94)
add: Depreciation	116	245	239	239	239	239
less: FCIInvestment (Capex)	-	(2,084)				
less: WCIInvestment	224	13	(469)	(166)	(170)	(123)
Free cash flow	802	(1,332)	498	958	1,101	1,251
PV of free cash flow	713	(1,054)	350	600	613	619
Total PV of free cash flow	1,222					
Terminal value	5,941					
PV of terminal value	5,941					
PV of free cash flow	7,163					
less: debt	3,029					
Add: cash	146					
Equity value	4,280					
Outstanding shares (VND per share)	69,994					
<b>Intrinsic value /share</b>	<b>61,143</b>					

Source: YSVN

For the PER multiple valuation, we apply a 2023 PER target of 8.3x. This represents a 10% discount to the regional peer median, which we think is reasonable given Vietnam's weak market conditions and DHC's relatively small size.

**Fig. 3: OCC price appears to have plateaued**

PER MULTIPLE VALUATION	Target
DHC's peers PER median	9.2
Discount (%)	10%
Implied PER (x)	8.3
Target price (VND)	66,000

Source: YSVN

The recent share price crash is due to margin calls, and does not reflect DHC's fundamental business operations in our view. The implied financial difficulties are those of the shareholders, not DHC itself. In contrast to some of the troubled property stocks, most of DHC's short-term debt comprises bank loans, and not loans from shareholders. Our view is that DHC's fundamentals remain solid even after factoring in our reduced forecasts, and the current selloff represents a tremendous opportunity to accumulate the stock at an extreme discount valuation.

DHC is trading at 4.9x 2022 PER and 4.6x 2023 PER, which is a sharp discount to the regional peer median of 10.2x 2022E PER and 9.2x 2023 PER. Such a valuation might be appropriate for a company that is in terminal decline or facing a financial crisis, but this is not the case for DHC in our opinion. Even after slashing our earnings forecasts, we still expect the company to deliver 2023 ROE of 23.9%.

**Fig. 4 DHC is trading at steep discount compared to the original peers**

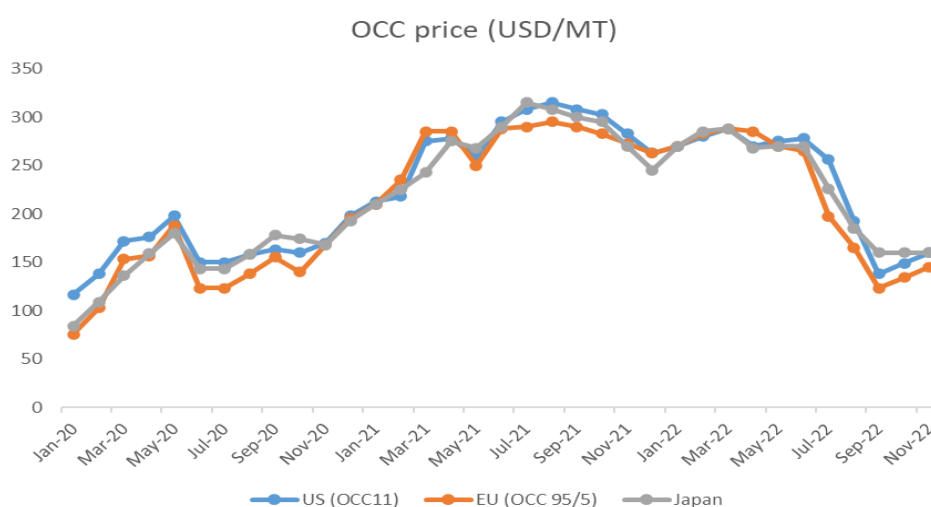
Ticker	Name	Mkt Cap (USD mn)	2022E PER (x)	2023E PER (x)	Current P/B (X)
002831 CH Equity	SHENZHEN YUTO PACKAGING TE-A	4,220.9	16.7	16.2	3.1
600567 CH Equity	SHANYING INTL HLDG CO LTD-A	1,613.2	9.4	8.5	0.7
FASW JJ Equity	FAJAR SURYA WISESA PT	987.8	N/A	N/A	3.0
603687 CH Equity	ZHEJIANG GREAT SHENGDA PAC-A	620.7	N/A	N/A	2.2
002228 CH Equity	XIAMEN HEXING PACKAGING-A	570.8	14.8	13.9	1.2
002951 CH Equity	SICHUAN JINSHI TECHNOLOGY -A	553.0	N/A	N/A	1.7
605500 CH Equity	FOREST PACKAGING GROUP CO LT	456.7	N/A	N/A	1.4
300883 CH Equity	LD INTELLIGENT TECHNOLOGY -A	315.5	N/A	N/A	1.6
UTP TB Equity	UNITED PAPER PCL	297.5	11.0	9.9	2.5
468 HK Equity	GREATVIEW ASEPTIC PACKAGING	205.1	4.1	3.9	0.6
<b>Median</b>	<b>Median</b>	<b>553.0</b>	<b>10.2</b>	<b>9.2</b>	<b>1.6</b>
<b>DHC VN Equity</b>	<b>DONG HAI JSC OF BENTRE</b>	<b>93.4</b>	<b>4.9</b>	<b>4.6</b>	<b>1.3</b>

Source: Bloomberg, YSVN

#### Risks to our view

**Input inflation risk.** Raw materials account for 75% of DHC's production costs, in which OCC is the main input. The OCC price has entered a consolidation phase since July 2022. However, the price of the material is recently picking up and may continue to do so as China reopens its economy.

**Fig. 5 DHC is trading at steep discount compared to the original peers**



Source: VPPA

**Production bottlenecks.** According to management, DHC is running at 100% utilization of its paper production capacity, as demand remains extremely strong. However, DHC plans to expand its paper production in 2024, which should help to alleviate any production bottleneck.

**ESG risk.** Paper production is not a particularly green business from an environmental perspective. However, to the company's credit, it has invested in waste processing capacity. But realistically, DHC is not likely to be high on anyone's list of ESG-friendly stocks in Vietnam.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
<b>Revenue</b>	<b>2,888</b>	<b>3,961</b>	<b>3,985</b>	<b>3,923</b>	<b>4,770</b>
<i>Paper</i>	2,538	3,493	3,143	3,123	3,826
<i>Packaging</i>	348	467	840	798	942
					-
Cost of goods sold	(2,339)	(3,213)	(3,335)	(3,249)	(3,816)
<b>Gross profits</b>	<b>548</b>	<b>748</b>	<b>650</b>	<b>674</b>	<b>954</b>
Operating expenses	(112)	(153)	(154)	(152)	(185)
<b>Operating profits</b>	<b>436</b>	<b>594</b>	<b>495</b>	<b>522</b>	<b>769</b>
Net interest expenses	(31)	(7)	4	3	7
Net investments income/(loss)	1	-	-	-	-
Net other incomes	3	14	14	14	17
<b>Pretax profits</b>	<b>410</b>	<b>601</b>	<b>513</b>	<b>539</b>	<b>794</b>
Income taxes	(18)	(40)	(34)	(28)	(42)
Minority interests	-	-	-	-	-
<b>Net profits</b>	<b>392</b>	<b>561</b>	<b>479</b>	<b>511</b>	<b>752</b>
<i>Core earnings</i>	392	561	479	511	752
EBITDA	542	627	612	766	1,008
EPS (VND)	5,541	6,945	6,707	7,151	10,529

#### KEY RATIOS

	2020A	2021A	2022E	2023E	2024E
<b>Growth (% YoY)</b>					
Sales	101.9	37.2	0.6	(1.6)	21.6
<i>Paper</i>	133.7	37.6	(10.0)	(0.6)	22.5
<i>Packaging</i>	1.2	34.1	80.0	(5.0)	18.1

Operating profit	86.0	36.1	(0)	0	0
EBITDA	84.7	15.8	(2.4)	25.3	31.6
Net profit	115.8	43.2	(15)	7	47
EPS (VND)	115.8	25.4	(3)	7	47

Profitability ratio (%)					
Gross margin	19.0	16.2	16.3	17.2	20.0
Operating margin	15.1	15.0	12.4	13.3	16.1
EBITDA margin	18.8	15.8	15.4	19.5	21.1
Net margin	13.3	11.6	11.8	12.8	15.5
ROA	17.5	20.6	12.7	10.1	15.2
ROE	30.6	31.1	25.6	23.9	30.8

Stability					
Net debt/equity (x)	16.1	13.5	92.8	52.6	40.9
Int. coverage (x)	11.3	32.4	37.1	35.9	53.0
Int. & ST debt coverage (x)	1.9	1.6	1.6	1.9	2.8
Cash conversion days	56.3	48.1	67.8	73.9	66.9
Current ratio (X)	1.5	1.7	1.3	1.5	1.8
Quick ratio (X)	1.1	1.2	0.7	1.0	1.1
Net cash/(debt) (VND mn)	(224)	(229)	(1,833)	(1,166)	(1,049)

Efficiency					
Days receivable outstanding	57	52	64	68	62
Days inventory outstanding	49	33	58	81	74
Days payable outstanding	50	37	54	75	69

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
<b>Total assets</b>	<b>2,276</b>	<b>2,401</b>	<b>5,004</b>	<b>4,911</b>	<b>4,762</b>
Cash & cash equivalents	202	98	146	498	299
ST Investment	9	44	9	9	9
Accounts receivable	555	667	767	756	913
Inventories	315	320	731	712	836
Other current assets	15	42	14	14	14
Net fixed assets	1,135	1,051	1,030	2,868	2,629
Others	44	179	2,307	54	62
<b>Total liabilities</b>	<b>881</b>	<b>704</b>	<b>3,029</b>	<b>2,696</b>	<b>2,194</b>
Current liabilities	736	704	1,331	1,314	1,127
Accounts payable	408	305	681	663	779
ST debts	290	371	290	290	290
Long-term liabilities	145	-	1,698	1,382	1,067
Long-term debts	145	-	1,698	1,382	1,067
Others	-	-	-	-	-
<b>Shareholder's equity</b>	<b>1,395</b>	<b>1,697</b>	<b>1,975</b>	<b>2,215</b>	<b>2,568</b>
Share capital	560	700	700	700	700
Treasury stocks	-	-	-	-	-
Others	39	59	39	39	39
Retained earnings	560	703	1,000	1,240	1,594
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### CASH FLOW (VND bn)

FY (VND'bn)	2020A	2021A	2022E	2023E	2024E
<b>Operating cash flow</b>	<b>432</b>	<b>676</b>	<b>664</b>	<b>2,568</b>	<b>407</b>
Net income	384	561	479	511	752
Dep. & amortisation	103	101	132	245	239
Change in working capital	(25)	(255)	224	13	(469)
Others	(30)	269	(171)	1,799	(115)
<b>Investment cash flow</b>	<b>50</b>	<b>(321)</b>	<b>(2,419)</b>	<b>(1,651)</b>	<b>77</b>
Net capex	-	(168)	-	(2,084)	(30)
Change in LT investment	58	(51)	(2,106)	414	232
Change in other assets	(8)	(102)	(313)	19	(124)
Cash flow after invt.	483	355	(1,755)	918	485
<b>Financing cash flow</b>	<b>(437)</b>	<b>(98)</b>	<b>1,442</b>	<b>(565)</b>	<b>(684)</b>
Change in share capital	0	140	0	-	-
Net change in debt	(264)	(64)	1,617	(315)	(315)
Change in other LT liab.	(173)	(173)	(175)	(250)	(369)
<b>Net change in cash flow</b>	<b>46</b>	<b>257</b>	<b>(313)</b>	<b>352</b>	<b>(199)</b>
Beginning cash flow	156	202	459	146	498
<b>Ending Cash Balance</b>	<b>202</b>	<b>459</b>	<b>146</b>	<b>498</b>	<b>299</b>

#### KEY METRICS

	2020A	2021A	2022E	2023E	2024E
PE (x)	5.9	4.7	4.9	4.6	3.1
Diluted PE (x)	5.9	4.7	4.9	4.6	3.1
PB (x)	1.6	1.3	1.2	1.0	0.9
EBITDA/share	7,737	8,956	8,740	10,949	14,405
DPS	2,500	2,500	2,500	3,575	5,265
Dividend yield (%)	7.6	7.6	7.6	10.9	16.1
EV/EBITDA (x)	4.6	4.0	6.7	4.5	3.3
EV/EBIT (x)	44.0	5.7	4.9	8.3	6.6

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