

BSC RESEARCH

Equity analyst

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We recommend **Buy** DHC at target price of VND 46,500 per share in the next 12 months (18% upside). On 07th, Oct, 2016, DHC was traded at VND 39,500 per share, equivalent to a P/ E FW of 11.21x and P/ B of 2.03x.

9M2016 positive business result. DHC's Kraft consumption fell by 16% yoy in 6T2016 because of low quality of OCC materials during salt intrusion. 3Q2016 paper production and consumption recovered sharply, by 6.8% yoy (14,533 tons) and 16% yoy (12,905 tons, respectively. Accumulated 9M2016, Kraft paper and cartons consumption reached 30,652 tons (-5% yoy) and 20 million units (+ 33% yoy), respectively. 9M2016 DHC's net revenue and net income were VND 473 billion (+ 1.3% yoy) and VND 61 billion (+ 23% yoy), respectively.

2016 earning forecast. We believe that 2016 net revenue and net income will reach VND 694 billion (+8% yoy) and VND 94 billion (+17% yoy), respectively, equivalent to 2016 EPS of VND 3,525/share (calculated on the number of current shares outstanding of 25.6 million). Our forecast is based on assumption that Kraft consumption increase by 7% yoy to 54,728 tons, and carton's sales volume rose by 30% to 29 million units. In 2017, the performance of Giao Long plant No.1 is expected to remain stable because the plant is operated at full capacity. The sales volume of the packaging plant is expected to expand by 15-20% because of a supplemental printer, overtime working and high demand.

Profit margin increased. Gross profit margin went up from 18.35% in 2015 to 20% in 6M2016. (1) The proportion of Testiliner consumption rose from 47% in 2015 to 61% in 2016. Testiliner papers gave DHC 7% higher price and 1-4% higher gross profit margin compared to Medium paper. (2) DHC reserved cheap materials which was purchased from the end of 2015 and beginning of 2016. 6M2016 gross profit margin of Kraft papers went up to 21%, compared to 18% in 6M2015. (3) DHC have stopped selling OCC materials since 2016 (which accounted for 3.6% of 2015 sales). OCC sales gave a low profit margin of 6%. We note that the increase in OCC price in the last 2 quarters of 2016 may reduce DHC's gross profit margin compared to the first half. (4) Preferential corporate income tax. The packaging plant No.2 is exempted from taxes during 2 years since having taxable income and reduced 50% corporate income tax in the following 4 years; the Giao Long No.1 gets 3-year tax exemption and 50% tax reduce in the next 5 years. In 2016, the Giao Long No.1

and packaging factory No.2 enjoy 50% decrease in the corporate income tax to 10%.

Low production costs, high quality Kraft papers give competitive advantage for DHC ([refer to DHC reports](#)). Due to the use of rice husks instead of coal and reduction in cost of electricity and water, DHC show a significant drop in production costs, compared to 2013 and their competitors. In addition, DHC's investment unit cost is lower than that of the other paper manufactures of VinaKraft, Lee&Man and Cheng Long. Therefore, DHC can offer Kraft papers at lower prices than competitors do. The Giao Long No.2's investment unit cost per tons of Kraft is VND 3.6 million/ton, while Vinakraft is VND 11 million/ton, Lee& Man is VND 23.5 million/ton and Cheng Long is VND 22 million/ton. Besides the traditional customers such as Ojitex, Box Park, Nam An, Phu Cat paper, DHC has received new orders from Bien Hoa Packaging JSC, Vegetable oil Packaging JSC.

Fiercer competition. Chanh Duong Paper plans to expand 442,800 tons of Kraft by the end of 2016. VinaKraft expect to double the capacity of Kraft plant to 500,000 tons/year which is completed in 1Q2017. Lee&Man has also deployed their paper factory in Hau Giang with a capacity Kraft of 330,000 tons which is scheduled for completion in 2017. Cheng Long is investing in a packaging paper factory with a total capacity of nearly 1 million tons/year, in which, phase 1 is planned for completion in 2018 with a capacity of 350,000 tons/year. Till 2018, an increase of the total capacity should be 1.6 million tons/year (including capacity of DHC). Under fierce competitive pressure, there is recently a downward trend in the price of industrial paper. The DHC's 2016 average sales price of Kraft of DHC has declined an average of 2-4% compared to 2015.

Expected rapid growth due to getting the Giao Long Factory 2 in operation efficiently.

- **Plan.** Giao Long No.2 factory with a capacity of 660 tons per day or 198,000 tons of papers per year is under construction. Total investment is estimated at VND 720 billion. The factory is scheduled to be completed by the end of 2017 and to commercialize products in early 2018. Besides Testiliner and Medium, DHC is expected to produce more Kraft liner products. DHC estimate that the revenue from the factory will reach VND 2,000 billion; 2,500 billion and 3,000 billion in 2018, 2019 and 2020 respectively.
- **Consumption.** As analyzed above, fierce competition can affect the sales volume of Giao Long No.2. We believe that DHC will continue to commercialize products and run the Giao Long No.2 efficiently. (1) The

products of this factory is used to replace imports. In 2015, Vietnam consumed around 2.5 million tons of packaging paper, in which about 30% was imported (equivalent to 0.75 million tons). The average growth rate of packaging paper's consumption was 12-15% in the previous years, up by 15%/year from 2010 to 2013, and is assumed to grow by 12% in the next 5 years thanks to manufacturing, export growth and FTAs. In our views, the demand for packaging paper in Vietnam will increase to around 3.1 million tons in 2018, while domestic supply is estimated at 2.9 million tons (including Giao Long No.2). (2) High quality papers is sold at reasonable prices which is equivalent to Chinese Kraft prices. (3) DHC has been actively seeking customers for output of the Giao Long No.2.

- **2018-2020 forecasts.** We assume that the consumption of Giao Long No.2 will be 40%, 45% and 50% of capacity in 2018, 2019 and 2020, respectively. Therefore, net revenue and net income of Giao Long No.2 will be VND 837 billion and VND 21 billion in 2018; VND 923 billion and VND 27 billion in 2019; VND 1,026 billion and VND 66 billion in 2020 respectively.

Other information. In late 2015, Ben Tre Provincial Tax Department imposed a fine on DHC involving in tax accounting irregularities. However, according to the latest decision No.2141/QD-CT, after verification again, the Department announced to repay DHC VND 2.4 billion of tax paid.

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: *Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.*

Valuation Methodology: *The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).*

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy

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