DOHACO (DHC – HSX)

Giao Long factory (phase 2) adds lights to the long-term plan

Particulars (VND bn)	Q1-FY15	Q4-FY14	*+/- qoq*	Q1-FY14	*+/- yoy*
Net revenue	149.1	152.6	-2%	103.8	44%
NPAT	12.5	9.5	31%	9.2	36%
EBIT	17.2	13.8	24%	14.3	21%
EBIT margin	11.5%	9.1%	248bps	13.7%	-221bps

Source: DHC Financial statement, RongViet Securities' compilation and estimates

Positive Q1 revenue and earnings were driven by volume increase and product overhaul

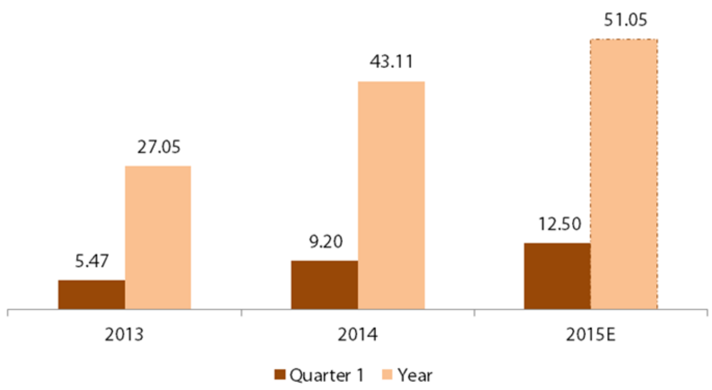
From our observations, the index for stock performance of the packaging industry has been tracking retail sales index at a lag of approximately 2 months. This industry witnessed some early positive signal in Q4/2014 when retail sales index posted a spectacular growth rate of 15.4% yoy. Additionally, there were a surge of orders in the 1-2 months right before Lunar New Year. Advantaged by the late coming of this year's Tet holiday, the packaging industry in general and DHC in particular achieved optimistic performance in 1Q2015. The Company posted revenue and NPAT of VND149 and VND12.5 billion, respectively up 43.7% and 36% yoy.

In addition to support from the overall industry, a revamp of the revenue structure also provided DHC some tailwinds. A rise of the revenue contribution of testliner from 30% in 2014 to 45% in Q1/2015 significantly improved sales and overall gross profit margin as testliner price and GP margin are 9.6% and 17% higher than those of medium respectively.

A drop of input price, on the other hand, also added to Q1 strong growth. (1) OCC price slid further on the downside and reached USD170/ton in February, 2015. (2) The price of husk – the one factor that squeezed DHC's GP margin in 4Q2014, slumped due to a seasonal surge of supply.

By the end of the first quarter, DHC has completed 26.2% of 2015's revenue guidance and 27.2% of the year's profit plan.

Figure: Q1 PAT of DHC in 2013-2015.



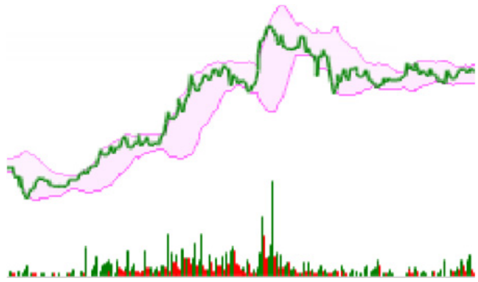
Source: *DHC Financial statement, RongViet Securities' compilation and estimates*

BUY

DHC (VND)	21.700
Target Price (VND)	26.200
Investment Period	Intermediate

Stock Info

Sector	Packaging
Market Cap (VND bn)	337
Current Shares O/S	15,689,999
Beta	0.86
Free float (%)	69.26
52 weeks High	24,500
52 weeks Low	11,800
Avg. Daily Volume (in 20 sessions)	71,827



Peformance (%)

	3M	1Y	3Y
DHC	0	47	133
Packaging	-5	-3	-9
VN30 Index	-3	-1	21
VNIndex	-3	-6	11

Major Shareholders (%)

Le Quang Hiep	11.19
Le Ba Phuong	5.61
Vo Trong Giap	4.97
Foreigner Investor Room (%)	33.78

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Updates on the preparations for the new factory

As we mentioned in our Result Update for DHC, dated 29 September 2014, the Giao Long factory (phase 2) is a key element for the Company's long-term growth. Thus, the project has attracted the scrutiny of many investors and analysts. According to the initial plan, the 80,000-ton-a-year kraft paper factory has a total investment of VND400 billion and is set to be under construction in 2015 and come into operation in 2017

However, following some market research and discussions with a China-based equipment supplier, DHC has decided to raise the factory's design capacity. In the new plan, the capacity is 500 ton/day or 150,000 ton/year, almost twice as large as the initial plan. The investment outlay, as the result, is raised by VND200 billion. The company would have to invest in additional capacity to build up competitiveness in preparation for significant demand growth in the upcoming years, said DHC's representative. Two-phase development would require more capital than investing in larger-capacity factory in the first place though. And that is the reason for DHC's decision to put its money in a 150,000-ton-a-year factory.

Figure: Initial plan versus new plan

	Initial plan	New plan	Change
Capacity (ton/year)	80,000	150,000	+88%
Capital investment (VND billion)	400	600	+50%

The feasibility of the capacity raising plan has caused concerns among investors as Giao Long II factory has to produce (and sell) 5,000-6,000 tons a month to reach the breakeven point, meaning DHC would have to double its sale volume. The competitive pressures from the expansions of Vina Kraft, Nine Dragon, Lee&Man and zero-tax imports from other ASEAN country just intensify the concerns.

Still, in our opinion, there are several some factors advocating for DHC's plan:
(1) Domestic demand is projected to continue to exceed supply in the period of 2015-2018.
In 2014, the demand for packaging paper was about 2.1 million tons, only 60% of which is met by domestic supply, and is forecasted to grow 10% in the following years. Our estimation based on the published figures of expansion projects in the industry, over-demand would still exist in 2018.

Figure: Projection of kraft paper demand and supply increases in 2014-2018 (Unit: tons)

Demand increase			Supply increase		
Demand increase	716		225	-	Vina Kraft
2014 imports	881		350	-	Nine Dragon
			150	-	DHC
			100	-	An Bình Paper
			600	-	Lee&Man
Total	**1,597**	**>**	**1,425**	**Total**	

Source: VPPA, RongViet Research

(2) The signing of trade agreements will boost packaging demand.
Vietnam now has some bilateral and multilateral trade agreements such as TPP, FTA Vietnam - Korea, Vietnam - EU, Vietnam - Belarus - Kazakhstan – Russia, which set to conclude in the near future. So, the number of export orders is expected to increase sharply, especially in the seafood and textile industry. This can entail a rise in the sale volume of packaging in general and kraft paper in particular.

(3) *Export growth can help raise production.*
Expectedly, the quality of the new plan's products will be up to that of imported kraft paper. In that case, there will be a chance for DHC to consider oversea distribution. In addition, the experience from the

operation of Giao Long I, where cost control is particularly effective, can make the final products more competitive in overseas markets, especially ASEAN nations.

2015 business results can exceed targets.

In 2015, DHC cautiously plans revenue and PAT at VND568 billion and VND46 billion, growing 4.3% and 6.7% yoy respectively. Considering seasonality, Q1 is usually the lowest quarter of the whole year in term of business performance due to weak orders after Tet and high administrative expense during the holiday. Therefore, the probability of achieving 2015 plan in is quite high since last month DHC already completed as much as 26.2% of the sales plan and 27.2% of the NPAT plan.

In this report, RongViet Research forecasts 2015 PAT to reach VND52.2 billion, 13.5% higher than DHC's target. This is 8.4% lower than our previous forecast due to adjustment to the GP margin steaming from our concerns over (1) the volatility of husk price, (2) the recovery ability of OCC paper price, (3) the 7.5-percent increase of electricity price from 16 March 2015.

Exhibit: Changes in Estimates

Particular (VND bn)	FY2015E		
	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues	625.8	563.4	-10%
Gross profits	18.5%	17.9%	-57 bps
SG&AC	31.9	28.2	-12%
Operating Income	83.0	73.0	-12%
Financial expenses	13.3	8.4	-37%
PBT	70.7	65.2	-8%
PAT	56.6	52.2	-8%
EBITDA	113.1	107.0	-5%
EBIT	81.8	73.2	-11%
EPS (VND)	2,829	2,749	-3%

Sources: DHC Financial statement, RongViet Securities' compilation and estimates

Outlook and valuation

In short-term, the key factors supporting DHC's profits are an expansion of carton box production, a change in revenue structure and a reduction of manufacturing cost (i.e. taking advantage of low OCC import price to reserve to increase stocks). First, DHC will put into operation of Taiwan-imported printer, in order to push the capacity of its packaging factory up 17% to 2 million boxes per month since 3Q2015. Second, it is gradually raising the revenue contribution of testliner to 50%. Last, the Company has cut the volume of consumed husk by 18.2% by saving steam.

In long-term, Giao Long factory (phase 2) is considered as the key for sustainable growth. However, DHC is only in the step of selecting a constructor. Therefore, we still maintain some prudence in our earnings estimates for 2015 and the upcoming years.

Considering DHC's optimistic outlook for the short and long term as well as 2014's dividend (20% of share capital in cash and stock), we continue to rate this stock as a **BUY** in the **INTERMEDIATE-TERM** at a target price of **VND26,200/share** as compared to VND25,200/share in the previous report, dated 29 September 2014, due to an adjustment of the discount rate in our valuation model. We have not incorporated in this valuation the increment cash flows from the new factory from 2017 onwards. We believe more observations are needed regarding the implementation of the plan as well as the rising competitive pressures.

Exhibit: Key financials

Y/E Dec (VND bn)	FY2013	FY2014	FY2015E
Net Revenues	454.4	542.8	563.4
% chg	33.3%	19.5%	3.8%
PAT	27.0	43.1	52.2
% chg	N/a	59.4%	21.0%
EBIT margin (%)	6.0%	7.9%	9.3%
ROA (%)	6.5%	10.5%	8.9%
ROE (%)	12.8%	17.8%	15.6%
Adjusted EPS (VND)	319	2,874	2,749**
Book value (VND)	15,043	16,485	18,386
Cash dividend (VND)		1,000	1,000
P/E (x)	4.8	7.5	7.3*
P/BV (x)	0.6	1.2	1.1*

Source: DHC Financial statement, RongViet Securities' compilation and estimates,
**As of 24/10/2014, ** As of additional issue and bonus share.*

BRIEF UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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