March, 2020

PETROVIETNAM FERTILIZER AND CHEMICALS (HSX: DPM)

2020: bottom line to surge

Particulars (VND B)	4Q-FY19	3Q-FY19	*+/-qoq*	4Q-FY18	*+/-yoy*
Net revenue	2,285	1,893	20.7%	2,321	-1.6%
PAT	234	61	286.2%	149	57.2%
EBIT	259	66	290.7%	188	38.0%
EBIT margin	11.3%	3.5%	784bps	8.1%	325bps

Source: DPM, Rong Viet Securities

4Q2019 results: sales of urea improved due to a recovery in volume.

- 4Q2019 sales of domestic product increased by 12.4% to VND1,983bn, improving significantly compared to the three previous quarters thanks to the urea segment.
- 4Q2019 sales of imported product decreased by 42.7% to VND319bn.
- Gross margin rose from 20.7% to 24.4% thanks to the slump of FO price amid higher tariff.
- Total sales were VND2,285 bn in 4Q2019, down 1.5% YoY but NPATMI reached VND234bn, up 57% YoY.

2020 prospects: Both sale volume and profit should rise from the low base of 2019

In 2020, we believe that total sales will recover but will still be lower than the normal level as DPM will experience some maintenance in 4Q2020 and the fertilizer demand is forecasted to remain low.

In term of NPK, the extension of depreciation time from 10 years to 15 years will help to reduce the loss but the plant will not be likely to generate profit.

In addition, DPM can get some extra profit from lower final tariff and insurance claim.

For 2020, we project revenue and net profit for the parent company to be VND 8,674 bn (+12.9% YoY) and VND 592 bn (+56.6% YoY), respectively. We have not counted potential extraordinary profit in our forecast.

Valuation and recommendation

Sale volume and net profit is forecasted to grow in 2020 from a low 2019 base. We still concern about the unfavorable condition of Agriculture sector that will lower the fertilizer demand. Besides, the loss from the NPK plant and temporary tariff are negative points. However, there will be a potential catalyst from lower final tariff and insurance claim in 2020 for DPM. Besides, the cash dividend of VND 1,000, generating a dividend yield of 8% at this current price, is likely fine compared to the deposit rate.

*We have an **ACCUMULATE** with a target price of **VND13,600** per share, based on the FCFF and P/E method. Including the VND1,000 cash dividend, we arrive at a total return of **17.7%**, based on the closing price on **March 03rd, 2020**.*

ACCUMULATE 17.7%

CMP (VND)	12,400
Target price (VND)	13,600
Cash dividend (VND)*	1,000

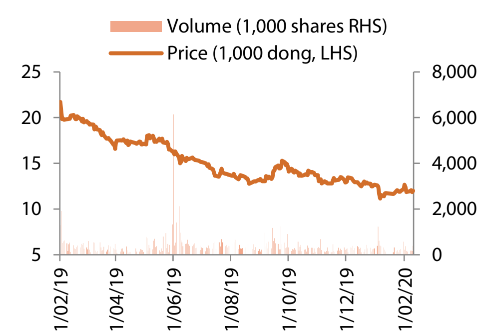
** Expected in the next 12 months*

Stock info

Sector	Chemicals
Market Cap (VND billion)	8,726
Current Shares O/S	391,334,260
Avg. Daily Volume (in 20 sessions)	239,241
Free float (%)	38.1
52 weeks High	20,309
52 weeks Low	11,150
Beta	1.02

	FY2019	Current
EPS	863	863
EPS growth (%)	-46,0	-46,0
Adjusted EPS	863	863
P/E	15,0	13,7
P/B	0,6	0,6
EV/EBITDA	2,3	1,9
Cash dividend	7,7	8,4
ROE (%)	4,7	4,7

Price performance



Major Shareholders (%)

PVN	51.4
Foreign ownership room (%)	30.12

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Exhibit 1: 4Q2019 results

Particulars (VND Bn)	4Q-FY19	3Q-FY18	+/-(QoQ)	4Q-FY18	+/-(YoY)	YTD-FY19	+/-(YoY)
Net revenue	2,285	1,893	20.7%	2,321	-1.6%	7,684	-17.4%
Gross profit	557	314	77.3%	480	16.1%	1,402	-26.2%
SG&A	298	248	20.2%	292	2.0%	970	-11.6%
Operating income	451	295	52.7%	412	9.5%	432	-46.0%
EBITDA	400	207	93.2%	341	17.4%	994	-24.7%
EBIT	259	66	290.7%	188	38.0%	432	-46.0%
Financial expenses	26	26	2.1%	33	-18.9%	108	45.9%
- Interest Expenses	27	25	4.8%	28	-6.7%	107	69.8%
Dep. and amortization	141	141	0.1%	153	-7.8%	562	8.2%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	290	75	284.8%	215	34.9%	467	-46.3%
PAT	234	61	286.2%	149	57.2%	378	-46.0%
(*) Adjusted PAT	234	61	286.2%	149	57.2%	378	

Source: DPM, Rong Viet Securities

Exhibit 2: 4Q2019 performance analysis

Particulars	4Q-FY18	3Q-FY18	+/-(QoQ)	4Q-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	24.4%	16.6%	779bps	20.7%	371bps
EBITDA margin	17.5%	10.9%	657bps	14.7%	283bps
EBIT margin	11.3%	3.5%	784bps	8.1%	325bps
Net margin	10.2%	3.2%	704bps	6.4%	383bps
Adjusted net margin	10.2%	3.2%	704bps	6.4%	383bps
Turnover *(x)					
-Inventories	4.7	3.9	0.7	4.4	0.3
-Receivables	30.5	23.0	7.5	18.7	11.9
-Payables	4.8	4.5	0.3	4.6	0.1
Leverage (%)					
Total debt/ equity	25.3%	20.0%	523bps	18.3%	691bps

Source: DPM, (*) Annualized turnover

Exhibit 3: 1Q2020 performance forecast

Particulars (VND Bn)	1Q-FY20	+/-(QoQ)	+/-(YoY)
Revenue	1,879	-17.8%	19.4%
Gross profit	376	-32.5%	39.9%
EBIT	147	-43.5%	88.4%
NPAT	112	-52.5%	116.2%

Source: DPM, Rong Viet Securities

Update:

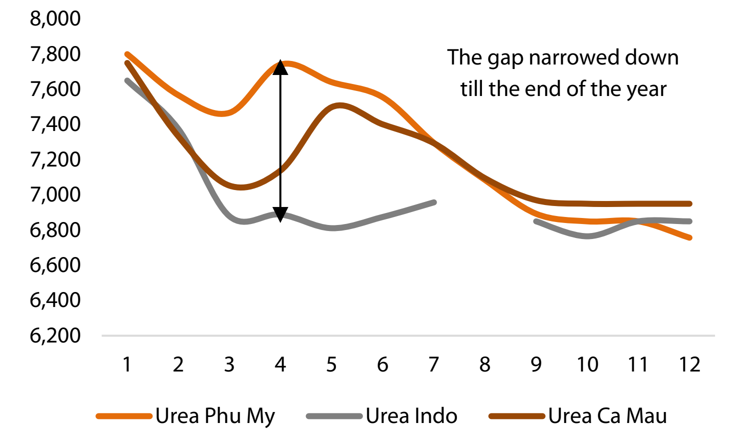
Improvement from urea sales in 4Q2019 as DPM decreased the selling prices

In 4Q2019, DPM sold 237 thousand tons of urea, up 46% YoY, which is much higher than the previous years as the company cut the selling price as the fertilizer demand was weak. The ASP of urea dropped 18% QoQ and 26.7% YoY to VND6,388 per kg. Compared to the same type of fertilizer (Indonesian urea), the DPM selling price was lower 1.4% in the last month in spite of staying higher in the beginning of the year.

Figure 1: Consumption (LHS) and ASP (RHS) of Urea Phu My by quarter

Source: Rong Viet Securities

Figure2: Monthly urea selling price (VND/kg)



Source: Agromonitor

The total urea sales volume decreased by 14% to 691 thousand tons as the plant had a 72-day maintenance in 1H2019. The ASP slightly dropped 1.3% to VND6.950 per kg. Following that, the urea's revenue declined 16.7% YoY and the gross margin decreased from 27.8% to 27.4%.

For 2020, we forecast that the sale volume will increase by 12.9% to 780 thousand tons, lower than the normal level in previous years because the plant will do the maintenance in late 2020. Besides, we also think that the weak fertilizer demand will hit sales activity. ASP is predicted to drop 3% to VND6,743 per kg. Although the urea price is forecasted to rise as the spreading of the Corona Virus will limit the supply from China, the weak demand will prevent the improvement of gross margin. It will stay at 27.5%, based on the assumption of increasing tariff from 1.4USD/MMBTU to 1.43USD/MMBTU. **So, revenue of urea and gross profit is likely to be VND5,258bn and VND1,418bn respectively in 2020.**

Reducing loss for NPK plant by changing the depreciation time

In 2019, DPM extended the depreciation time for NPK plant from 10 years to 15 years to support the business results amid fierce competition. The NPK plant only ran at 32% of its capacity, equivalent to a production volume of 81 thousand tons, which is lower than its 2019 target (150 thousand tons).

ASP slightly dropped 3.6% to VND8,831 per kg. The total revenue reached VND677 bn. In spite of changing the depreciation time from 10 years to 15 years, the NPK plant still incurred a loss of VND119 bn with a negative gross margin (-3.8%).

For 2020, we project that the DPM can sell 135 thousand tons of NPK, up 77% YoY but still lower than the 2020 company's target because the NPK is still in low demand and has high competition. The ASP will remain at around VND8,872 per kg. **So total sales will be VND1,192 bn. However, the gross margin will still not be enough to cover expenses. Thus NPK plant will be in the red in our opinion**.

Final lower tariff and insurance claim

The 2019 tariff was applied temporarily and increased by 42% so DPM could get an extraordinary profit in case it reaches a deal with PVGas. The final agreement for the tariff has not been ratified yet, but will be lower than 1.4USD/MMBTU. Per our estimation, DPM could record VND5bn for every 0.01USD/MMBTU lower in the 2019 tariff. It means that DPM can get a maximum of VND186bn if the official tariff is 1USD/MMBTU in 2019.

Related to the 72-day shut down in 2019, DPM can get two amounts from (1) facility insurance ~ VND30bn (2) loss from the business that has not been disclosed.

Temporary tariff but the business should be still profitable

The tariff was temporary and quite high in 2019 and probably also for 2020. It will impact negatively the gross margin. It will be seen as a downside risk for the company.

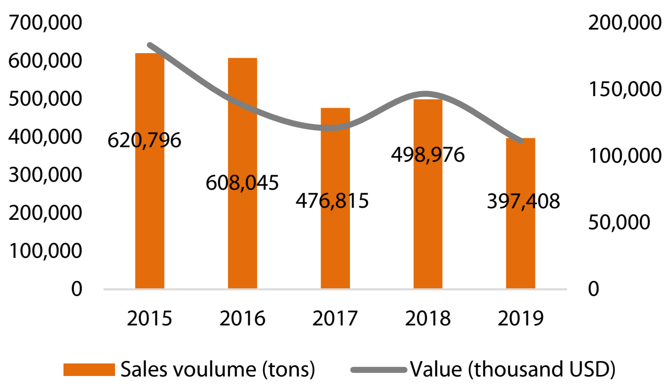
As DPM is a leading company in the fertilizer market and fertilizer product plays an important role in the national security of food supplies, we believe that the tariff will be determined at a level so that the company can generate a profit while maintaining a stable cash dividend.

Forecast and valuation

For 2020, we project revenue and net profit for the parent company at VND 8,719 bn (+13.5% YoY) and VND 619 bn (+63.7% YoY), respectively, equivalent to an EPS of VND1,344. **Besides, including the official lower 2019 tariff and insurance claim, the NPATMI could be higher than our forecast.**

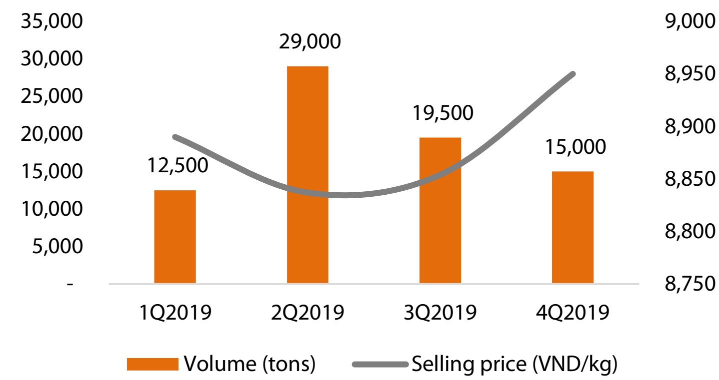
In terms of valuation, we combine P/E and FCFF to evaluate the DPM share price. Currently, DPM is operating in a saturated segment and the business expansion of the NPK segment seems not to be so promising. As a result, future growth will be limited. We use multiple P/E of 9x, the lowest one recently. So we come up with a price of VDN12,097. In term of FCFF, we value DPM's share at the price of VND15,016. With 50% proportion for each method, we think the fair price for DPM should be VND13,600 per share.

Figure 1: Sales volume (LHS) and imported value (RHS) of Urea



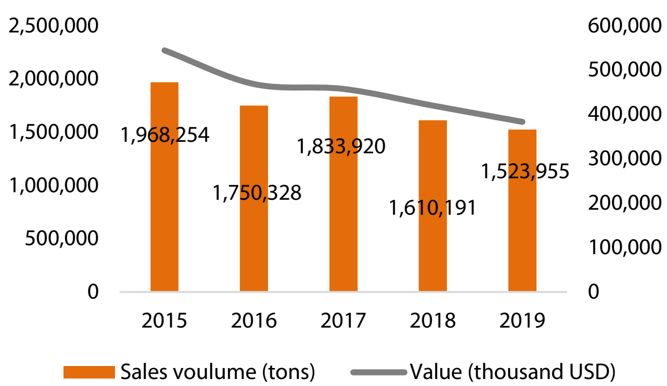
Source: Rong Viet Securities

Figure 2: Sales volume (LHS) and selling price (RHS) of NPK Phu My



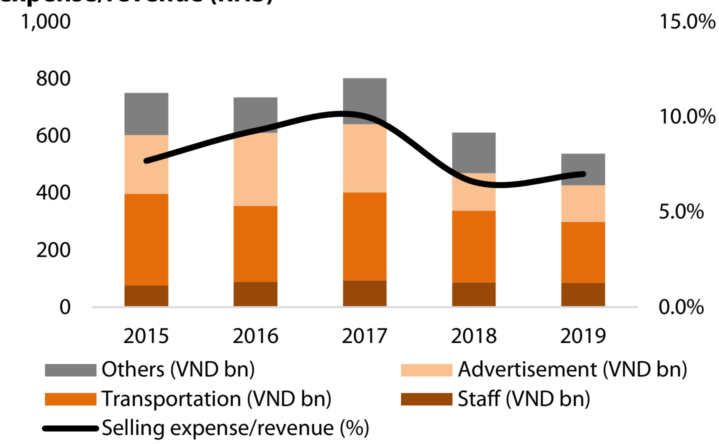
Source: Rong Viet Securities

Figure 3: Volume (LHS) and imported value (RHS) of Chinese Fertilizer



Source: Rong Viet Securities

Figure 4: Selling expense breakdown (LHS) and selling expense/revenue (RHS)



Source: DPM

VND in billions

Income statement	FY2018	FY2019	FY2020F	FY2021F
Revenue	**9,297**	**7,684**	**8,719**	**8,886**
COGS	7,398	6,281	6,947	6,979
Gross profit	**1,899**	**1,402**	**1,773**	**1,906**
Selling expense	612	555	628	640
G&A expense	486	415	471	480
Financial income	124	140	176	173
Financial expense	74	108	87	79
Other income/loss	16	1	3	3
Gain/(loss) from JV	3	2	2	2
PBT	**871**	**467**	**768**	**886**
Tax expense	158	78	131	151
Minority interests	13	11	18	21
PAT	**700**	**378**	**619**	**714**
EBIT	801	432	674	787
EBITDA	1,321	994	1,180	1,312

%

Financial ratio	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	16.3	-17.4	13.5	1.9
Operating income	53.3	-24.7	18.7	11.2
EBITDA	19.6	-46.1	56.0	16.7
PAT	0.7	-46.0	63.9	15.4
Total assets	8.5	2.7	-2.2	0.1
Equity	2.7	-1.1	1.7	2.6
Profitability (%)				
Gross margin	20.4	18.2	20.3	21.5
EBITDA margin	14.2	12.9	13.5	14.8
EBIT margin	8.6	5.6	7.7	8.9
Net margin	7.5	4.9	7.1	8.0
ROA	6.3	3.3	5.5	6.4
ROE	8.7	4.7	7.6	8.6
Efficiency (x)				
Receivable turnover	17.9	26.5	16.7	16.7
Inventory turnover	4.4	4.7	4.2	4.5
Payable turnover	5.9	3.4	4.5	5.0
Liquidity (x)				
Current	3.5	3.0	3.5	4.0
Quick	2.4	2.3	2.5	3.0
Solvency (%)				
Total debt/equity	15.3	15.5	13.8	12.2
Current debt/equity	2.5	2.2	2.2	2.4
Long-term Debt/equity	12.8	13.3	11.6	9.8

VND in billions

Balance sheet	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	1,717	2,977	2,465	2,930
Short term investment	955	1,035	1,035	1,000
Accounts receivable	521	289	523	533
Inventories	1,663	1,351	1,667	1,535
Other current assets	317	292	292	307
Tangible fixed assets	4,840	4,318	4,018	3,698
Intangible fixed assets	860	858	852	846
Long term investment	47	45	47	49
Other non-current assets	215	275	288	303
Total asset	**11,134**	**11,440**	**11,189**	**11,202**
Account payable	1,256	1,834	1,528	1,396
Short term borrowings	202	177	180	200
Long term borrowings	1,032	1,064	943	821
Other non-current liabilities	301	134	140	147
Bonus and welfare fund	56	50	82	109
Technology -science dev fund	33	21	21	21
Total liabilities	**2,879**	**3,279**	**2,895**	**2,695**
Common stock and APIC	3,935	3,935	3,935	3,935
Treasury stock	-2	-2	-2	-2
Retained earnings	657	566	699	912
Other comprehensive income / (loss)	0	0	0	0
Investment and development fund	3,497	3,497	3,497	3,497
Total equity	**8,087**	**7,996**	**8,129**	**8,342**
Minority interest	168	165	165	165
Total resources	**11,134**	**11,440**	**11,189**	**11,202**

Valuation ratio	FY2018	FY2019	FY2020F	FY2021F
EPS (VND)	1,551	863	1,344	1,551
P/E (x)	14.4	15.0	9.2	8.0
BV (VND)	20,662	20,429	20,768	21,313
P/B (x)	1.0	1.1	0.6	0.6
DPS (VND/cp)	1,000	1,000	1,000	1,000
Dividend yield (%)	4.5	7.7	8.1	8.1

Valuation model	*Price*	*Weight*	*Average*
P/E	12,097	50%	5,878
FCFF	15,033	50%	7,517
Target price (VND)			**13,565**

Valuation history	*Price*	*Recommendation*
17/04/2019	19,300*	ACCUMULATE
31/12/2019	13,600*	ACCUMULATE

** Adjusted price*

RESULTS 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 that 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	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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