PETROVIETNAM CAMAU FERTILIZER COMPANY LIMITED

Stability from PVN 's support

NEUTRAL

Auction price	12,000
Average bid price	12,251

IPO

Sector	Fertilizer
Market Cap(VND bn)	4,120
Auction shares	128,951,300
Starting price	12,000
Charter Cap after IPO (VND bn)	5,294

Capital structure before IPO (%)

PVN	100%

Capital structure after IPO (%)

PVN	51%
Public auction	24.36%
Strategic shareholders	24.36%
Employees	0.28%

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Impressive revenue growth contrasted by disappointing earnings

Today, December 11th, the initial public offering of PetroVietnam Ca Mau Fertilizer Company Limited (DCM) took place; the firm plans to list in the HSX by the end of 1Q2015. DCM offered for auction a nearly 129 million shares or about 24.36% of its total share capital, at the reference price of VND12.000/share. The IPO came amidst oversupply in the domestic fertilizer market, which has lasted since 2013. Despite difficulties, the Company has managed to achieve impressive revenue growth rates over the years thanks to its unique product line - granular urea. DCM's selling granular urea at a competitive price has granted the Company larger market shares in its three target markets, i.e. the Mekong Delta, the Southeast region and Cambodia. In its three years of operating history, the Company has increased its shares in each market by at least 15% percentage point and Mekong Delta is currently its primary market.

Table: Fertilizer price update to 10th December 2014

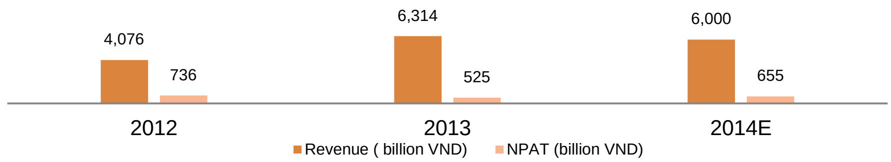
Number	Fertilizer product	Selling price (VNĐ/kg)
01	UREA (china) prilled urea	7,400
02	UREA Ca Mau granular urea	7,650
03	UREA Phu My prilled urea	7,700

Source: DCM and Rong Viet Research

DCM had seen its output increasing over the past three years. The Company expects to sell about 772.000 tons of urea by the end of 2014, up by 3.3% as compared to 2013. DCM is expected to supply the domestic market with a total capacity of 800.000 tons of granular urea each year. Currently, the plant has already operated at 95-100% its designed capacity or 2.3-2.4 thousand tons a day.

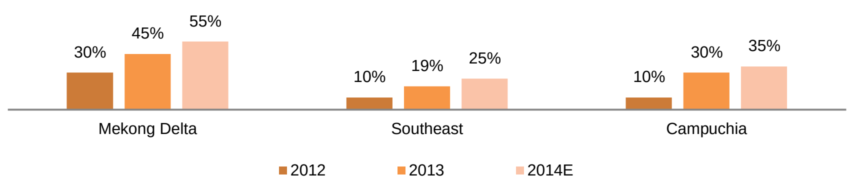
In contrast to an impressive revenue growth rate, NPAT was less optimistic with a drop of about 29% in 2013. The main reasons for lower NPAT were the higher depreciation and interest expenses and foreign exchange losses. For its plant alone, DCM invested about USD900.2 million, about 50.5% of the investment was financed with debts. Therefore, when the DCM applied for IPO, its debt-to-equity ratio was quite high at 314%, as compared with DPM's 13.4%. DCM's interest expenses rose 53% compared with 2012 last year leaving the Company with significant financial burden.

Chart: Revenue and PAT of DCM in 2012-203 and expected 2014



Source: DCM and Rong Viet Research

Chart: Market share of DCM in 2012-2013 and expected 2014



Source: DCM and RongViet Research

Competitive advantages and development stategies

To achieve an impressive market share in less than 3 years since its first operation for commercial purpose, the firm has had some crucial advantages. Firstly, DCM's core product is granular urea, the newest and the most advanced range of fertilizers worldwide, which aids plants in nutrient absorption. Granular urea is also preferred to normal urea in international consumption. Secondly, Ca Mau Fertilizer plant is located in the Mekong Delta, the biggest farming area in the country and the export gateway to Cambodia and Thailand. In addition, Ca Mau is among the largest urea consumption centers where the DCM will benefit from lower distribution cost as compared to those based in other regions. Thirdly, the firm enjoys exemption from corporate income tax until 2015 and will have to pay only 5% of income tax rate from 2016-2024.

Those competitive advantages have supported DCM hugely since its inception. Meanwhile, we also notice that the firm is currently searching for a suitable development strategy to make good use of those advantages and while finding a way around present obstacles. Recently, the firm has succeeded in implementing a debt profile restructure scheme where the Company paid half of its 100-million-dollar loan in advance and keep the other half at a lower rate, which might eventually lead to a decrease in interest expense and financial cost in total. In this IPO, PVN will put another VND 920 billion on the table to help DCM lower further it interest cost and also to maintain its Debt/Equity proportions at 7:3 instead of 8:2. On the other hand, to overcome the problem of excessive supply, the Company intends to further invest in a diversity of highly value-added products such as microbial, ammonia, petrochemical and complex fertilizers. The required funds for invesment in overall are about VND6.000 billion and will be deployed between 2015 and 2020. However, the implementation of these projects depends mainly on the Company's financial capacity

PVN's favorable gas price and above-twelve-percent ROE promise are seen temporary

The gas is transported to DCM via pipeline from the PM3 field, supplied by Ca Mau Gas, a subsidiary of PetroVietnam. The dependence on gas price input from supply contract with PVN can be viewed not only as company's advantage but also as a risky factor for the firm. According to our analysis, for 6 months in 2014, DCM's gas price input from PVN was around 4$USD/MMBTU (~2.097 VND/ton), which is lower than DPM's input 76%. As a result, the company's gross profit margin is not affected significantly by the decrease in Urea product price. As claimed by the company management, PVN group has agreed to supply gas with reasonable price so that ROE of Urea sector will maintain 12% per year (for the period of 2015-2018)

Table: Scenario for DCM to achieve ROE 12%

	Year	2014F	2015F	2016F	2017F	2018F
	ROE (%)	14%	12%	12%	12%	12%
Worst	Output price (VND/ton)	7,546	6,942	6,386	5,875	5,405
	Input price (USD/ton)	4.041	3.633	3.279	3.004	2.751
Best	Output price (VNĐ/ton)	7,546	7,395	7,247	7,102	6,96
	Input price (USD/ton)	4.041	4.462	4.43	4.38	4.327

Source: DCM and RongViet Research

Nevertheless, we are mostly concerned about DCM's overdependence on PVN's policies in term of input gas price. Therefore, we created a two scenarios to estimate the maximum price level of gas input price that DCM could receive. These scenarios are formed base on the sensitive selling price of urea. In the worst scenario, we use the World Bank forecast that the global urea price would be decreased 8%, otherwise, in the best scenario, the urea price would be decreased only 2%, similar to this year. As a result, gas input price fluctuates around 2.75 USD/MMTU to 4.46 USD/MMTU. DPM is currently using a market price for gas input (5.5 USD/MMTU), therefore, we believe that PVN could be on the losing side with this commitment during the next three years (2015-2018). Furthermore, even if the state-owned energy monopoly agrees to this, the treatment would not stretch further than that time horizon, making it a "temporary" advantage Therefore, after 2018, upon the application of market mechanism to input gas price, DCM will face a risk that its business performance, especially its gross profit margin, will not sustain.

Outlook

In 2014, DCM's business performance and market share showed positive growth rates despite the common difficulties of the fertilizer industry. Advantageous distance to primary markets, product differentiation, exemption from corporation tax and the support of PVN in combination makes a solid foundation for the stable development of the firm in the future. However, favorably priced gas input offered by PVN should be considered an advantage both temporary and potentially risky. At the average winning bid price of VND12.251/share and the trailing P/E ratio is about 8.2 times as compared to the industry average of ~8.7 times. In our opinion, this valuation is quite reasonable given that both the domestic and global fertilizer markets have been knee-deep in oversupply which situation the Company expects to last for 5 more years. With regard to the fertilizer industry, investors tend to look for stable and lucrative dividends. Yet DCM's dividend remains unknown, one the reasons we can only recommend **NEUTRAL** for this stock for now.

Exhibit: Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014F
Net Revenues	4,076	6,259	5,884
% chg		35	44
PAT	736	525	789
% chg	N/a	29	50
EBIT margin (%)	12	13	13
ROA (%)	5	4	5
ROE (%)	23	15	14
EPS (VND)	2,303	1,643	1,491
Adjusted EPS (VND)	2,303	1,643	1,491
Book value (VND)	10,737	10,000	11,169
Cash dividend (VND)	-	-	-
P/E (x)	N/a	N/a	8.0
P/BV (x)	N/a	N/a	1.1

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

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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