PetroVietnam Fertilizer and Chemicals Corp. (HSX: DPM)

The commodity price wave brings a windfall opportunity

(VND bn)	1Q-FY21	4Q-FY20	+/- qoq	1Q-FY20	+/- yoy
Net revenue	1,945	1,930	0.8%	1,697	14.6%
PAT	171	103	65.0%	105	62.9%
EBIT	205	4	5490%	125	64.4%
EBIT margin	10.5%	0.2%	1,034bps	7.3%	319bps

Source: DPM, Rong Viet Securities

1Q2021 – Profit surged due to higher selling prices and deleveraging

- Q1 revenue increased 14.6% YoY to VND 1,945 bn. Of which, urea sales is estimated to be VND 1,291 bn, up 9% YoY. GPM narrowed to 28% from 31% in 1Q2020 due to higher input gas prices. Selling prices recovered but not as much as we expected. Volume increased slightly because DPM may have delayed part of March's product for Q2 sales. Urea GPM improved to 28% (1Q2020: 26%) as part of sales in 1Q was produced in 4Q2020 with low input gas price.
- NPK sales rose 135% YoY to VND 217 bn as a result of strong increase in volume. The plant recorded a slight gross profit while suffering a loss in 1Q2020.
- Overall GPM improved to 22.2% vs 20% in 1Q2020. Along with the fall in interest payments due to deleveraging, NPAT-MI reached VND 171 bn (+63% YoY).

2Q2021 – Urea selling price peaking, supporting GPM; abnormal income from insurance compensation

- Urea supply rose from mid-May when Phu My and Ha Bac plants have been back in operation but selling price has kept climbing following world price. Selling prices, therefore, may peak in Q2, drop in Q3 before rising again in Q4 when the Winter-Spring crop starts. Sales volume will be supported by some finished products of Q1, resulting in a slight decrease in output vs Q2/2020. Overall GPM grows to 33.7% (Q2/2020: 26.2%) as selling price rise stronger than input gas price.
- For the whole year, urea selling price will increase 30% YoY, an increase of 10.2% compared to our previous forecast, which is the main factor driving up DPM's target price. Forecasts for urea output, input gas prices and assumptions for the NPK segment are kept unchanged as Q1 data is in line with forecast.
- 2021 revenue reaches VND 9,538 bn (+23% YoY). GPM 26.3%, up from 22.3% in 2020 due to a surge in urea price. NPAT-MI comes at VND 1,250 bn (+80.3% YoY) and EPS VND 3,172/share.

Valuation and recommendation

We turn more optimistic on DPM's ability to increase urea price in 2021 based on new market developments. For the following years, urea price may fluctuate around VND 7,100-7,200/kg as in normal periods. In long term, DPM does not have much growth potential but can maintain a cash dividend of VND 1,000/share, or 5.4% yield based on current market price. Using FCFF and P/E methods, our target price rises from VND 21,400/share to ***VND 25,400/share****. With an expected cash dividend of VND1,700/share within next 12 months, total return is 38%, based on the closing price on June 7, 2021. We recommend to* ***BUY*** *DPM. In short term, with the urea peaking and the insurance claim payment, Q2/2021 PAT is forecasted to increase by 96.4% to VND605 bn and the 4-quarter trailing EPS is estimated at VND2,712/cp. The stock price, at a 5-year average PE of 11x, could surge to VND29,700/share in the short term to reflect the outstanding Q2 performance.*

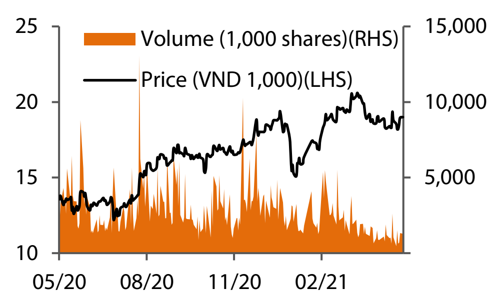
BUY	+38%
Target price (VND)	25,400
Current market price (VND)	19,650
Cash dividend within next 12 months	*1,700*

Stock Info

Sector	Chemical
Market Cap (VND billion)	7,122
Current Shares O/S	391.3
Avg. Daily Volume (in 20 sessions)	1,170,455
Free float (%)	32.1
52 weeks High	20,600
52 weeks Low	12,200
Beta	0.8

	FY2020	Current
EPS	1,771	1,940
EPS Growth (%)	128.2	76.2
Diluted EPS	1,771	1,940
P/E	12.1	9.4
P/B	0.9	0.9
EV/EBITDA	3.4	4.6
Cash dividend yield (%)	5.3	5.4
ROE (%)	8.6	9.2

Price performance



Major Shareholders (%)	
PetroVietnam	59.6
Foreign ownership room (%)	35.7

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Exhibit 1: 1Q2021 Results

(VND Bn)	1Q-FY21	4Q-FY20	+/- qoq	1Q-FY20	+/- yoy
Net revenue	1,945	1,930	0.8%	1,697	14.6%
Gross profit	433	387	11.7%	339	27.7%
SG&A	228	384	-40.6%	214	6.4%
Operating income	205	4	5490.0%	125	64.4%
EBITDA	339	143	137.9%	262	29.5%
EBIT	205	4	5490.0%	125	64.4%
Financial expenses	18	19	-2.3%	28	-34.2%
- Interest Expenses	*18*	*18*	*-2.9%*	*27*	*-34.3%*
Dep. and amortization	135	139	-3.1%	138	-2.1%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	215	133	62.5%	129	67.2%
PAT	171	103	65.0%	105	62.9%
(*) Adjusted PAT	171	103	65.0%	105	62.9%

Source: DPM, Rong Viet Securities

Exhibit 2: 1Q2021 Performance Analysis

Particulars	1Q-FY21	4Q-FY20	+/- qoq	1Q-FY20	+/- yoy
Profitability Ratios (%)					
Gross Margin	22.2%	20.1%	217bps	20.0%	228bps
EBITDA Margin	17.5%	7.4%	1,006bps	15.4%	201bps
EBIT Margin	10.5%	0.2%	1,034bps	7.3%	319bps
Net Margin	8.8%	5.4%	342bps	6.2%	260bps
Adjusted Net Margin	8.8%	5.4%	342bps	6.2%	260bps
Turnover *(x)					
-Inventories	4.2	4.3	-0.1	4.0	0.2
-Receivables	18.5	20.8	-2.3	19.2	-0.7
-Payables	4.5	4.7	-0.3	3.7	0.8
Leverage (%)					
Total Debt/ Equity	26.8%	24.0%	282bps	24.8%	206bps

Source: Rong Viet Securities

Exhibit 3: 4Q/2018 Performance Forecast

Particulars (VND Bn)	2Q-FY21	+/- qoq	+/- yoy
Revenue	2,700	38.8%	23.9%
Gross profit	910	110%	59.6%
EBIT	613	199%	78.7%
NPAT	605	253%	96.4%

Source: Rong Viet Securities

Assumptions:

- Urea and NPK contribute 72% and 10% of total revenue, respectively. Of which, urea volume and selling price reaches 216,000 tons (-6.7% YoY) and VND 9,000/kg (+54% YoY). For NPK, volume and selling price are 31,000 tons (-6.6% YoY) and VND 8,740/k (approximately Q2/2020).

- Input gas price USD 6.41/MMBTU (+36.4% YoY).

- GPM 33.7%, vs. 26.2% in Q2/2020.

- PAT surges due to (1) the increase in selling price offsetting the rise in input gas price, (2) SG&A expenses rise at a lower rate than revenue, and (3) abnormal income of VND 133 bn from insurance compensation. Excluding the one-off, PAT comes at VND 499 bn, +62% YoY.

Update

Q1/2021: Strong profit growth thanks to good selling prices and deleveraging

Agricultural activities have returned following the normalization of socio-economic life in many countries. Low domestic fertilizer inventories and China's restriction on fertilizer exports amid high global demand has pushed up domestic and world fertilizer prices sharply. As a result, 1Q2021 total revenue increased 14.6% YoY to VND 1,945 bn. Of which, two main product lines, urea and NPK, recorded sales of VND 1,291 bn (+9% YoY) and VND 217 bn (+135% YoY), respectively.

Urea segment: Sales reached VND 1,291 bn, up 9% YoY. Gross profit margin expanded to 28% from 26% in 1Q2020.

In Q1, urea prices sometimes jumped to more than VND 8,000/kg but the average selling price in Q1 was just VND 6,822/kg, up 7.4% YoY and 10.5% QoQ. Sales volume reached 189,234 tons, slightly higher by 1.5% YoY. Actual price and volume growth were lower than our forecast (26% YoY in price and 12.6% YoY in volume). With April sales volume of 66,000 tons despite a 32 days of technical maintenance from mid-April, we believe that DPM may have retained some of its production in March (when prices were high) to support Q2 revenue.

Gas input price in Q1 grew 24% YoY to USD 6.38/MMBTU, in line with our assumption.

Gross margin widened to 28% (Q1/2020: 26%) because of sales volume in Q1 including part of finished products in Q4/2020 (we estimate 26,000 tons) when input gas price was low at 5.43 USD/MMBTU.

NPK segment: Sales increased strongly by 135% YoY to VND 217 billion. The plant made a small gross profit.

NPK price rose slightly 3.2% QoQ and was similar to the same period last year (VND 8,500/kg) due to fierce competition in the NPK market. Sales volume increased 136% YoY to 25,531 tons. Thanks to better capacity utilization (40% in 1Q2021 compared to 17% in 1Q2020), the plant recorded a gross profit of about VND 2 bn while suffering a loss in the same period last year.

Revenue of other products (*NH3, UFC 85 and imported fertilizer*) decreased slightly by 1.9% YoY to VND 413 bn, but GPM of NH3 and imported fertilizer improved (NH3: 31% vs. same period 25% and imported fertilizer: 7% vs. same period 4%) due to high selling prices.

Overall, gross profit increased by 27.7% YoY with GPM improving to 22.2% vs. 20% of 1Q2020. Along with the reduction in interest payments as a result of debt reduction, NPAT-MI reached VND 171 bn, a sharp increase of 63% YoY.

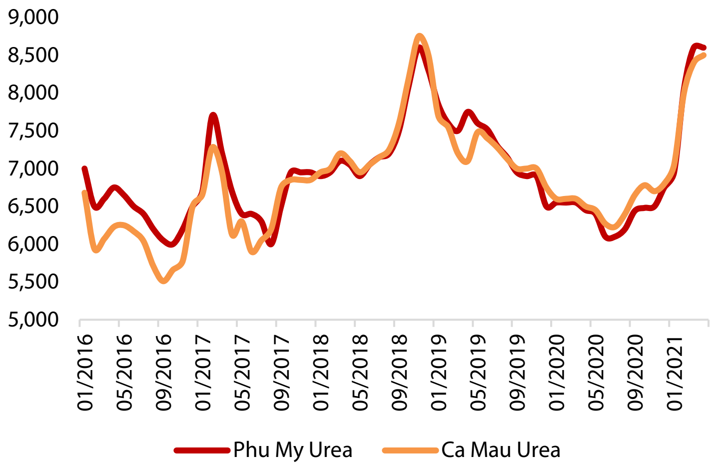
The company has yet to receive the remaining compensation payment (VND 133 bn) from PVI for the plant shutdown incident in 2019.

2021 Forecast – Urea selling price may peak in Q2; maintaining the view that input gas price will rise gradually towards year end

Urea segment – Selling price peaks in Q2, input gas prices will gradually increase towards the year end

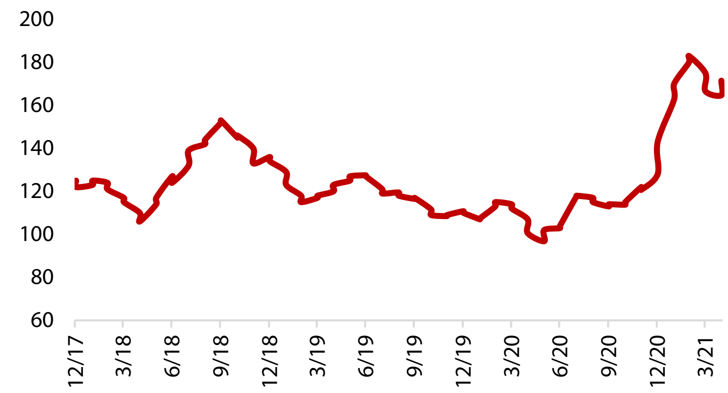
In Q2, although domestic urea supply will be higher from mid-May after Phu My and Ha Bac plants complete maintenance and resume operations, urea price continues to rise following world price because of high demand and Chinese's restrictions on fertilizer exports. DPM's average selling price in April was VND 8,500/kg and the company is optimistic about its prospects for the rest of the quarter. Coupled with the fact that selling volume will be supported by some finished products of Q1, we expect Q2 urea sales volume to drop slightly. Particularly, Q2 output and selling prices are forecast to reach 216,000 tons (-6.7% YoY) and VND 9,000/kg (+54% YoY). Selling prices and volume will decline in Q3 before rising again in Q4 as farmers enter the Winter-Spring crop, the biggest rice crop of the year.

Figure 1: Urea prices



Source: Agromonitor, Rong Viet Securities

Figure 2: Profercy's world Nitrogen (the major element in urea) index

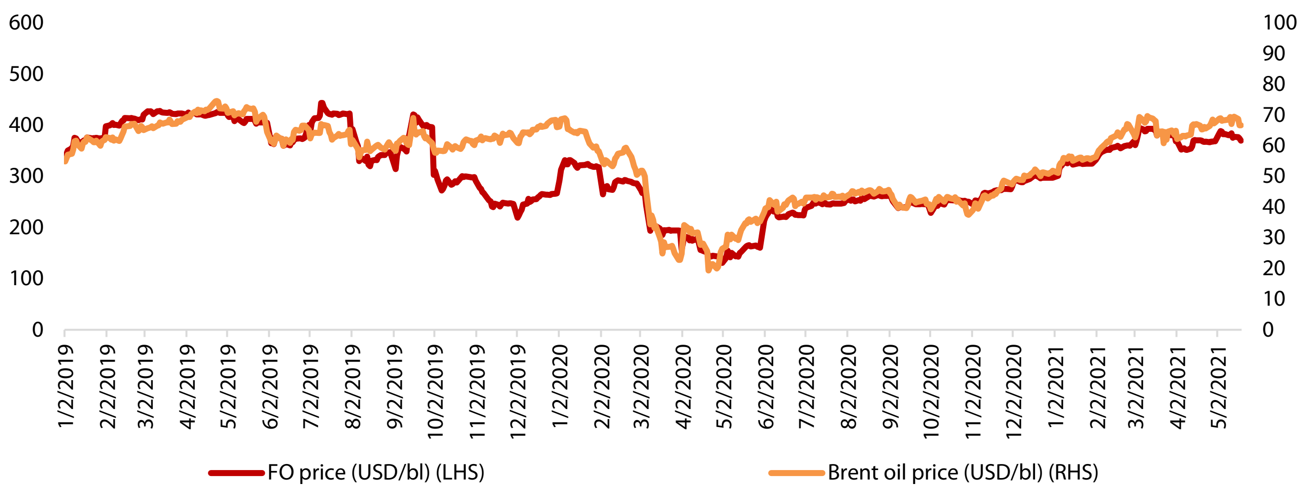


Source: Profercy, Rong Viet Securities

For the whole year, urea selling price is forecast to grow 30% YoY, reaching VND 8,035/kg, up 10.2% compared to our previous forecast and is the main factor driving up DPM's target price. We keep our assumption of full year urea production as the company transferred part of its output from Q1 to Q2.

Assumptions of input gas prices are also kept unchanged because the actual average input gas price in Q1 was in line with forecast. We are of the view that gas prices will gradually increase towards year end following the recovery of socio-economic activities globally. Specifically, input gas prices for the whole year (including tariff) will surge 33% YoY to reach USD 6.68/MMBTU. The gas price in Q2 was 6.41 USD/MMBTU, up 36.4% YoY compared to the low base of the same period when the pandemic began to break out globally.

Figure 3: Brent oil price and FO price



Source: Bloomberg, Rong Viet Securities

NPK segment – Continued net loss due to fierce competition

High competition in the NPK fertilizer market continues to limit the potential for price increases. Q1 results in terms of volume and selling price were in line with our assumptions. Therefore, we maintain our forecasts for the average selling price of NPK in 2021 at VND 8,800/kg (+3% YoY) and sales volume of 113,000 tons (+19% YoY). Similar to 2020, the thin GPM of NPK made it impossible for the company to record a net profit in this segment.

The company expects to record an insurance compensation of VND 133 bn in Q2.

In general, we estimate 2021 revenue at around VND 9,538 bn, up 22.9% YoY. GPM is 26.3%, up from 22.3% in 2020 due to the jump in urea selling price. NPAT-MI comes at VND 1,250 bn, up 80.3% YoY and EPS VND 3,172/share.

VND Billion

INCOME STATEMENT	FY2019	FY2020	FY2021F	FY2022F
Revenue	**7,684**	**7,762**	**9.538**	**9.159**
COGS	6,281	6,032	7.028	7.419
Gross profit	**1,402**	**1,730**	**2.510**	**1.740**
Selling Expense	555	655	668	696
G&A Expense	415	409	477	485
Finance Income	140	180	157	183
Finance Expense	108	93	83	75
Other profits	1	95	133	0
PBT	2	2	2	2
Prov. of Tax	**467**	**850**	**1.575**	**669**
Minority's Interest	78	147	315	134
PAT to Equity S/H	11	10	10	10
EBIT	**378**	**693**	**1.250**	**525**
EBITDA	432	666	1.365	559

%

FINANCIAL RATIO	FY2019	FY2020	FY2021F	FY2022F
Growth (%)				
Revenue	-17.4	1.0	22,9	-4,0
Operating Income	-24.7	22.5	53,1	-42,3
EBITDA	-46.1	54.2	104,9	-59,1
PAT	-46.0	83.5	80,3	-58,0
Total Assets	2.7	-1.2	3,5	0,9
Equity	-1.1	1.1	5,6	1,5
Profitability (%)				
Gross margin	18.2	22.3	26,3	19,0
EBITDA margin	12.9	15.7	19,5	11,7
EBIT margin	5.6	8.6	14,3	6,1
Net margin	4.9	8.9	13,1	5,7
ROA	3.3	6.1	10,7	4,4
ROE	4.7	8.6	14,6	6,1
Efficiency				(times)
Receivable Turnover	26.6	23.1	25,0	22,2
Inventory Turnover	4.7	4.1	4,3	4,3
Payable Turnover	3.4	3.4	4,0	4,0
Liquidity				(times)
Current	3.0	3.3	3,6	3,6
Quick	2.3	2.5	2,8	2,8
Finance Structure (%)				
Total Debt/Equity	15.5	13.0	11,4	9,8
Current Debt/Equity	2.2	1.9	2,3	2,3
Long-term Debt/Equity	13.3	11.1	9,1	7,5

VND Billion

BALANCE SHEET	FY2019	FY2020	FY2021F	FY2022F
Cash and cash equivalents	2,977	2,279	2.769	2.647
Short-term investments	1,035	1,935	1.943	2.351
Accounts receivable	289	336	382	412
Inventories	1,351	1,468	1.617	1.706
Other current assets	292	291	291	305
Property, plant & equipment	4,318	3,812	3.511	3.190
Intangible assets	858	844	833	822
Long-term investments	45	47	49	52
Other non-current assets	275	285	300	315
Total assets	**11,440**	**11,298**	**11.693**	**11.801**
Accounts payable	1,834	1,753	1.757	1.855
Short-term borrowings	177	150	200	200
Long-term borrowings	1,064	900	778	652
Other non-current liabilities	134	134	141	148
Bonus and Welfare fund	50	77	80	81
Technology-science, dev. fund	21	33	33	33
Total liabilities	**3,279**	**3,048**	**2.989**	**2.969**
Common stock and APIC	3,935	3,935	3.935	3.935
Treasury stock (enter as -)	-2	-2	-2	-2
Retained earnings	566	657	1.111	1.239
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	3,497	3,497	3.497	3.497
Total equity	**7,996**	**8,087**	**8.541**	**8.669**
Minority Interest	**165**	**163**	**163**	**163**

VALUATION RATIO (*)	FY2019	FY2020	FY2021F	FY2022F
EPS (dong)	863	1,557	3.172	1.332
P/E (x)	15.0	12.1	5,9	14,1
BV (dong)	20,429	20,661	21.822	22.148
P/B (x)	0.6	0.9	0,9	0,8
DPS (dong/cp)	1,000	2,000	1.000	1.000
Dividend yield (%)	7.7	10.6	5,4	5,4

VALUATION	Price	Weight	Average
FCFF	15,843	50%	7,921
P/E	34,887	50%	17,443
Target price (VND)			**25,365**

VALUATION HISTORY	Price	Recommendation	Period
8/2020	15,000	Neutral	1 year
12/2020	17,000	Accumulate	1 year
3/2021	21,400	Accumulate	1 year

RESULT 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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