Petrovietnam Fertilizer & Chemicals Corp. (HSX: DPM)

High urea price to ease the negative effect of rising gas price

(VND bn)	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Net revenue	1,930	1,955	-1.3%	2,285	-15.5%
PAT	103	182	-43.2%	234	-55.8%
EBIT	4	198	-98.2%	259	-98.6%
EBIT margin	0.2%	10.1%	-994bps	11.3%	-1,116bps

Source: DPM, Rong Viet Securities

FY2020 – Outstanding performance backed by a slump in input gas prices

In 4Q2020, urea selling volume was proactively reduced as DPM anticipated better pricing opportunities in 1Q2021. A combination of rising gas prices and declining fertilizers ASP caused gross profit margin (GPM) to shrink to 20.1% vs. 24.4% in 4Q2019. The preparation for sales in 1Q2021 and spending on R&D and internal activities resulted in a rise in selling and administration expenses. The company also recorded an abnormal income of VND 87 bn from an insurance claim payment. In sum, 4Q2020 revenue declined 15.5% YoY to VND 1,930 bn and PAT fell 55.1% YoY to VND 106 bn.

For the whole year, stronger reduction in input gas prices than in fertilizers selling prices amid the pandemic brought a surge of 78% in PAT to VND 693 bn, while revenue stayed flat at VND 7,762 (+1% YoY). GPM margin expanded to 22.3% from 18.2% in 2019.

FY2021 – High urea price to curb the negative effect of rising gas price; possible profit jump in 1Q2021

Boosted by the recovery in demand for produce globally, shooting up urea prices in the first months of the year can outweigh surges in input gas prices, allowing for an outstanding profit in 1Q. After that, adjustments in demand can cool down urea prices but gas prices are likely to stay high, diminishing the positive effect of high urea prices on profit. The urea plant maintenance in 2Q will cause a slight fall in selling volume compared to 2020. NPK possibly continues its pale outlook and negative efficiency in the domestic fiercely competitive market. Nevertheless, an abnormal income of VND 133 bn from insurance claim payment will partly save the bottom line. In brief, revenue will grow 14.4% YoY to VND 8,880 bn and PAT will rise 4.7% to VND 726 bn. GPM possibly falls to 21.3% from 22.3% in 2020.

Valuation and recommendation

The 1Q2021 possibly outstanding performance may not last long into the next quarters, given the rapid recovery of gas prices as global energy consumption is growing more rapidly than supply. *For the whole year, we think rises in fertilizer prices may not be large enough to offset the strong increase in gas costs. In the long-term, DPM has not much growth potential but is merely a dividend payer with cash dividend stable at VND 700-1,000/share, equivalent to a dividend yield of 3.5%-5.1% at the current market price. Combining the FCFF and P/E methods, we raise the target price for DPM from VND 17,000/share to **VND 21,400/share**. With an expected cash dividend of VND 1,300/share in the next 12 months, the total return is 18%, based on the closing price of March 26th, 2021. We recommend to **ACCUMULATE** DPM.*

ACCUMULATE +18%

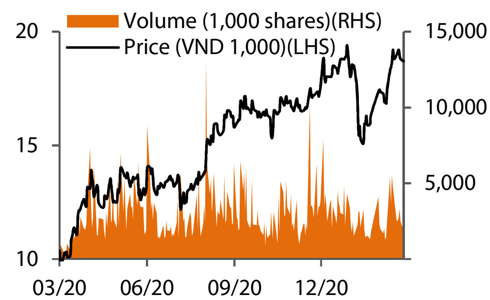
Target price (VND)	21,400
Current market price (VND)	19,300
Cash dividend in the next 12 months	*1,300*

Stock Info

Sector	Chemical
Market Cap (VND billion)	7,317.9
Current Shares O/S (million)	391.3
Avg. Daily Volume (in 20 sessions)	2,995,255
Free float (%)	32.1
52 weeks High	20,500
52 weeks Low	10,700
Beta	1.0

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

Price performance



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

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Exhibit 1: 4Q/2020 Results

(VND Bn)	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Net revenue	1,930	1,955	-1.3%	2,285	-15.5%
Gross profit	387	433	-10.6%	557	-30.5%
SG&A	384	235	63.1%	298	28.9%
Operating income	4	198	-98.2%	259	-98.6%
EBITDA	143	335	-57.5%	400	-64.4%
EBIT	4	198	-98.2%	259	-98.6%
Financial expenses	19	24	-20.2%	26	-28.5%
- Interest Expenses	18	21	-13.0%	27	-30.4%
Dep. and amortization	139	137	1.1%	141	-1.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	133	224	-40.9%	290	-54.3%
PAT	103	182	-43.2%	234	-55.8%
(*) Adjusted PAT	103	182	-43.2%	234	-55.8%

Source: DPM, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

	4Q-FY20	3Q-FY20	+/- qoq	4Q-FY19	+/- yoy
Profitability Ratios (%)					
Gross Margin	20.1%	22.2%	-209bps	24.4%	-431bps
EBITDA Margin	7.4%	17.2%	-976bps	17.5%	-1,013bps
EBIT Margin	0.2%	10.1%	-994bps	11.3%	-1,116bps
Net Margin	5.4%	9.3%	-395bps	10.2%	-488bps
Adjusted Net Margin	5.4%	9.3%	-395bps	10.2%	-488bps
Turnover *(x)					
-Inventories	4.3	4.3	0.0	4.7	-0.4
-Receivables	20.8	18.5	2.3	30.5	-9.7
-Payables	4.7	4.0	0.7	4.8	-0.1
Leverage (bps)					
Total Debt/ Equity	24.0%	25.1%	-112bps	25.3%	-124bps

Source: Rong Viet Securities

Exhibit 3: 1Q/2021 Performance Forecast

(VND Bn)	1Q-FY21	+/- qoq	+/- yoy
Revenue	2,545	31.9%	50.0%
Gross profit	656	69.4%	93.6%
EBIT	325	8,776.6%	161.0%
NPAT	278	161.4%	161.4%

Source: Rong Viet Securities

Assumptions:

- Urea selling volume 210,000 tons (+12.6% YoY)
- Urea ASP VND 8,000/kg (+25.9% YoY)
- Average input gas price USD 6.27/MMBTU (+22% YoY)
- Gross profit margin 25.8%, vs 20% in 1Q2020

Update

FY2020: Low natural gas prices drove gross profit margin

In 4Q2020, revenue declined 15.5% YoY to VND 1,930 bn and PAT fell 55.1% YoY to VND 106 bn due to:

- By end 2020, high logistics costs have resulted to low fertilizer imports. Anticipating that such situation will bring high selling price opportunities in early 2021, DPM proactively reduced urea selling volume (191,000 tons, -19.4% YoY).
- Gross profit margin shrank to 20.1% vs. 24.4% in 4Q2019 given (1) average input gas prices rose 9% YoY, mostly affected by higher tariffs, as Bach Ho – Rong Doi Moi (the source that has the lowest tariff) reserves are declining quickly, and (2) Urea ASP decreased 3.4% YoY and NPK ASP fell 8% YoY.
- Selling expenses rose by 16.4% YoY as the company prepared for the high season of 1Q2021.
- Administration expenses surged 55.2% YoY due to an accrual expense of VND 20 bn for R&D in 2021-2025 period and spending on internal activities which were delayed during the year because of the pandemic.
- An abnormal income of VND 87 bn from an insurance claim payment for the 72-day shutdown in 2019 (VND 80 bn) and for Vung Ang storage (VND 7 bn).

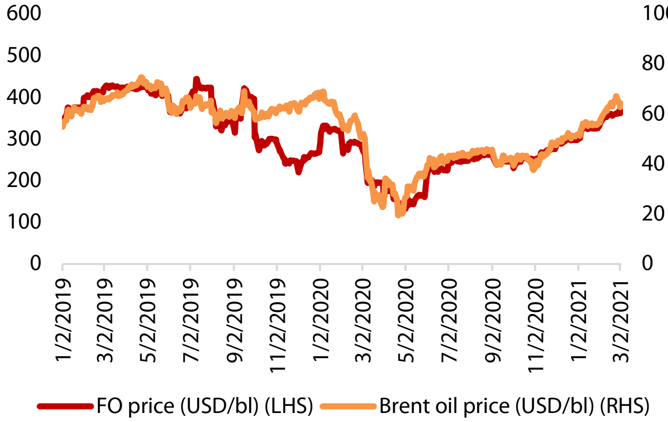
Table 1. 4Q2020 and 2020 performance

Unit: VND bn	4Q2020	4Q2019	% change	2020	2019	% change
Net revenue	**1,930**	**2,285**	**-15.5%**	**7,762**	**7,684**	**1.0%**
Gross profit	**387**	**557**	**-30.5%**	**1,730**	**1,402**	**23.4%**
Gross profit margin	*20.1%*	*24.4%*		*22.3%*	*18.2%*	
GPM of urea	*29.0%*	*26.0%*		*30.0%*	*26.0%*	
Selling expenses	-235	-202	16.4%	-655	-555	18.0%
G&A expenses	-148	-96	55.2%	-409	-415	-1.5%
Financial income	62	59	3.8%	180	140	28.3%
Financial expenses	-19	-26	-28.5%	-93	-108	-14.0%
Interest expenses	*-18*	*-27*	*-30.4%*	*-88*	*-107*	*-17.2%*
Other profits	85	-4		95	1	
PAT	**106**	**237**	**-55.1%**	**693**	**389**	**78.1%**

Source: DPM, Rong Viet Securities

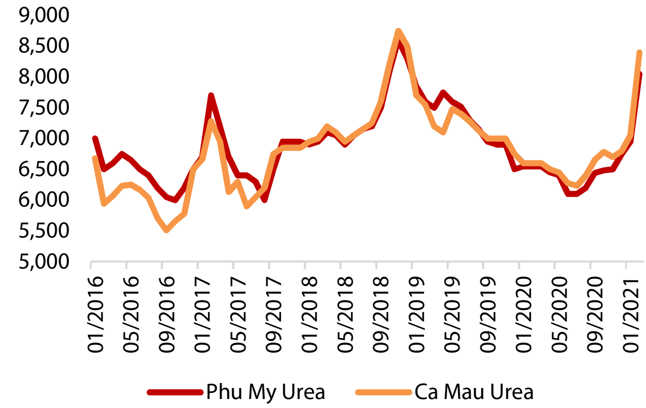
For the whole year 2020, revenue totaled VND 8,481 billion (~92% of target and +8% YoY), of which fertilizers revenue was VND 7,762 (+1% YoY) and the rest were financial income and compensation payment for land use rights of 6.2 hectares in Ca Mau. Although the total fertilizer and chemical selling volume increased 13% YoY to 1.23 mn tons, fertilizers and chemical sales showed no growth because of lower price of key products (urea and ammonia selling prices dropped 12% YoY and 5% YoY, respectively), and NPK missed its sales target (94,488 tons, ~52% target and +23% YoY). However, gross profit rose 23.4% YoY to VND 1,730 bn and the gross profit margin expanded to 22.3% from 18.2% in 2019, driven by the larger reduction in input gas prices (-19% YoY) compared to the drop in ASP.

Figure 1: Brent oil price and FO oil price



Source: Bloomberg, Rong Viet Securities

Figure 2: Phu My urea and Ca Mau urea price (VND/kg)



Source: Agromonitor, Rong Viet Securities

The temporary gas transportation tariff increased 22% YoY to USD 1.74/ MMBTU but was lower than our assumption (USD 1.9/ MMBTU). Average gas price (including tariff and VAT) was approximately USD 5.03/ MMBTU. 2020 tariff is going to be finalized by the end of April 2021 but the company believes it would not change significantly.

Urea production volume was 866,000 tons, +22% YoY because the Phu My urea plant operated beyond its designed capacity (840,000 tons/year). As a reminder, the plant was shut down for maintenance for 72 days in 2019, producing 707,900 tons. In 2020, urea selling volume increased 20% YoY to 827,000 tons with export volume reaching 71,000 tons (mainly to India), a surge compared to 1,300 tons in 2019 as high grain prices in 2020 encouraged farmers to increase production and India has stopped buying Chinese fertilizers amid China-India political tensions.

2021 outlook - High urea price partly offsets rising gas price to save the bottom line; possible profit jump in 1Q2021

We estimate 2021 revenue of fertilizers and chemicals to be VND 8,880 bn, +14.4% YoY. Gross profit margin will be 21.3%, down from 22.3% in 2020. Profit after tax will be VND 726 bn, +4.7% YoY and EPS VND 1,842/share. Specifically, we forecast a spike in 1Q2021 (please refer to 1Q2021 forecast on page 2) as we expect that the rise in input gas prices can be covered by better urea selling prices, together with a higher selling volume, vs. 1Q2020.

***Urea:* High urea price partly offsets rising gas price to save the bottom line**

According to data from Agromonitor, the average domestic price of Phu My urea in February, VND 8,050/kg, increased by 30% compared to the average of 4Q2020, 23% compared to February 2020 and 32% compared to the average price for the whole year 2020. A combination of the following factors could be the cause for this:

(1) High demand from both global and local markets. In global market, rising demand for grain and oilseed for farming in China is boosting production of these products. In local market, favorable weather encourages farmers to expand rice, fruits and industrial trees production to meet the world's recovering consumption. Consequently, demand for urea surges.

(2) Supply shortage in China. Urea's raw material (coal and natural gas) fell short because China has stopped importing Australian coal and increasingly used natural gas for electricity production. In addition, many of China's fertilizers plants are still closed due to serious damages caused by the historic flood in 2020. In terms of imported fertilizer, China is the largest supplier, accounting for 40% market share.

(3) Transportation difficulties. Importing fertilizers is difficult due to the empty container shortage.

However, the rapid increase in fertilizers prices is putting stresses on the domestic agriculture sector by increasing production costs while the rise in product prices is not large enough to compensate. We think the cost burden may discourage demand for fertilizers and cause some price adjustments in the coming time.

With that in mind, we expect 2021 urea ASP to rise 18% YoY to VND 7,300/kg. Still, this is much better than our previous forecast, where we assumed 2021 urea ASP to rise marginally by 3% YoY. Total selling volume will be 796,000 tons, declining 3.7% YoY as there will be an one-month maintenance in 2Q.

High oil prices to put pressure on ure's input cost. Oil prices have now risen to USD 65-66/barrel, four times higher than the lowest price in April 2020 (ignoring the incident when oil prices fell to a negative level). Boosted by socioeconomic activities, global energy consumption is growing more rapidly than supplies from OPEC+, shale oil producers and Iran. Natural gas prices (pegged to MFO oil prices) used as raw materials for urea plants have recovered strongly by 25% in the first two months of the year compared to the average of 4Q2020. The situation of high oil price is likely to continue and will have a stronger impact in terms of increasing input costs of gas-based urea plants in the next quarters.

As a result, we expect that DPM's 2021 input gas price may increase 33% YoY with oil price at USD 65/bl vs. USD 46/bl in our old forecast. Meanwhile, we reduce our assumption of transportation tariff from USD 1.94/MMBTU to USD 1.9/MMBTU (similar to DPM's assumption) as the 2020 actual temporary tariff was lower than our assumption. The tariff is assumed to grow at a rate of 2%/year until 2025. It should be noted that the contract of gas purchase for the 2021-2025 period between DPM and GAS has not been finalized and the final tariff may be different from our assumptions.

Table 2: Assumptions on input gas prices 2021-2025

Year	2021	2022	2023	2024	2025
Oil price (USD/bl)	65	68	70	72	74
FO price (USD/MMBTU)	368	386	398	409	421
Tariff (USD/MMBTU)	1.90	1.94	1.98	2.02	2.06

Source: Rong Viet Securities

NPK: fierce competition continues to hurt the bottom line

High competition in the NPK market will limit the rising potential of selling price. We expect 2021 NPK's ASP to recover slightly 3% YoY to VND 8,800/kg. Selling volume comes at 113,000 tons (+19% YoY), equivalent to 45% of capacity. Similarly to 2020, thin gross profit margin of the NPK segment will not allow the company to record a profit from the group.

The rest of the insurance claim payment (VND 133 bn) will be received in 2021 (VND 100 bn in our old forecast).

VND Billion

INCOME STATEMENT	FY2019	FY2020	FY2021F	FY2022F
Revenue	**7,684**	**7,762**	**8,880**	**9,361**
COGS	6,281	6,032	6,989	7,503
Gross profit	**1,402**	**1,730**	**1,890**	**1,858**
Selling Expense	555	655	749	789
G&A Expense	415	409	468	493
Finance Income	140	180	157	183
Finance Expenses	108	93	83	75
Other income/loss	1	95	136	0
Gain/(loss) from JV	2	2	3	3
PBT	**467**	**850**	**887**	**686**
Prov. of Tax	78	147	151	117
Minority's Interest	11	10	10	10
PAT to Equity S/H	**378**	**693**	**726**	**559**
EBIT	432	666	674	575
EBITDA	994	1,217	1,172	1,092

FINANCIAL RATIO	FY2019	FY2020	FY2021F	FY2022F
Growth (%)				
Revenue	-17.4	1.0	14.4%	5.4%
Operating Income	-24.7	22.5	-3.7%	-6.8%
EBITDA	-46.1	54.2	1.1%	-14.6%
PAT	-46.0	83.5	4.7%	-23.0%
Total Assets	2.7	-1.2	0.6%	1.7%
Equity	-1.1	1.1	-0.8%	2.0%
Profitability (%)				
Gross margin	18.2	22.3	21.3%	19.9%
EBITDA margin	12.9	15.7	13.2%	11.7%
EBIT margin	5.6	8.6	7.6%	6.1%
Net margin	4.9	8.9	8.2%	6.0%
ROA	3.3	6.1	6.4%	4.8%
ROE	4.7	8.6	9.1%	6.8%
Efficiency				(times)
Receivable Turnover	26.6	23.1	25.0	25.0
Inventory Turnover	4.7	4.1	4.3	4.5
Payable Turnover	3.4	3.4	3.6	3.6
Liquidity				(times)
Current	3.0	3.3	3.1	3.1
Quick	2.3	2.5	2.4	2.4
Finance Structure (%)				
Total Debt/Equity	15.5	13.0	12.2%	10.4%
Current Debt/Equity	2.2	1.9	2.5%	2.4%
Long-term Debt/Equity	13.3	11.1	9.7%	8.0%

VND Billion

BALANCE SHEET	FY2019	FY2020	FY2021F	FY2022F
Cash and cash equivalents	2,977	2,279	2,578	2,705
Short-term investments	1,035	1,935	1,846	2,144
Accounts receivable	289	336	355	374
Inventories	1,351	1,468	1,608	1,651
Other current assets	292	291	291	305
Property, plant & equipment	4,318	3,812	3,511	3,190
Acquired 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**	**11,371**	**11,559**
Accounts payable	1,834	1,753	1,957	2,101
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	78	79
Technology-science, dev. fund	21	33	33	33
Total liabilities	**3,279**	**3,048**	**3,187**	**3,213**
Common stock and APIC	3,935	3,935	3,935	3,935
Treasury stock	-2	-2	-2	-2
Retained earnings	566	657	591	753
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**	**8,021**	**8,183**
Minority Interest	**165**	**163**	**163**	**163**

VALUATION RATIO (*)	FY2019	FY2020	FY2021F	FY2022F
EPS (VND/sh)	863	1,557	1,842	1,419
P/E (x)	15.0	12.1	10.6	13.8
BV (VND/sh)	20,429	20,661	20,492	20,906
P/B (x)	0.6	0.9	1.0	0.9
DPS (VND/sh)	1,000	2,000	1,000	1,000
Dividend yield (%)	7.7	10.6	5.3	5.3

VALUATION MODEL	Price	Weight	Average
FCFF	18,928	50%	9,464
P/E	23,947	50%	11,974
Target price (VND/sh)			**21,438**

VALUATION HISTORY	Price	Recommendation	Period
12/2019	13,600	Accumulate	1 year
3/2020	13,600	Accumulate	1 year
8/2020	15,000	Hold	1 year
12/2020	17,000	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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