FERTILIZER

LOW DEMAND AMID HIGH PRICE

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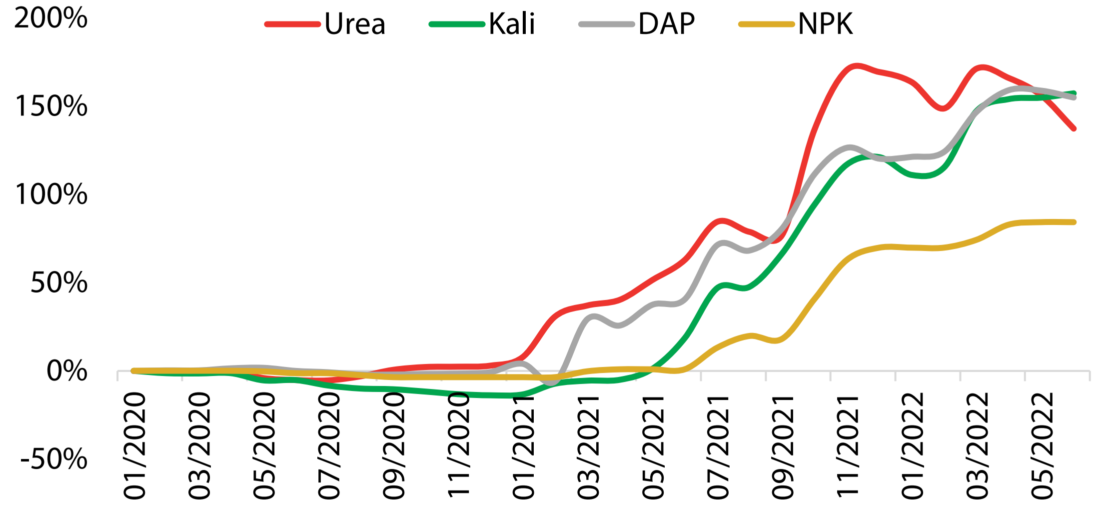
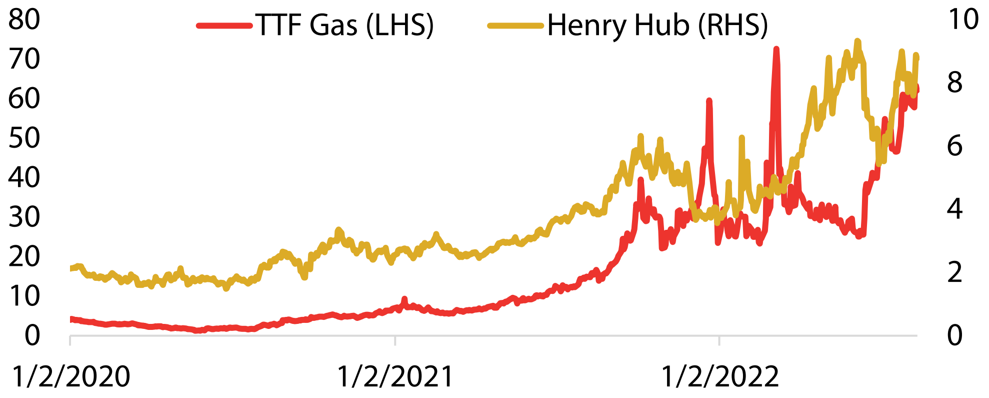
Figure 1: % change in fertilizer prices compared to 2020



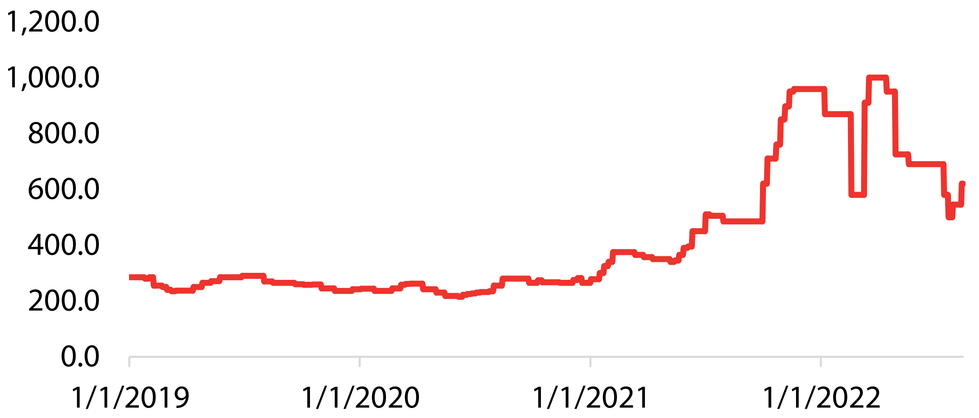
Source: Rong Viet Securities

Figure 2: Gas prices in the US and Europe (USD/MMBTU)



Source: Bloomberg

Figure 3: Urea FOB Middle East price (USD/ton)

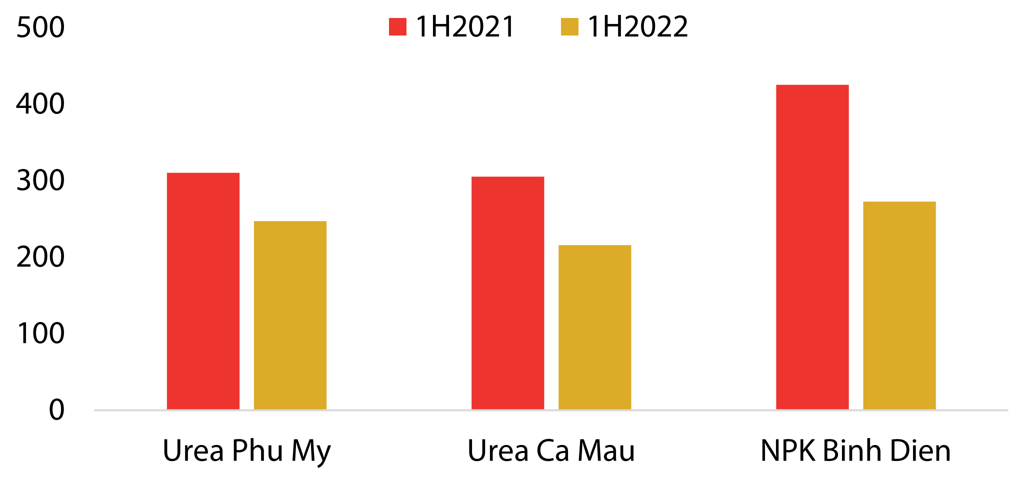


Source: Bloomberg

The export restriction in fertilizer of Russia and China drives up the prices amid the concerns of supply disruption due to the Russia – Ukraine war.

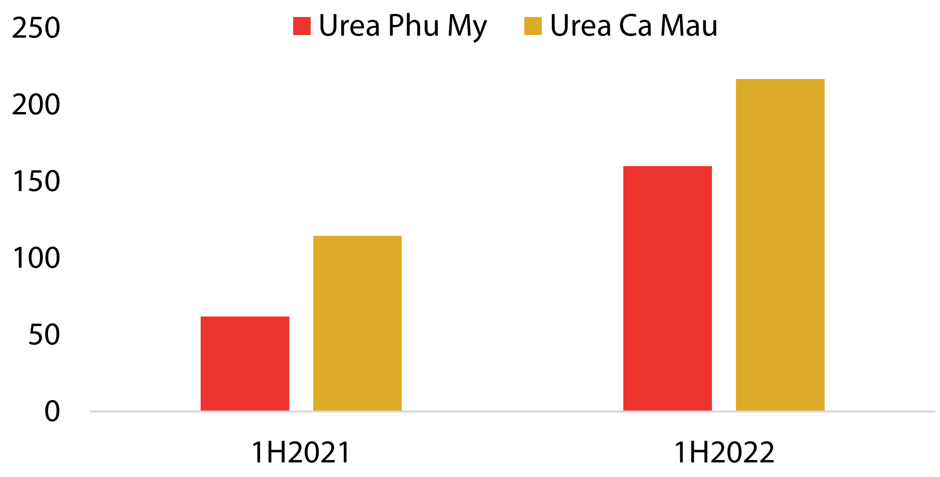
- As the top fertilizer producer, the sanctions on Russia pushed fertilizer prices to increase sharply in 1Q2022 before cooling down in 2Q2022. The price surge mainly came from Urea, DAP, and Potassium products. Previously, Russia restricted fertilizer exports until June 2022.
- China maintained a fertilizer export restriction policy to ensure domestic demand.
- The sharp increase in gas prices in Europe also pushed up the cost of fertilizer production in the region, resulting in some plant closures and supply shortages.

Figure 4: Domestic sales volume ('000 tons)



Source: Rong Viet Securities collected and estimated

Figure 5: Export volume ('000 tons)



Source: Rong Viet Securities collected and estimated

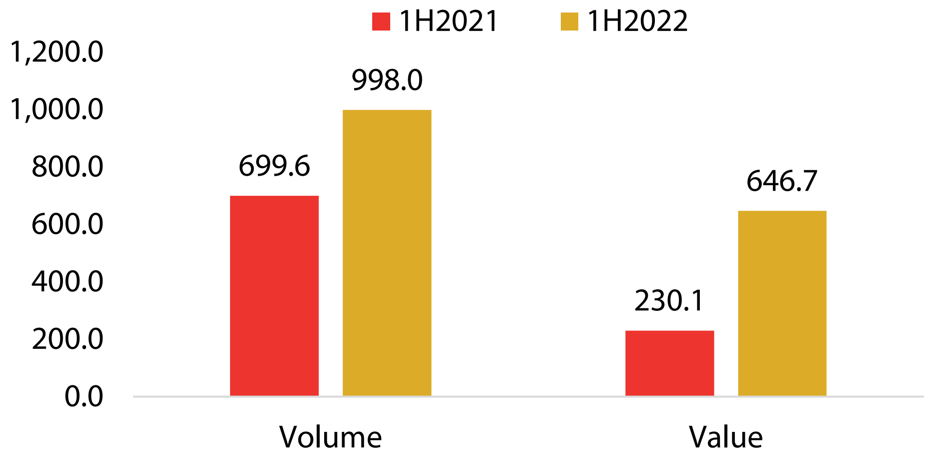
Weak fertilizer demand in 1H2022

- With a surge in fertilizer prices, the world's and Vietnam's demand plunged. Domestic enterprises enjoyed favorable export markets due to the decline in supply from top fertilizer producers.
- It is estimated that domestic fertilizer demand has decreased by 20%-40%, by the region.

Exporting skyrocketed compensating for the domestic demand

- Domestic manufacturers boosted exports market to offset low domestic demand. Urea producers were the most beneficial in exporting due to tight export policies and geopolitical tensions.
- Fertilizer exports rose 42% in volume and 181% in value.

Figure 6: Export volume ('000 tons) and value (mn USD)

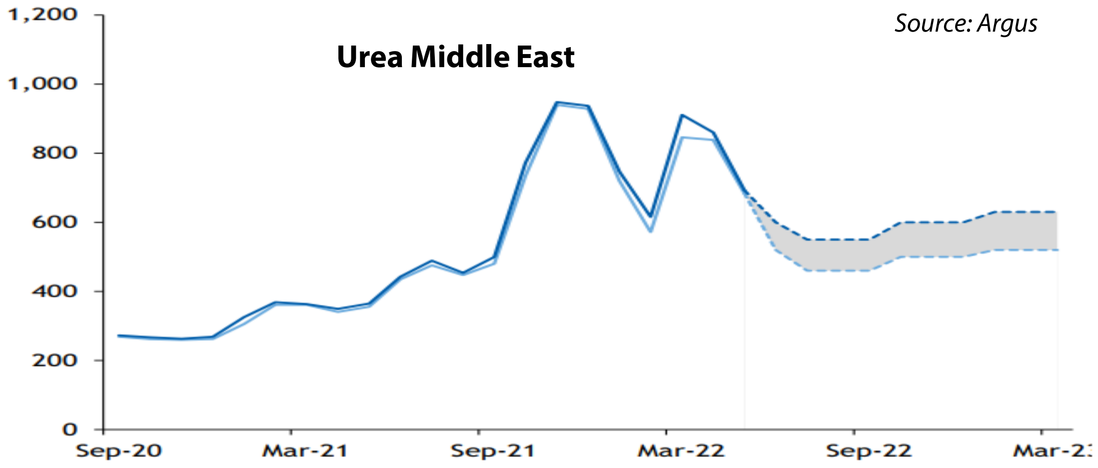


Source: GSO

FERTILIZER PRICE TRENDS SIDEWAY AND GRADUALLY DOWN

Figure 1: Urea price forecast (USD/ton)

	Jun-2022	Jul-2022	Aug-2022	3Q2022	4Q2022
Urea Baltic Sea	400-500	380-450	380-450	380-450	430-480
Urea Middle East	520-600	470-550	470-530	460-550	500-600



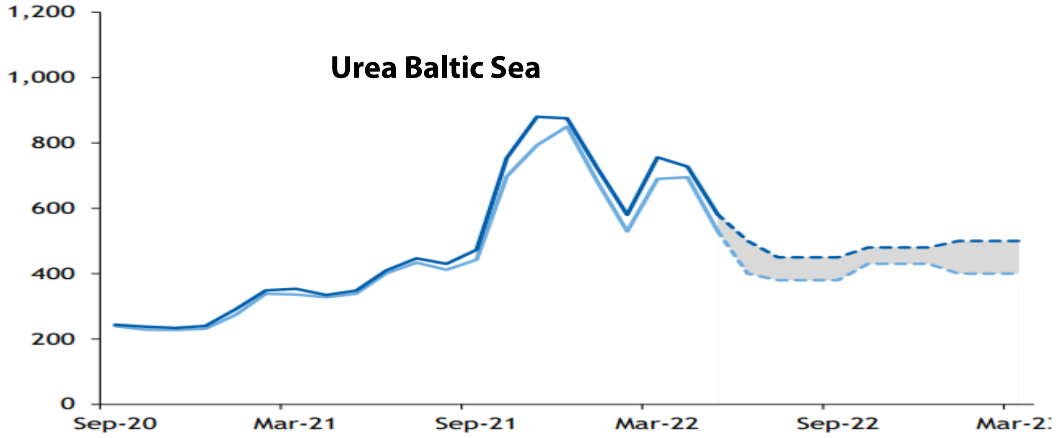
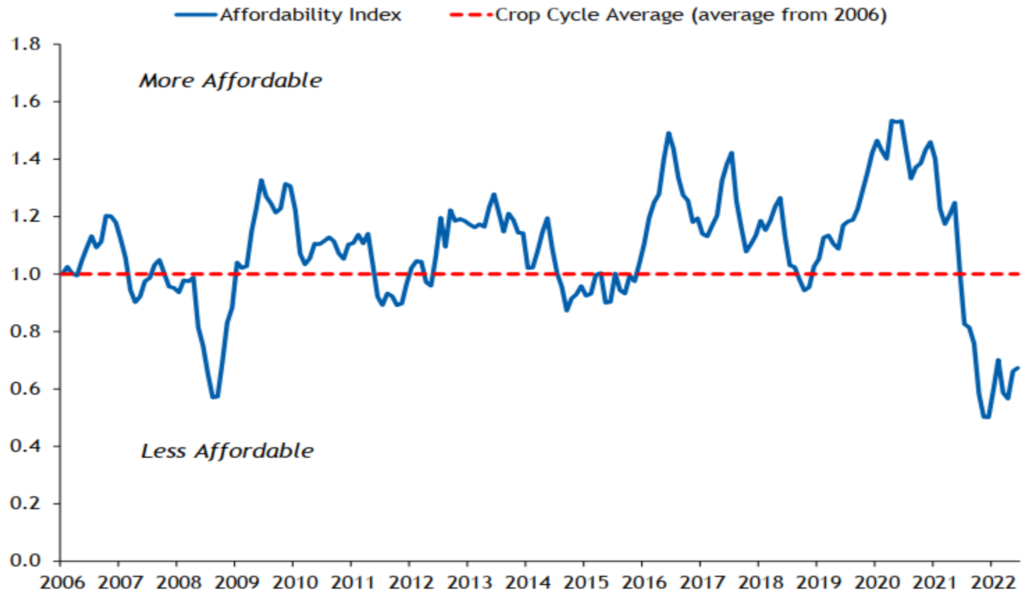


Figure 7: Fertilizer affordable index



Source: Agrus

Fertilizer prices were supported by political factors and export restriction policies despite weak demand

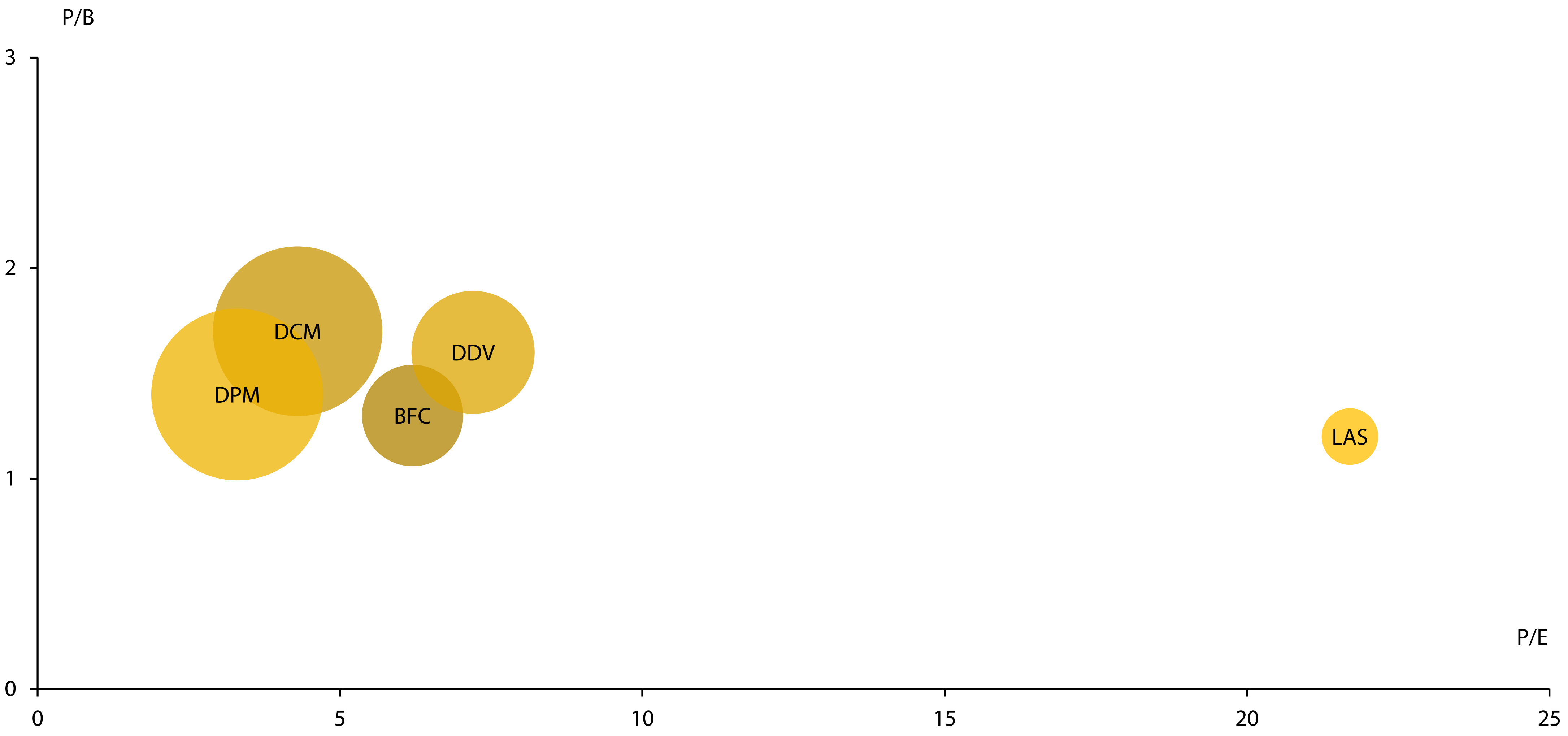
- Currently, Russia and China have restricted fertilizer export policy until the end of 2022. Additionally, Europe limits using gas due to low supply from Russia, causing a disruption in fertilizer production in this region, leading to a global supply shortage. However, we expected that the fertilizer prices would unlikely surge amidst global weak demand.
- Most prophecies suggest that fertilizer prices – especially urea, will be sideways and gradually decrease through 2023.

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
BFC	1,406	25,800	15.9	25.5	7.2	6.0	22.4	2.8	6.1	20.2	8.1	6.9	1.3
DPM	18,588	40,700	108.1	396.0	38.2	35.0	568.3	30.4	37.3	50.2	10.5	3.7	1.5
DCM	17,126	N/A	61.9	163.3	39.1	29.0	421.4	28.4	33.7	44.7	5.6	4.6	1.7
DDV	2,835	N/A	52.6	49.2	11.6	6.3	571.3	6.6	11.3	14.1	0.0	14.8	1.9
LAS	1,557	N/A	10.7	-23.7	4.7	2.9	-22.3	2.4	3.5	5.5	4.3	21.6	1.2

Source: Fiinpro, Rong Viet Securities. Share price as of 10 August 2022.

PE, PB & ROE (TTM)

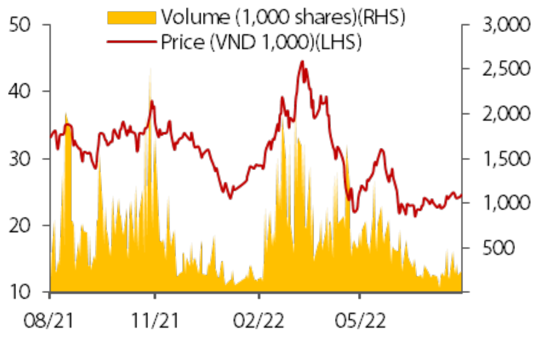


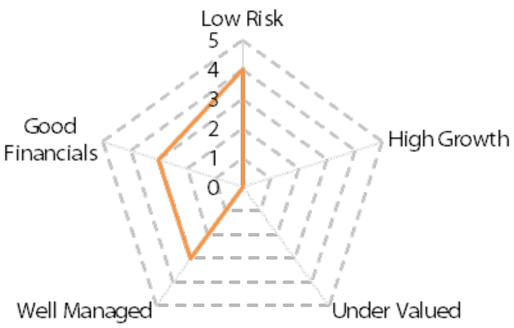
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 10 August 2022.

LOW SALES VOLUME AMID INPUT RALLY

HSX: BFC

ACCUMULATE: 13% **<MP: 24,600>** **<TP: 25,800>**





STOCK INFO

Sector	Chemicals
Market Cap ($ mn)	60
Current Shares O/S (mn shares)	57
3M Avg. Volume (K)	418
3M Avg. Trading Value ($ mn)	11
Remaining foreign room (%)	45.3
52-week range ('000 VND)	20.5 - 48.6

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	7,708	8,786	7,960
NPATMI VND bn)	220	216	179
ROA (%)	5.7	5.7	5.3
ROE (%)	20.2	18.5	14.7
EPS (VND)	3,536	3,404	2,811
Book Value (VND)	19,049	20,453	21,264
Cash dividend (VND)	1,500	2,000	2,000
P/E (x)	9.7	7.1	8.6
P/B (x)	1.4	1.2	1.1

INVESTMENT RATIONALES

BFC can experience a low sales volume in 2022. Total sales volume experienced a drop 35.9% to 272 thousand tons in 6M2022. We think that the high fertilizer price has resulted in a weak demand although there has been a shift from other fertilizers to NPK product since late 2021. Besides, another reason may come from the fierce competition. We forecast that the company can sell 600 thousand tons in 2022, down 17.6%.

The margin is expected to be stable in 2022 as selling price keeps flat and raw material is cooling down. Urea – one of the input for NPK production is anticipated to drop in 2H2022 after reaching peak in March 2022. So, the fall in Urea price and stable selling prices can keep the gross margin of BFC as high as in 2021. We expect that the gross margin will stay at 11.6% in 2022, compared to the gross margin of 11.7% in 2021.

2022 profit is still good but 2023 may not as the input fluctuation. Revenue and NPATMI are forecasted to post VND8,786bn (USD 377.1 mn) (+14.0% YoY) and VND216bn (USD9.3mn) (-1.8% YoY) respectively in 2022. However, 2023 earnings is hard to maintain if the input price tends to decrease. In that case, BFC will lower its ASP and the huge inventory will make pressure on the gross margin.

RISKS TO OUR CALL

- The hike in fertilizer price may hurt the gross margin and impact the total sales volume in 2H2022.

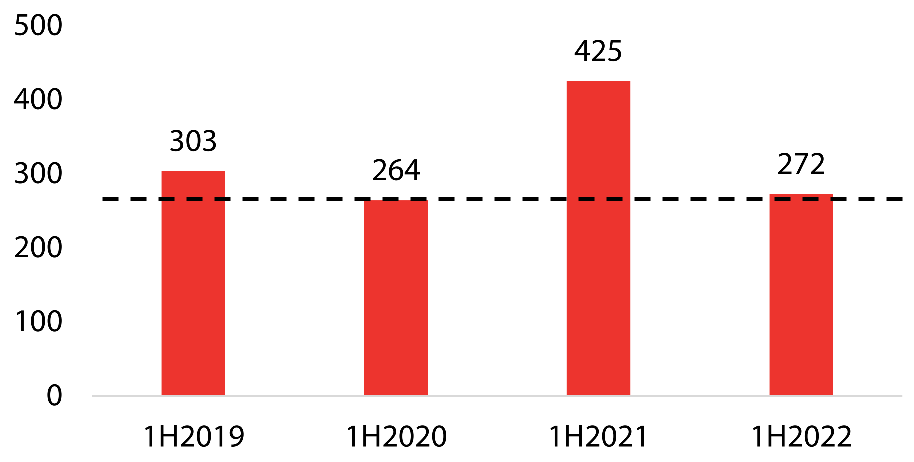
Low sales volume in 1H2022 and gross margin maintained high

- 1H2022 sales volume fell 35.9% to 272 thousand tons. We believe that the fierce competition and high fertilizer price are the main reasons although there has been a shift from other products to NPK.
- BFC has actively hoarded a lot of raw materials since the end of 2021 for production. We see that Urea price – one of the input raw materials is falling and the selling price is flat. So, the gross margin in 1H2022 posted 11.7%, compared to 11.8% in the same period last year.

We see a rising working capital in 2Q2022 then also a greater short-term debt

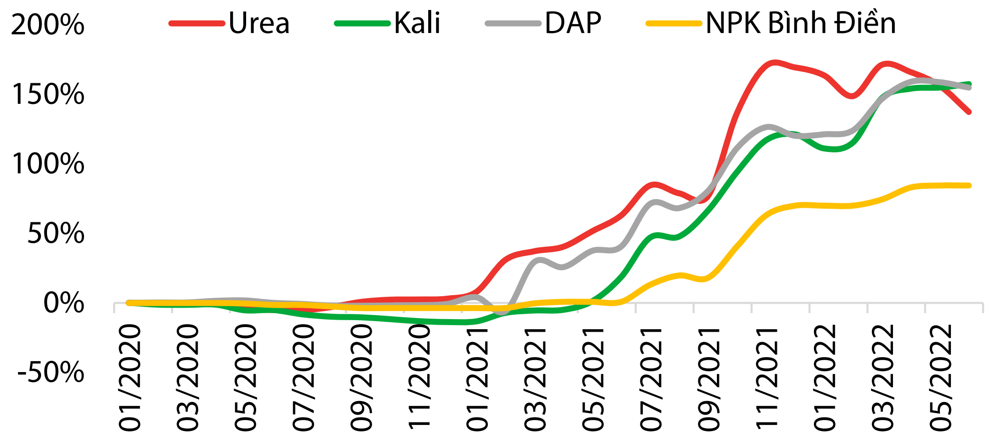
- As BFC has been accumulating a lot of raw materials and applying an "easy" policy to boost sales, the working capital has been rising significantly. As a result, the short-term debt also reached VND2,131bn at the end of 2Q2022 - the highest level in several years.

Figure 1: Sales volume of NPK (thousand tons)



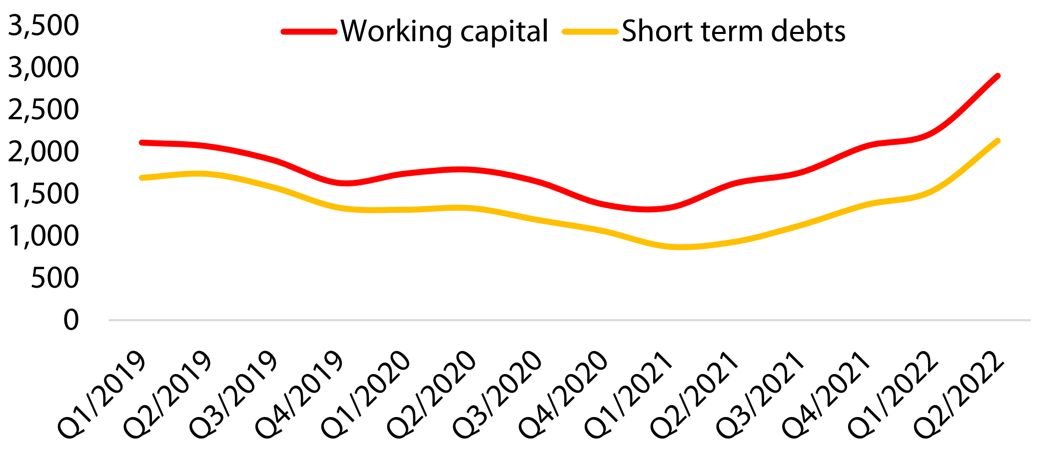
Source: BFC, Rong Viet Securities

Figure 2: % change of material price compared to 1Q2020



Source: Rong Viet Securities

Figure 3: Working capital and short-term debts (VND bn)



Source: BFC, Rong Viet Securities

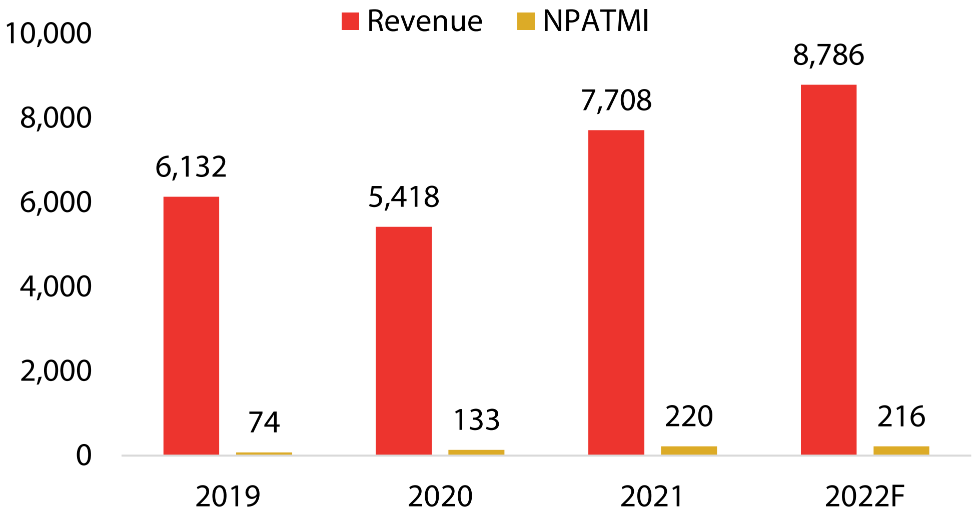
2022 PROFIT IS STILL GOOD BUT NOT 2023

Table 2: Urea price forecast (USD/ton)

	June	July	August	3Q22	4Q22
Urea Baltic Sea	400-500	380-450	380-450	380-450	430-480
Urea Middle East	520-600	470-550	470-530	460-550	500-600

Source: Argus

Figure 4: Revenue and NPATMI forecast (VND bn)



Source: Rong Viet Securities

2022 is likely to be good thanks to the fall in raw materials and stable ASP

- According to Argus, Urea selling price will stay around 400 USD/ton – 600 USD/ton in 2H2022, which is lower than 1H2022. However, DAP is experience a rising trend due to the phosphate export quotas from China. In case of keeping the ASP stable, BFC can maintain the gross margin as it was in 2021. Currently, we expect that BFC can post a gross margin of 11.6% in 2022.
- In term of sales volume, BFC can experience a significant drop in 2022 due to the weak domestic demand. We think that the 2022 total sales volume can be 600 thousand tons, down 17.6%. For 2022, revenue and NPATMI are forecasted to post VND8,786bn (USD 377.1 mn) (+14.0% YoY) and VND216bn (USD9.3mn) (-1.8% YoY) respectively

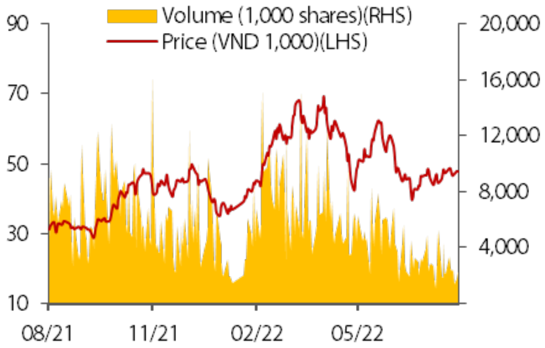
2023 profit may face the headwinds if the inputs fluctuate

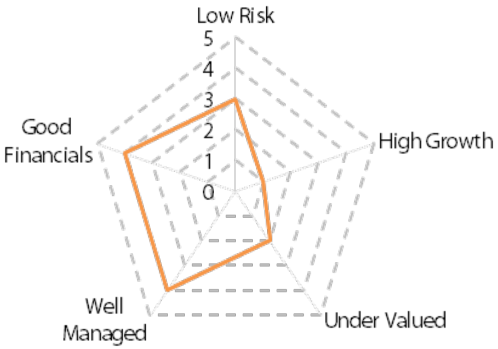
- If the raw material prices tend to decrease, the company has to lower the ASP. With the huge inventories, the gross margin of BFC will get pressure in 2023, which may impact the net profit.

ATTRACTIVE CASH DIVIDEND

HSX: DPM

NEUTRAL: -4% <MP: 47,500> <TP: 40,700>





STOCK INFO

Sector	Chemicals
Market Cap ($ mn)	795
Current Shares O/S (mn shares)	391
3M Avg. Volume (K)	3,908
3M Avg. Trading Value ($ mn)	212
Remaining foreign room (%)	33.2
52-week range ('000 VND)	77 - 31.5

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	12,786	17,004	13,298
NPATMI (VND bn)	3,117	4,633	2,590
ROA (%)	22.4	30.4	18.6
ROE (%)	29.6	35.2	19.4
EPS (VND)	7,749	11,787	6,590
Book Value (VND)	26,866	33,626	34,184
Cash dividend (VND)	1,400	5,000	6,000
P/E (x)	6.3	4.2	7.6
P/B (x)	1.8	1.5	1.5

INVESTMENT RATIONALES

Earnings 2022 to rise but mainly in 1H2022. We expect a 48.6% earnings growth in 2022 with the main assumptions (1) Urea Sales Volume of 801 thousand tons (2) Urea gross margin of 49%. However, the 2H2022 earnings is forecasted to decelerate as the Urea selling price is likely to cool down after reaching peak in March 2022. Overall, we expect that 2022 revenue and net profit can post VND17,004 bn (USD729.7mn) (+33.0%) and VND4,633bn (USD198.8mn) (+48.6%), respectively.

The bottom line is projected to drop in 2023. For 2023, we believe that the Urea selling price will get lower as the global demand is likely to be hit by the high inflation and the production cost will ease. So, the business result of DPM tends to decrease in 2023 when the gross margin can not maintain at the high level. We think that the net profit of DPM can be VND2,590 bn (USD 111.1 mn) in 2023, down 44.1%.

The huge cash dividend is a plus. Despite the deceleration in net profit from 2H2022, DPM is able to pay high cash dividend based on the company's positive profit in the last two years. The 2022 Annual General Meeting of Shareholders approved a cash dividend of VND 5,000 VND/share/year for 2021 and 2022. After that, we believe that DPM can maintain the cash dividend of VND3,000.

RISKS TO OUR CALL

- Due to the political geographic, the Urea selling price reaches higher than our expectation.
- DPM can not pay cash dividend as high as our expectation from 2023 onwards.

PROFIT TO DECELERATE IN 2H2022

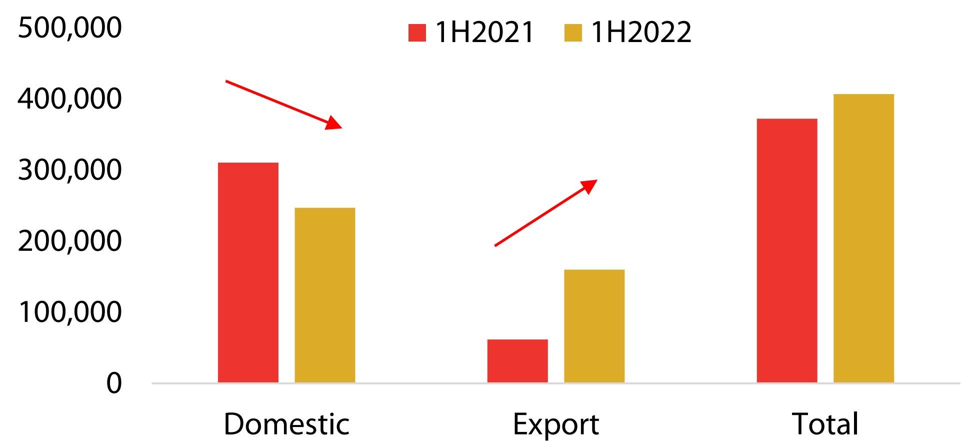
Urea sales volume was supported by export in 1H2022

- 1H2022 Urea sales volume increased by 9.3% to 406 thousand tons, supported by the export activity. In details, DPM exported 160 thousand tons, 2.5x higher than the same period last year. On the contrary, the domestic consumption experienced a 20% drop.

Profit will decelerate from 2H2022

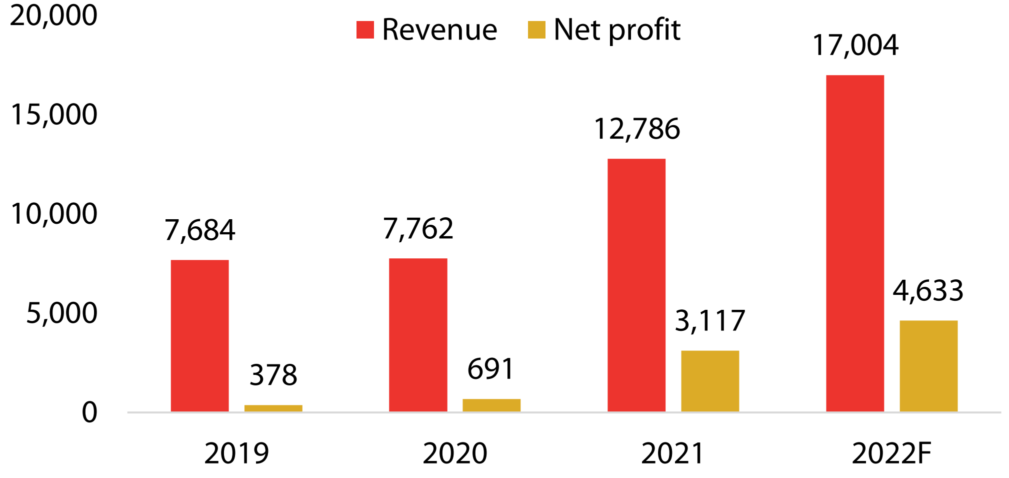
- DPM reported a good result in 1H2022 with net profit of VND 3,393 bn (USD 145 mn), up 3.9x YoY, thanks to a high Urea price. However, the Urea price has been decreasing after reaching peak in March 2022.
- We believe that the 2H2022 profit will decelerate because (1) domestic demand seems to be weak (2) Urea price is forecasted to ease. We forecast that DPM can post the net profit of VND 1,240 bn (USD 53 mn) in 2H2022 compared to VND 3,393 bn (USD 145 mn) in 1H2022.
- 2022 revenue, profit are projected at VND17,004 bn (USD729.7mn) (+33.0%) and VND4,633bn (USD198.8mn) (+48.6%), respectively.

Figure 1: Urea sale volume by market (tons)



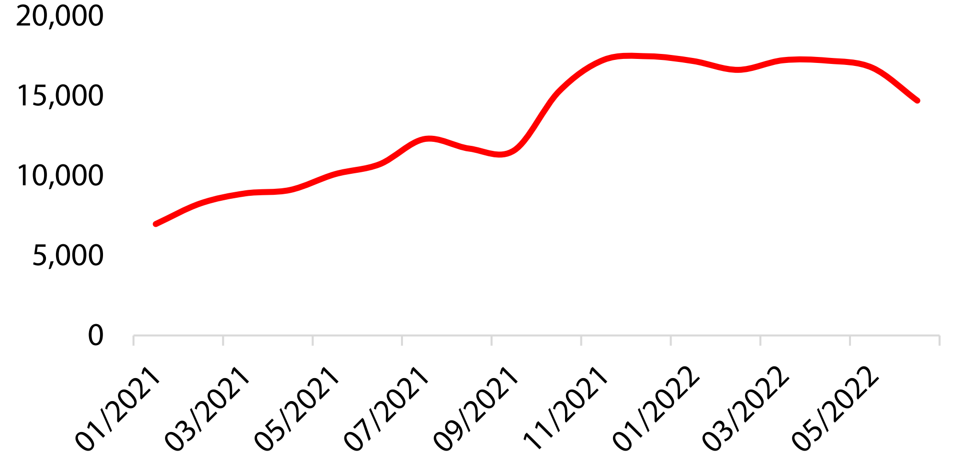
Source: DPM, Rong Viet Securities

Figure 3: 2022 forecast (VND bn)



Source: Rong Viet Securities

Figure 2: Urea' selling price of DPM (VND/kg)



Source: Rong Viet Securities

Table 1: Cash dividend policy

	2022	2023*	From 2023*
Cash dividend per share (VND)	5,000	3,000	2,000-3,000

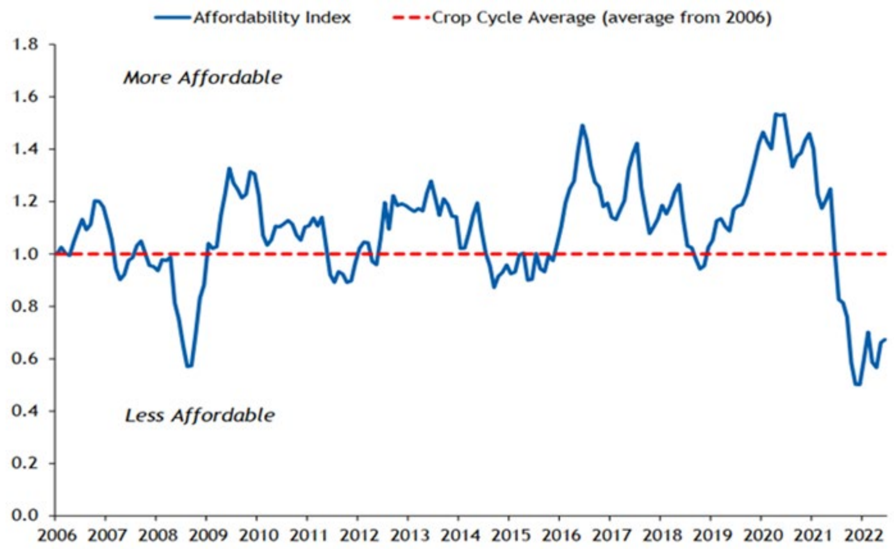
Source: Rong Viet Securities estimate (*), DPM, 2022 cash dividend will be paid in 2023 and so on

Table 2: Urea price forecast

	June	July	August	3Q22	4Q22
Urea Baltic Sea	400-500	380-450	380-450	380-450	430-480
Urea Middle East	520-600	470-550	470-530	460-550	500-600

Source: Argus

Figure 4: Fertilizer affordable index



Source: Argus

Net profit to fall in 2023 on the back of low selling price

- According to Argus, Urea selling price will stay around 400 USD/ton – 600 USD/ton in 2H2022, which is lower than 1H2022. And the Fertilizer Affordability index remains "less affordable", meaning that the fertilizer price is higher than the overall purchasing ability. Then the demand is likely to be weak. We believe that the Urea price will get lower in the future.
- For 2023, we forecast the profit to drop 44.1% to VND2,590 bn (USD 111.1 mn) with the assumption (1) Urea selling price of VND10,260/kg (2) Urea gross margin of 39%.

But high cash dividend is an attractive point

- Although profits will tend to decrease in the coming time, the attractive point of DPM lies in its ability to pay high dividends based on the company's positive profit in the last two years. The 2022 Annual General Meeting of Shareholders approved a cash dividend of VND 5,000 VND/share/year for 2021 and 2022 (the company has paid in advance VND 5,000/share for 2021). From 2023, DPM can maintain the cash dividend of VND3,000 despite the lower profit compared to 2022.
- Totally, the cash dividend in the next two years may be up to VND8,000 per share, equivalent to a 2-year dividend yield of 17% at this current market price.

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