# Petrovietnam Fertilizer & Chemicals Corp. (HSX: DPM)

## Temporary benefits from falling oil prices and high world fertilizer demand

| (VND bn) | 3Q-FY20 | 2Q-FY20 | +/- qoq | 3Q-FY19 | +/- yoy |
|---|---|---|---|---|---|
| Net revenue | 1,955 | 2,178 | -10.3% | 1,893 | 3.3% |
| PAT | 182 | 303 | -39.9% | 61 | 200.5% |
| EBIT | 198 | 343 | -42.3% | 66 | 198.3% |
| EBIT margin | 10.1% | 15.8% | -563bps | 3.5% | 662bps |

*Source: DPM, Rong Viet Securities*

**9M2020 - Profits soared due to increased exports in 3Q, low gas prices and cost-cutting efforts**

- Urea volume in 9M2020 reached 642,000 tons, up 41% YoY, supported by world's fertilizer demand in 3Q and a low base from last year. Selling prices plummeted 16.2% YoY, mainly due to a drop in demand in 2Q, but rose again in 3Q. Because of a stronger drop in gas price (36.4% YoY), 9M GPM reached 30,2% (9M2019: 23,8%).
- 9M2020 NPK volume rose 30.8% YoY (3Q: +32.5% YoY). The 9M selling price declined 2.1% YoY with a 2.3% YoY decrease in 3Q, due to fierce competition in the NPK market. This is a major obstacle to the ability to increase the NPK output. However, due to the sharp drop in raw material prices, we estimate that the NPK plant made a small gross profit after 9M2020, while in the same period last year it suffered a loss.
- Along with strong cost-cutting efforts, although 9M revenue only increased by 8% YoY to VND 5,831 bn, PAT increased by 305% YoY to VND 597 bn, of which revenue and PAT in 3Q increased by 3.3% YoY and 201% YoY, respectively. GPM in 9M and 3Q was 23% and 22.2%, respectively.

**2020 and 2021 outlook**

- In 2020, production increases from a low base in 2019. Although the selling price decrease, the fall may not as deep as in the oil price. So, despite revenue decreases slightly by 2% to VND 7,527 bn, GPM expands to 22.6% (2019: 18.2%). Along with the effort to cut administrative costs and an insurance claim payment of VND 100 bn for last year's shutdown, PAT may surge by 110% YoY to VND 792 bn. Therefore, we expect a cash dividend of VND 2,000/share, higher than the target of VND 1,000/share.
- In 2021, urea output may decrease due to a one-month shutdown schedule for maintenance. Selling price of urea and NPK will increase slightly by 3% following the recovery of the world economy. Input gas prices will rise 7% YoY. NPK consumption is going to increase following the world demand for fruits, vegetables and industrial crops, increasing NPK plant capacity to 50%, equivalent to an increase in output of 32% YoY. Revenue will fall by 1.5% YoY to VND 7,414 bn. GPM is expected to drop to 20.6% due to higher input prices versus selling prices. Along with the remaining VND 100 bn insurance claim payment, PAT will be VND 677 bn, down 14.5% YoY.

**Valuation and recommendation**

*The efficiency of the urea segment will gradually decrease as the input gas price increases while the NPK segment still needs time to contribute significantly to the overall profit. We maintain our view that DPM does not have much of a growth driver and is merely a dividend payer, despite its positive results this year. The new VAT law, if ratified, is going to support the operations of fertilizer producers. However, given the government's instructions on lowering selling price, DPM may not benefit much from this policy. We increase our target price from VND 15,000/share to VND 17,600/share to reflect the unexpected results in 3Q. With an expected cash dividend of VND 2,000/share in the next 12 months, we recommend to **ACCUMULATE** this stock with a total potential return of 12%.*

## ACCUMULATE +12%

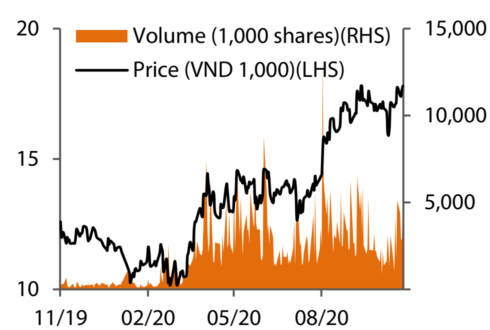
| | |
|---|---|
| Target price (VND) | 17,500 |
| Current market price (VND) | 17,600 |
| *Cash dividend in the next 12 months* | *2,000* |

**Stock Info**

| | |
|---|---|
| Sector | Chemical |
| Market Cap (VND billion) | 6,809 |
| Current Shares O/S (million) | 391,334,000 |
| Avg. Daily Volume (in 20 sessions) | 3,388,253 |
| Free float (%) | 32.1 |
| 52 weeks High | 9,500 |
| 52 weeks Low | 18,100 |
| Beta | 0.7 |

| | FY2019 | Current |
|---|---|---|
| EPS | 863 | 2,105 |
| EPS Growth (%) | -44.4 | 181.4 |
| Diluted EPS | 863 | 2,105 |
| P/E | 15.0 | 8.3 |
| P/B | 0.8 | 0.8 |
| EV/EBITDA | 5.1 | 4.0 |
| Cash dividend yield (%) | 6.9 | 5.8 |
| ROE (%) | 6.6 | 10.0 |

**Price performance**




| Major Shareholders (%) | |
|---|---|
| PVN | 59.6 |
| *Foreign ownership room (%)* | 30.6 |

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**Exhibit 1: 3Q/2020 Results**

| (VND Bn) | 3Q-FY20 | 2Q-FY20 | +/- qoq | 3Q-FY19 | +/- yoy |
|---|---|---|---|---|---|
| Net revenue | 1,955 | 2,178 | -10.3% | 1,893 | 3.3% |
| Gross profit | 433 | 570 | -24.0% | 314 | 37.9% |
| SG&A | 235 | 227 | 3.6% | 248 | -5.1% |
| Operating income | 198 | 343 | -42.3% | 66 | 198.3% |
| EBITDA | 335 | 480 | -30.2% | 207 | 61.8% |
| EBIT | 198 | 343 | -42.3% | 66 | 198.3% |
| Financial expenses | 24 | 22 | 8.1% | 26 | -8.6% |
| *- Interest Expenses* | 21 | 21 | -0.8% | 25 | -16.1% |
| Dep. and amortization | 137 | 137 | 0.4% | 141 | -2.5% |
| Non-recurring items (*) | | | | | |
| Extraordinary items (*) | | | | | |
| PBT | 224 | 365 | -38.5% | 75 | 197.5% |
| PAT | 182 | 303 | -39.9% | 61 | 200.5% |
| (*) Adjusted PAT | 182 | 303 | -39.9% | 61 | 200.5% |

*Source: DPM, Rong Viet Securities*

**Exhibit 2: 3Q/2020 Performance Analysis**

| | 3Q-FY20 | 2Q-FY20 | +/- qoq | 3Q-FY19 | +/- yoy |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | 22.2% | 26.2% | -402bps | 16.6% | 557bps |
| Gross Margin | 17.2% | 22.0% | -489bps | 10.9% | 621bps |
| EBITDA Margin | 10.1% | 15.8% | -563bps | 3.5% | 662bps |
| EBIT Margin | 9.3% | 13.9% | -459bps | 3.2% | 611bps |
| Net Margin | 9.3% | 13.9% | -459bps | 3.2% | 611bps |
| Adjusted Net Margin | | | | | |
| **Turnover *(x)** | 4.3 | 4.7 | -0.4 | 3.9 | 0.4 |
| -Inventories | 18.5 | 20.3 | -1.8 | 23.0 | -4.6 |
| -Receivables | 4.0 | 4.1 | -0.1 | 4.5 | -0.5 |
| -Payables | | | | | |
| **Leverage (bps)** | 25.1% | 29.0% | -385bps | 20.0% | 512bps |
| Total Debt/ Equity | 22.2% | 26.2% | -402bps | 16.6% | 557bps |

*Source: Rong Viet Securities*

**Exhibit 3: 4Q/2020 Performance Forecast**

| (VND Bn) | 4Q-FY20 | +/- qoq | +/- yoy |
|---|---|---|---|
| Revenue | 1,696 | -13.2% | -25.8% |
| Gross profit | 362 | -16.4% | -35.0% |
| EBIT | 165 | -24.7% | -43.9% |
| NPAT | 195 | 6.8% | -17.7% |

*Source: Rong Viet Securities*

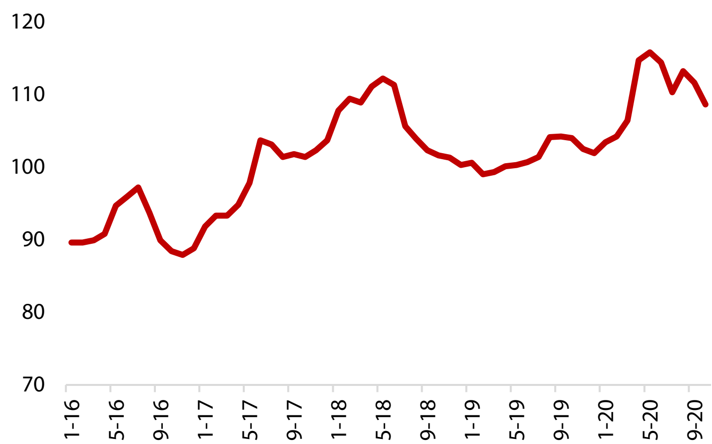
## Update

**Good sales growth, low input gas prices and cost control efforts continued to support profits**

*Urea segment*

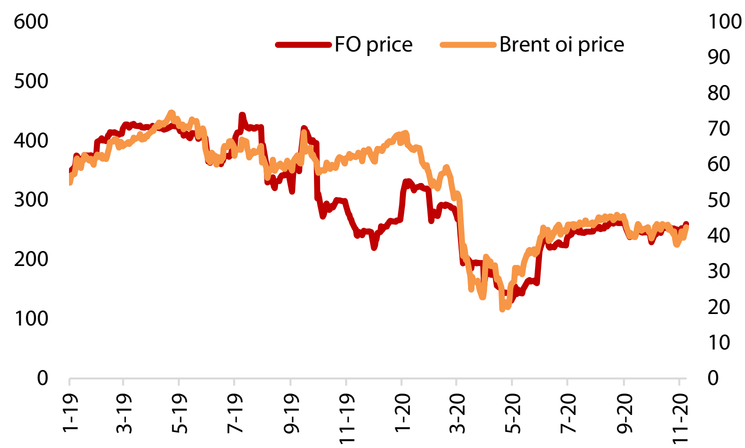
In 3Q2020, urea revenue was flat YoY at VND 1,326 bn due to mixed fluctuations in volume and selling prices. ASP stood at VND 6,084/kg, a slight increase of 4.1% QoQ but still 12.3% lower than the same period last year, reflecting the decline in oil prices during the pandemic. Sales volume grew by 13% YoY, reaching 218,000 tons, although the third quarter is often the off-season in terms of domestic fertilizer demand. This can be explained by the increase in export volume, including an order of 60,000 tons of urea exported to India in September, which is the largest export order in the company's history. Currently, farmers in many major food producing countries (India, Thailand and other Asian countries) are expanding their farming areas as rice prices are at the highest level in five recent years. GPM reached 28.4%, higher than 26.5% for the same period in 2019, according to our estimate.

**Figure 1: FAO rice price index**




*Source: FAO, Rong Viet Securities*

**Figure 2: FO price (LHS) and Brent oil price (RHS)**




*Source: Bloomberg, Rong Viet Securities*

Total urea consumption in 9M2020 reached 642,000 tons, up 41% YoY, supported by the world's fertilizer demand and the low base in 2019 as the company had to stop production for a 72-day maintenance in the first half of 2019. ASP reached VND 6,074/kg, plummeting by 16.2% YoY mainly due to a drop in demand in 2Q when many countries implemented social distancing. Accordingly, revenue reached VND 3,862 billion, up 17.4% YoY. GPM was about 30,2%, improving from 23,8% of 9M2020 due to the sharp drop in gas price since the end of 1Q and remaining low until now. The average FO gas price (in the input gas price formular) in 9M2020 has decreased by 36.4% YoY following the decline in oil prices.

Demand for oil will grow slowly as travel is constrained by health anxiety coupled with a forecast that the global economy is going to return normal condition only in two years, according to the World Bank. Oil prices, therefore, are likely to recover slowly. In fact, oil prices are staying around the level of USD 41-42/barrel. This results in us changing our 2020 and 2021 average oil price assumptions to USD 42/barrel and USD 46/barrel. This scenario is more beneficial to DPM's input costs compared to our old forecast (USD 55/barrel in 2020 and USD 65/barrel in 2021), in which we believed that global economic activities would recover strongly from 2H2020.

*NPK segment*

3Q revenue is estimated at VND 223 bn, up 29.4% YoY because of a sharp increase of 32.5% YoY in volume to 25,800 tons. However, production and consumption in 9M2020 is still low compared to the company's plan as it only reached 72,000 tons, equivalent to 40% of the whole year plan (180,000 tons). This volume was equal to 53% of our previous projection. We have adjusted our valuation to reflect this. ASP in 3Q was VND 8,646/kg, down slightly 2.3% YoY.

After the first nine months of the year, NPK revenue is VND 692 bn, up 28% YoY. Volume increased 30.8% YoY but ASP decreased 2.1% YoY. The decline in prices in 3Q was higher than in 9M, indicating fierce competition in the NPK market. This will be a major obstacle to the plant's ability to utilize capacity. Input prices of materials for NPK production (DAP, $H_2SO_4$, KCL, $NH_3$, and urea), after falling sharply due to the impact of the pandemic at the beginning of the year, have gradually recovered but are still significantly lower than in 2019. We estimate that NPK plant had a gross profit after 9M2020, while in the same period last year it suffered a loss.

Cost control efforts resulted in a sharp decline in administrative expenses by 22% YoY in 3Q and 20% in 9M. Along with the advantages of exports and the input gas price, 3Q PAT increased 201% YoY, although revenue only went up 3% YoY. After the first nine months of the year, PAT rose 305% YoY while revenue increased only 8% YoY. In the context that input costs in the following years will increase as the world economy recovers and the output of low-price gas source declines, we believe that the company would continue to maintain a strict policy of cost control.

**The temporary tariff increased sharply due to the rapidly declining reserve of Bach Ho - Rong Doi Moi field**

Input gas is provided by three sources including Bach Ho - Rong Doi Moi field, other sources in Cuu Long basin and Nam Con Son basin with tariff rates of USD 1.02/MMBTU, USD 3.22/MMBTU and USD 1.42/MMBTU, respectively.

Since PVN forecasts that gas volume from Bach Ho - Rong Doi Moi field, which has the lowest tariff, may be lower than previously expected, DPM is using a temporary tariff rate of USD 1.9/MMBTU, which is higher than our old assumption (USD 1.6/MMBTU). Although the company stated that the tariff confirmed at the end of the year after the finalization of the gas sales contract may be lower than the temporary rate, we still assume the tariff for 2020 is USD 1.9/MMBTU. At the same time, it is assumed that the tariff will increase at a rate of 2%/year until 2024. Investors should also note that the tariff for the period 2021-2025 is still under negotiation between GAS and DPM and may differ from our assumptions.

**The company plans to receive in 4Q2020 VND 100 bn of insurance claim payments for the business disruption in 2019.** The rest (VND 100 bn) is going to be paid in 2021. We have reflected these one-off earnings into our valuation model.

**The new value-added tax (VAT) policy on fertilizer may not bring much benefit to DPM**

From 2015 up to now, fertilizers are not subject to VAT, making fertilizer companies not eligible to deduct VAT on goods and services used for fertilizer production, but are to include these costs in COGS, pushing up selling prices and reducing domestic fertilizer competitiveness. If the 5% VAT policy is adopted and applied, fertilizer producers will be allowed to deduct the VAT of machinery, raw materials, fuel, and services used in their production. ***The Ministry of Finance intends to require fertilizer producers to reduce selling prices corresponding to the deductible input VAT amount to reduce the cost burden for farmers. Therefore, we believe that the domestic fertilizer industry will have a chance to increase sales volume***, in the context of rising imported fertilizer prices and decreasing domestic fertilizer prices. Considering the importance of fertilizers in the national food security, the new tax law is unlikely to be ratified in this National Assembly session because the Government needs more time to evaluate it. For DPM, we do not expect much benefits from the policy because of the company's old production line and that it is operating at nearly full capacity.

**2020 forecast and 2021 outlook**

Indian urea demand has slowed down from the end of October after the large tender in 3Q. China also started to increase fertilizer exports after the domestic rice season ended. Accordingly, urea sales volume and the selling price in 4Q may not be as positive as in 3Q. We expect DPM's urea selling price to decrease by 15.5% YoY in 2020 (9M2020: -16.2% YoY). Urea volume in 4Q will reach 200,000 tons, down 20% YoY. However, for the whole year 2020, urea consumption will still increase by 20% YoY to 840,000 tons due to the low base of 2019 and sudden high export demand in 3Q. Changes in gas price assumptions and tariff may cause the average input gas price (including tariff) in 2020 to fall 19% YoY.

Regarding the NPK segment, the continued fierce competition could cause the selling price of this product group to drop 2.4% YoY in the whole year 2020. Historically large and long-lasting floods in Oct and that the Europe re-imposed large-scale quarantines are causing negative impacts on the cultivation and export of fruits, rubber, cashew and coffee, etc. This is likely to make the demand for NPK fertilizer in 4Q not as high as in 2Q and 3Q, only approximately 20,000 tons. Consumption volume for the whole year reached 92,000 tons, an increase of 19.5% YoY, equivalent to 38% of NPK plant's capacity.

To sum up, 2020 revenue may reach VND 7,527 bn, a slight decrease of 2% YoY. Gross profit margin increases to 22.6% from 18.2% in 2019. PAT grows by 110% YoY to VND 792 bn, supported mainly by (1) low base in 2019, (2) input gas price falls more sharply than selling prices, (3) export demand surged in the third quarter due to increased food production, (4) efforts to cut costs and (5) one-off income of VND 100 bn from insurance claim payment for the plant shutdown incident at the beginning of 2019. We expect that the company may raise its 2020 cash dividend from VND 1,000/share (approved in the AGM) to VND 2,000/share due to the better-than-expected results.

In 2021, urea production and consumption may reach 750,000 tons as the company plans to stop operation for one month for machine maintenance in the first half of the year. Urea price may increase slightly 3% following a recovery in oil prices. Input gas price (including tariff) grows 7% YoY. NPK consumption may recover according to the world's demand for fruits, vegetables and industrial crops when the world economy rallies. Therefore, NPK selling price may increase 3% YoY and volume may riss 32% YoY, equivalent to 50% of its NPK plant capacity. With the above assumptions, revenue will fall slightly 1.5% YoY to VND 7,414 bn, gross profit margin could shrink to 20.6% due to the higher rise in input price than in selling price, while the contribution of the NPK plan in total profit remains modest. The remaining VND 100 bn insurance claim payment will also be received in the year. To sum up, PAT may reach VND 677 bn, down 14.5% YoY.

VND Billion

| *INCOME STATEMENT* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| **Revenue** | 9,297 | 7,684 | 7,527 | 7,414 |
| COGS | 7,398 | 6,281 | 5,823 | 5,886 |
| **Gross profit** | **1,899** | **1,402** | **1,704** | **1,528** |
| Selling Expense | 612 | 555 | 542 | 534 |
| G&A Expense | 486 | 415 | 331 | 334 |
| Finance Income | 124 | 140 | 143 | 164 |
| Finance Expense | 74 | 108 | 100 | 92 |
| Other income/loss | 16 | 1 | 103 | 103 |
| Gain/(loss) from JV | 3 | 2 | 2 | 2 |
| **PBT** | **871** | **467** | **978** | **837** |
| Prov. of Tax | 158 | 78 | 176 | 151 |
| Minority's Interest | 13 | 11 | 10 | 10 |
| **PAT to Equity S/H** | **700** | **378** | **792** | **677** |
| EBIT | 801 | 432 | 831 | 661 |
| EBITDA | 1,321 | 994 | 1,336 | 1,187 |

%

| *FINANCIAL RATIO* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Revenue | 16.3 | -17.4 | -2.0 | -1.5 |
| Operating Income | 53.3 | -24.7 | 34.5 | -11.2 |
| EBITDA | 19.6 | -46.1 | 92.3 | -20.4 |
| PAT | 0.7 | -46.0 | 109.7 | -14.5 |
| Total Assets | 8.5 | 2.7 | -4.3 | 1.8 |
| Equity | 2.7 | -1.1 | 0.0 | 3.5 |
| **Profitability (%)** | | | | |
| Gross margin | 20.4 | 18.2 | 22.6 | 20.6 |
| EBITDA margin | 14.2 | 12.9 | 17.8 | 16.0 |
| EBIT margin | 8.6 | 5.6 | 11.0 | 8.9 |
| Net margin | 7.5 | 4.9 | 10.5 | 9.1 |
| ROA | 6.3 | 3.3 | 7.2 | 6.1 |
| ROE | 8.7 | 4.7 | 9.9 | 8.2 |
| **Efficiency** | | | | (times) |
| Receivable Turnover | 17.9 | 26.6 | 18.2 | 18.2 |
| Inventory Turnover | 4.4 | 4.7 | 4.0 | 4.1 |
| Payable Turnover | 5.9 | 3.4 | 4.0 | 4.0 |
| **Liquidity** | | | | (times) |
| Current | 3.5 | 3.0 | 3.5 | 3.7 |
| Quick | 2.4 | 2.3 | 2.6 | 2.9 |
| **Finance Structure (%)** | | | | |
| Total Debt/Equity | 15.3 | 15.5 | 14.0 | 12.3 |
| Current Debt/Equity | 2.5 | 2.2 | 2.3 | 2.4 |
| Long-term Debt/Equity | 12.8 | 13.3 | 11.8 | 9.9 |

VND Billion

| *BALANCE SHEET* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| Cash and cash equivalents | 1,717 | 2,977 | 1,629 | 2,096 |
| Short-term investments | 955 | 1,035 | 1,950 | 2,000 |
| Accounts receivable | 521 | 289 | 414 | 408 |
| Inventories | 1,663 | 1,351 | 1,456 | 1,442 |
| Other current assets | 317 | 292 | 292 | 306 |
| Property, plant & equipment | 4,840 | 4,318 | 4,018 | 3,698 |
| Acquired intangible assets | 860 | 858 | 852 | 846 |
| Long-term investments | 47 | 45 | 47 | 49 |
| Other non-current assets | 215 | 275 | 288 | 303 |
| **Total assets** | **11,134** | **11,440** | **10,947** | **11,149** |
| Accounts payable | 1,256 | 1,834 | 1,456 | 1,471 |
| 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 | 44 | 45 |
| Technology-science, dev. fund | 33 | 21 | 21 | 21 |
| **Total liabilities** | **2,879** | **3,279** | **2,784** | **2,705** |
| Common stock and APIC | 3,935 | 3,935 | 3,935 | 3,935 |
| Treasury stock (enter as -) | -2 | -2 | -2 | -2 |
| Retained earnings | 657 | 566 | 568 | 848 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Inv. and Dev. Fund | 3,497 | 3,497 | 3,497 | 3,497 |
| **Total equity** | **8,087** | **7,996** | **7,998** | **8,278** |
| **Minority Interest** | **168** | **165** | **165** | **165** |

| *VALUATION RATIO (*)* | FY2018 | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|
| EPS (dong) | 1,551 | 863 | 2,015 | 1.722 |
| P/E (x) | 14.4 | 15.0 | 8.5 | 10.0 |
| BV (dong) | 20,662 | 20,429 | 20,434 | 21.150 |
| P/B (x) | 1.1 | 0.6 | 0.8 | 0.8 |
| DPS (dong/cp) | 1,000 | 1,000 | 2,000 | 1.000 |
| Dividend yield (%) | 4.5 | 7.7 | 11.5 | 5.7 |

| *VALUATION MODEL* | *Price* | *Weight* | *Average* |
|---|---|---|---|
| FCFF | 19,167 | 50% | 9,584 |
| P/E | 16,121 | 50% | 8,061 |
| **Target price (VND)** | | | **17,644** |

| *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 |

## 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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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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