

PHU MY FERTILIZER (DPM – HSX)

Handsome dividend makes investment appeal

Q3 results went down due to the maintenance of Phu My factory. As we have mentioned in our previous update, that fact the Phu My factory closed for 25-day maintenance led to a 20-percent decrease in DPM's Q3 output to about 159,000 tons. In addition, Q3 revenue also declined 44% from the previous year because of the termination of the distribution contract with Ca Mau Fertilizer. Besides, the downtrend in selling prices created by stiff competition in domestic market also affected DPM's revenue and profit such that Q3 NPAT approached our forecast at only VND 365 billion, down 34% over the same period last year. Up to the end of September, DPM's net profit was reported VND 1,958 billion (-22% from a year earlier).

Great pressure from eased export duty by China. As a recurring practice in the past several years, China cut the rate of export duty on fertilizers in the period between July 1st and October 31st. What concerns us the most is that this time, the rate was driven down to a mere 2% in compare with 7% last year (applicable when export prices are lower than the standard price). The act greatly affected the sales of domestic manufacturers in that it gives merchants an incentive to increase their stockings from a supply of lower price. Statistics showed that the volume of urea imported to Vietnam in the 10-month period ending in October was 684,000 tons, up 52% yoy. October alone saw 138,000 tons of urea crossing the border, up by dramatic 98% from the previous year. With such low price inventory, it is nearly impossible for selling price to bounce back in Q4 even though this is the preparation period for the Winter-Spring crop. We think that Q4 volume may remain flat from a year ago at about 200,000 tons thanks to a steady demand. However, as selling price is now a downward pressure, the net profit for DPM should decline by another 13% to VND 456 billion, which leaves whole-year profit at an estimated VND 2,414 billion.

Particulars (VND bn)	3QFY13	2QFY13	% Chg. (qoq)	3QFY12	% Chg. (yoy)
Net revenue	1,902.3	3,215.9	-41%	3,374.1	-44%
NPAT	365.1	888.6	-59%	555.8	-34%
EBIT	436.1	1,036.9	-58%	729.5	-40%
EBIT margin	22.9%	32.2%	-932bps	21.6%	131bps

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

Depressed profits seen for 2014. The biggest obstacle to DPM's profitability in coming years still mainly concerns their selling price. In our opinion, the selling price may not recover any time soon given China's fertilizer export strategy. There have been forecasts that the overwhelming supply in China may last until 2017 (in the period between 2013 and 2017, up to 55 urea firms will start operating worldwide; of that, 20 is China-based). In addition, by the end of November, the number of fertilizer companies picked up loss in China has increased 20.6% and the aggregate loss value has also expanded 88.7%, pushing the total industry profit down 31.4% from the previous year. To handle the situation, China is now drawing up the "2014 fertilizer export tariff scheme", which raises concerns over large cuts in tariff rate during high season.

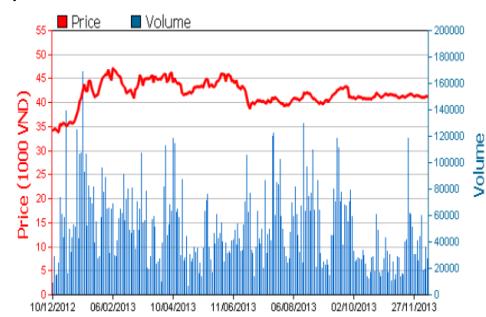
ACCUMULATE

DPM (VND)	41,200
Target Price (VND)	45,600
Investment Period	Intermediate

Stock Info

Sector	Chemical
Market Cap (VND bn)	15,691
Shares O/S	379,934,260
Beta	0.65
Free float (%)	33.6
52 weeks High	43,300
52 weeks Low	30,500
Avg. Daily Volume (in 20 sessions)	365,843

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Performance (%)

	3M	1Y	3Y
DPM	2.7	30.0	29.6
Chemical	0.0	21.8	n/a
VN30 Index	7.0	23.2	n/a
VN Index	7.0	28.8	-0.2

Major Shareholders (%)

Petro Vietnam	61.4
Deutsche Bank AG London	5.0
Deutsche Bank AG & Deutsche Asset Management (Asia) Ltd	4.5
Foreigner Investor Room (%)	19.5

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We believe that the change in tax rate will allow China fertilizer manufacturers for more advantages by comparison. Low export tariffs and production cost (China urea plants use coal as their chief input instead of gas as in developing countries) should continue to suppress urea prices in both the world's market and in their home country price.

In 2014, DPM's profits may be under the negative effect of an assumed 5-percent decrease in selling prices and a 2-percent in input prices. However, the rebound of volume should make up for effects of diminished profitability such that revenue and net profit may reach about VND 10,199 billion and VND 2,230 billion, respectively.

Outlook:

High dividend, high attractive for DPM. In October, DPM paid the desirable 25-percent cash dividends. We believe that another payout rate increase will be brought forth in next AGM given the government's intention to raise budget income and the Company's enormous cash pile (~VND 6,000 billion). Numerous difficulties as it may face in the coming year, DPM should continue attraction investments thanks to its lucrative cash dividend.

Exhibit 01: Key financials

Y/E Dec (VND bn)	FY2011	FY2012	9M/FY2013	FY2013E	FY2014F
Net Revenues	9,226.5	13,321.9	8,002.0	10,264.0	10,199.2
% chg	39.4	44.4	-23.5	-23.0	-0.6
PAT	3,104.3	3,016.9	1,958.2	2,403.0	2,230.6
% chg	82.3	-2.8	-21.5	-20.3	-7.2
EBIT margin (%)	33.6	22.6		23.4	21.9
ROA (%)	37.1	30.4		22.3	20.1
ROE (%)	43.1	35.1		25.6	22.4
EPS (VND)	8,288	7,996		6.325	5,870
Adjusted EPS (VND)					
Book value (VND)	21,650	23,579		25,734	26,633
Cash dividend (VND)	3,500	4,500		4,500	5,000
P/E (x)	2.9	4.5		6.5	7.0
P/BV (x)	1.1	1.5		1.6	1.5

Source: DPM Financial statement, RongViet Securities' compilation and estimates, *As of 10/12/2013

BRIEF UPDATE

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RATING GUIDANCE

Ratings Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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