

Ca Mau Petroleum Fertilizer Joint Stock Company (HSX: DCM)
CONTINUE THE EXPECTATION RACE IN 2021

Recommendation

BUY

Current price: **17,450**
Previous target price: -
New target price: **21,100**
Dividend yield: **3.5%**
Upside: **20.9%**

Date: 1/4/2021
Outstanding Shares (Million): 529.4
Market Cap (VND billion): 9,159
Avg. 6M Trading vol: 4,134,200
% Foreign float: 2.44%

Shareholder Structure
PVN: 75.56%
PVFCC: 8.43%

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Target price: 20,370 VND
Stop-loss price: 12,470 VND

VALUATION

We recommend **BUY** for **DCM** with target price **VND 21,100/share**, upside 20.9% compared to the price on 31/3/2021 with DCF method and P/E, with weight 40% - 60%.

FORECAST OF BUSINESS RESULTS

BSC forecasts that revenue and net profit in 2021 will reach VND 9,493 billion (+23.5% YoY) and VND 888 billion (+34.3% YoY). EPS fwd = VND 1,366 and P/E fwd= 13x, P/B fwd = 1.4x.

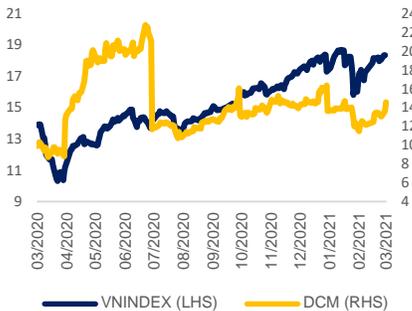
INVESTMENT THESIS

- Improved gross profit margin thanks to the expectation that selling price will increase faster than input material price - Due to high oil price and maintaining positive signal from fertilizer demand in 2021.
- We expected that Ca Mau fertilizer plant will be almost depreciated by 2024, improving the company's net profit (+125.9% YoY).
- Expectation of tax refund when the tax law is revised in 2021:
According to the P/E method:
 - Base scenario: Target Price 2021 = VND 18,440
 - Adjustment of VAT
 - Conservative scenario: Target Price 2021 = VND 22,210
 - Best Scenario: Target Price 2021 = VND 28,070
- Tracking information: PVN plans to divest capital at DCM, NPK Factory go on operation in 2021, M&A add another NPK factory and cooperate in investing in factories producing organic fertilizers and micro-organisms.

Price comparison between DCM and VN index



P/E comparison between DCM and VN index



TECHNICAL VIEW

Investors can buy the stock with the target price located at 20-20.5, consider to stop loss if the support level of 12.5 is penetrated.

RISKS

- Input gas price increased faster than forecast and adjusted selling price was lower than expected;
- Performance of plants is lower than expected due to routine maintenance.

COMPANY UPDATE

- Revenue and net profit in 2020** reached **VND 7,563 billion (+7% yoy)** and **VND 665 billion (+56% yoy)**, respectively, thanks to a sharp drop in input gas prices and high demand for fertilizer export.
- DCM sets the 2021 plan:** Revenue = VND 7,839 billion VND, NPAT = VND 197 billion, converted urea output 860 thousand tons.

	2020	2021	Peer	VN-Index		2021F	2022F	2023F	2024F
PE (x)	17.2	12.8	11.73	14.7	Net Sales	9,335	9,651	9,996	10,299
PB (x)	1.5	1.4	0.79	2.0	Gross Profit	1,742	1,683	1,600	2,607
PS (x)	1.2	1.0	0.3	1.5	NPAT	888	810	705	1,592
ROE (%)	10.4%	13.5%	4.8%	14%	EPS	1,366	1,246	1,084	2,450
ROA (%)	7.6%	9.9%	3.4%	2%	EPS Growth	34.3%	-8.8%	-13.0%	125.9%
EV/ EBITDA (x)	2.5	1.9	9.52	11.5	Net Debt/ Equity	35.9%	35.6%	36.7%	33.5%

COMPANY UPDATE

(billion VND)	Q4/2020	Q4/2019	%yoy	2020	2019	% yoy	Plan 2021	Update 2020 Business Results
Net revenue	2,258	2,111	+7%	7,563	7,043	+7%	7,839	<p>Revenue = VND 7,563 billion (+7% yoy), NPAT = VND 665 billion (+56% yoy), gross margin improved from 13.6% to 18.3% due to:</p> <ul style="list-style-type: none"> • Average selling price of commercial urea -10% yoy, sales volume +20.6% yoy (boosting exports thanks to high demand in Asian countries) • Average cost of gas -24.2% yoy thanks to the new floating gas price mechanism in the context of falling oil prices. <p>For Q4/2020: Revenue = VND 2,258 billion (+7% yoy), NPAT = VND 207 billion (+74% yoy) thanks to:</p> <ul style="list-style-type: none"> • Sales volume +15% yoy • The selling price of urea remained at a lower level compared to the same period last year due to complicated developments of diseases and weather. • Gas input price +3% yoy <p>According to BSC's assessment, DCM sets the 2021 plan relatively conservative: Revenue = VND 7,839 billion, NPAT = VND 197 billion, equivalent urea output of 860 thousand tons.</p>
Gross profit	446	300	+48%	1,312	959	+37%		
Selling expenses	-106	-128	-17%	-368	-364	+1%		
G&A expenses	-136	-56	+143%	-299	-201	+49%		
Financial revenue	33	22	+50%	128	127	+1%		
Financial expenses	-8	-12	-33%	-63	-103	-39%		
PBT	230	127	+81%	719	463	+55%	210	
NPAT	207	119	74%	665	427	+56%	197	
Amount of urea converted (000 tons)				931	801	+16%	860	

2021 OUTLOOK – CONTINUE EXPECTATION RACE IN 2021

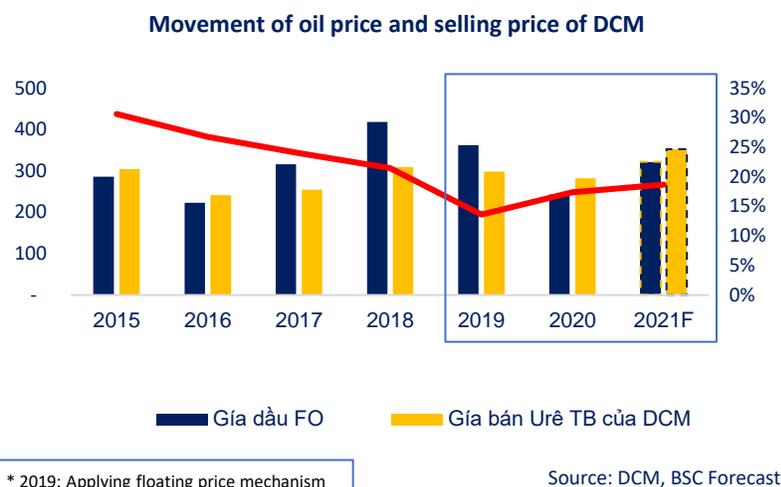
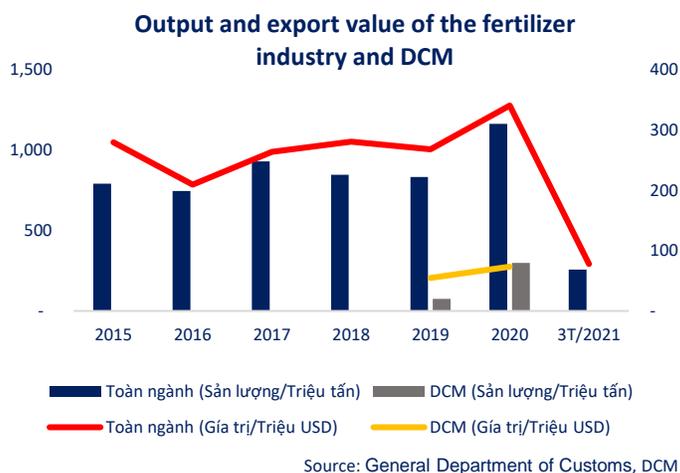
BSC forecasts revenue and net profit of 9,335 billion dong (+23.5% YoY) and 888 billion dong (+34.3% YoY). EPS fwd = VND 1,366 and P/E fwd= 13x, P/B fwd = 1.4x. Based on the assumptions (1) gross profit margin will increase from 17.4% to 18.7% due to the fact that the adjusted selling price increases faster than the price of raw gas in 2021 (2) Gross profit margin in 2024 will reach 25.3% to from the fact that Ca Mau fertilizer plant ran out of depreciation, helping DCM to have more than 1,200 billion in depreciation expense over the same period.

We expect Urea fertilizer revenue to grow 19.2% YoY, thanks to:

(1) Business output decreased by 5% YoY, as the factory increased the use of Ca Mau Urea as an input for NPK production, but still exceeded 12% of the plan. Fertilizer demand continued to grow positively in the first half of the year. 2021.

(2) The selling price of Urea fertilizer in 2021 is adjusted up (+25%YoY) faster than input materials (accounting for 40% of COGS), leading to the assumption that gross profit margin increases from 17.4% to 18.66% - Adjusted based on assumptions about Brent oil price and 2M/2021 selling price data.

Based on industry data ([DPM report link](#)), we believe that selling prices are unlikely to maintain their current high levels and will see a downward correction in Q3-Q4 when food demand is stable and supply from Producers recover from Covid 19. Therefore, we assume that the average price of Urea fertilizer will be at VND 8,200/kg – a high price of +4% compared to competitors, expecting a business advantage. leading exporter in the fertilizer industry.



DCM business results forecast table:

Unit: Billion VND	2020	2021	2022	2023	2024
Brent oil price (USD/barrel)	43	55	59	63	67
% YoY	-33%	27%	7%	7%	7%
FO oil price (USD/MMBTU)	253	322	345	369	395
% YoY	-30%	27%	7%	7%	7%
Natural gas price (USD/MMBTU)	4.27	5.11	5.38	5.68	6.31
% YoY	-11%	20%	5%	5%	11%
Urea fertilizers converted revenue	6,073	7,241	6,918	6,937	6,920
% YoY	9.0%	19.2%	-4.5%	0.3%	-0.2%
NPK revenue		1,032	1,594	1,888	2,179
% YoY			54.5%	18.4%	15.4%
Sales Output (thousand tons)					
Urea fertilizers converted	929	883	819	809	799
% YoY	15%	-5%	-7%	-1%	-1%
NPK fertilizer	-	120	180	210	240
% YoY			50%	17%	14%
Revenue	7,561	9,335	9,651	9,996	10,299
COGS	6,244	7,593	7,968	8,396	7,692
Gross profit	1,317	1,742	1,683	1,600	2,607
Selling expenses	369	484	500	518	534
G&A expenses	304	411	425	440	453
EBIT	643	847	759	642	1,620
Financial revenue	128	148	148	148	148
Financial expenses	63	20	13	11	9
Profit before tax	709	975	893	779	1,758
Corporate tax	54	84	67	60	134
Profit after tax	654	891	826	719	1,624
Basic EPS (VND)	1,017	1,366	1,246	1,084	2,450
GPM	17.4%	18.7%	17.4%	16.0%	25.3%
NPM	8.7%	9.5%	8.6%	7.2%	15.8%
ROE	10.4%	13.5%	12.4%	11.1%	23.0%

Source: BSC Research dự báo

Valuation

We recommend **Buy** for **DCM** with target price **VND 21,100/share**, upside 20.9% compared to the price on 31/03/2021 with the DCF and P/E method, with the weight of 40% - 60%.

Valuation method	Valuation (VND/share)	Weight (%)	Contribution (VND/share)
DCF	25,097	40%	10,039
P/E with target P/E 13.5x	18,439	60%	11,064
Target price (VND/share)			21,100
Closing price on 31/03/2021			17,450
Dividend rate			3.4%
TSR			20.9%
3 year P/E			13.5
DCF method			
WACC (%)		FCFF (Billion VND)	
Beta	0.86	Present value of FCF	5,336
Risk-free rate	3.5%	Present value of terminal value	5,196
Market risk premium	11.5%	Total current value of FCF	10,532
Equity cost	13.3%	(+) Cash & short-term investments	3,205
Debt cost	3.1%	(-) Short and long-term debt	(447)
Corporate tax rate	8.6%	(-) Minority interests	(4)
% Debt	11.5%	EV	13,286
% Equity	88.5%	Number of shares outstanding (millions)	529
WACC	11.9%	Share value, VND	25,097

P/E method	
EPS 2021 (VND/share)	1,366
Target P/E (times)	13.5
Target price for 2021 (VND)	18,439

Source: BSC Research

Summary table of enterprises in the industry by capitalization

Stock code	Company	Exchange	Market cap (billion VND)	Basic P/E (TTM)	P/B (TTM)	P/S (TTM)	EV/EBITDA
DCM	Ca Mau Fertilizer	HOSE	7,914.53	11.92	1.26	1.05	4.35
DPM	Phu My Fertilizer	HOSE	7,161.42	10.33	0.89	0.92	5.13
DHB	Ha Bac Fertilizer	UPCOM	1,959.84	-1.34		0.70	40.04
DDV	DAP - Vinachem	UPCOM	1,784.00	109.72	1.40	0.95	9.39
BFC	Binh Dien fertilizer	HOSE	1,137.64	8.52	1.17	0.21	6.27
LAS	Lam Thao Chemicals	HNX	1,015.71	133.78	0.82	0.44	9.66
SFG	Southern Fertilizer	HOSE	440.18	156.11	0.79	0.32	28.67
VAF	Phosphate Van Dien	HOSE	376.65	17.43	0.82	0.51	10.79
QBS	Quang Binh Import and Export	HOSE	185.80	-3.23	0.29	0.15	-25.93
PSW	South-West PetroVietnam Fertilizer and Chemicals	HNX	151.30	18.08	0.77	0.09	23.63
NFC	Phosphate Ninh Binh	HNX	124.28	13.56	0.68	0.29	5.87
PCE	Central PetroVietnam Fertilizer and Chemicals	HNX	103.00	8.03	0.64	0.06	13.57
PSE	Southeastern Petroleum Chemicals	HNX	97.50	11.55	0.63	0.05	10.95
HPH	Hung Phat Ha Bac Chemicals	UPCOM	40.32	13.50	0.40	0.53	3.84
HSI	General Materials Biochemistry Fertilizer	UPCOM	19.53	-30.11	43.15	0.11	18.31
DCI	Da Nang Chemical Industries	UPCOM	2.84	0.39	0.09	0.01	0.29
	Median		281.23	11.73	0.79	0.30	9.52

Source: Fiin Pro

***** Tracking factors that have not been included in the valuation need attention**

Expected to be refunded input VAT when the revised VAT law is passed at the 11th National Assembly session in March 2021 (not recorded in the general valuation result)

The Ministry of Finance's proposal to the Government on its opinion on amending Tax Law 71/2014/QH13 dated November 26, 2014, in the direction of making fertilizers a VAT-taxable product at 5%, to submit to the National Assembly, which is expected to be approved at the meeting in March 2021. According to BSC, this event may impact COGS in the period 2021-2024, so we have developed two scenarios to assess this impact.

Case 1: VAT law is not passed (base scenario)

Unit: Billion VND	2020	2021	2022	2023	2024
Revenue	7,561	9,335	9,651	9,996	10,299
Gross profit	1,317	1,742	1,683	1,600	2,607
GPM	17.4%	18.7%	17.4%	16.0%	25.3%
EBIT	643	847	759	642	1,620
EPS	1,017	1,366	1,246	1,084	2,450
P/E method valuation (VND)		18,440			

Source: BSC Research forecast

Case 2: The VAT Law is passed

Based on the assumption, BSC expects this event will help DPM receive input VAT refund, equivalent to ~VND 236 billion/year in the forecast period, positively impacting the company's gross profit margin from 2021.

2.1 Conservative forecast scenario:

The selling price is adjusted down by 5%: According to the draft proposed by the Ministry of Finance ([link](#))

Unit: Billion VND	2020	2021	2022	2023	2024
Revenue	7,561	8,980	9,312	9,656	9,960
Gross profit	1,317	1,695	1,655	1,587	2,625
GPM	17.4%	18.9%	17.8%	16.4%	26.4%
EBIT	643	834	763	661	1,671
EPS	1,017	1,645	1,524	1,349	3,049
P/E method valuation (VND)		22,210			

Source: BSC Research forecast

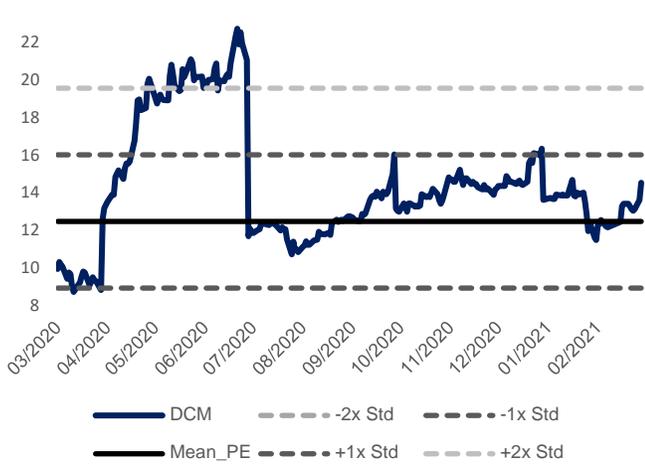
2.2 Most ideal forecast scenario:

***** Selling price unchanged**

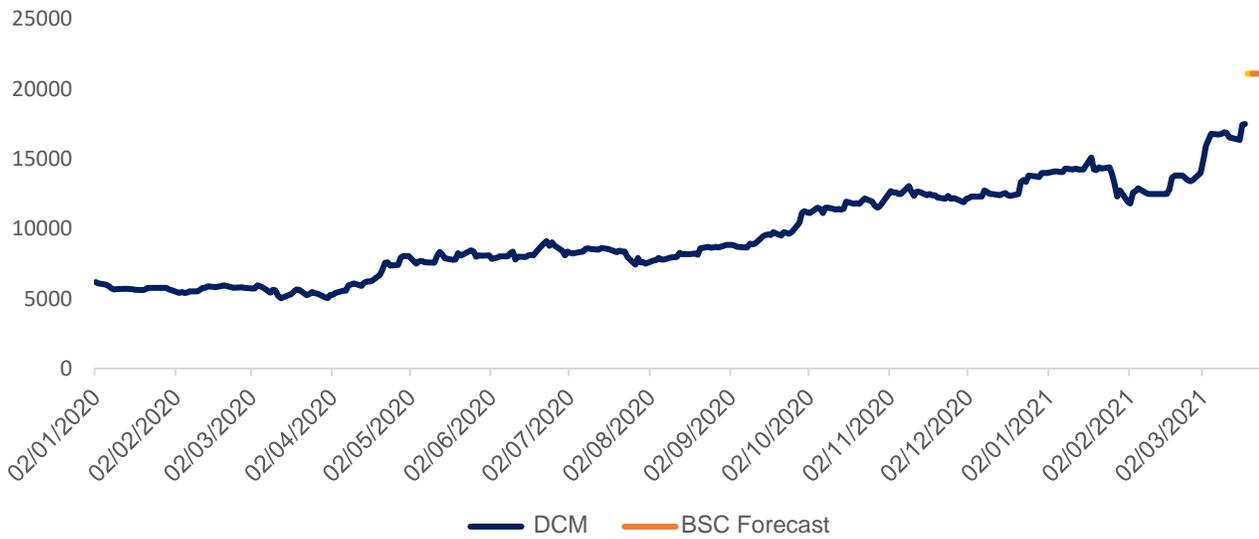
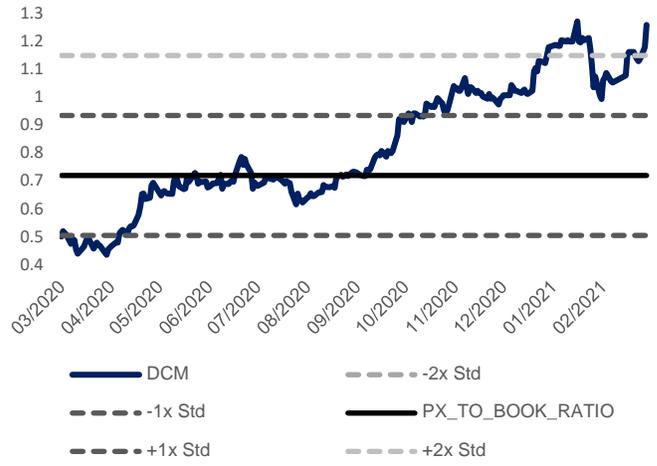
Unit: Billion VND	2020	2021	2022	2023	2024
Revenue	7,561	9,335	9,651	9,996	10,299
Gross profit	1,317	1,978	1,915	1,841	2,873
GPM	17.4%	21.2%	19.8%	18.4%	27.9%
EBIT	643	1,084	990	883	1,886
EPS	1,017	2,079	1,906	1,728	3,417
P/E method valuation (VND)		28,070			

Source: BSC Research forecast

STOCK P/E



STOCK P/B



Disclosure

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