

Petrovietnam fertilizer and chemical corporation – JSC (DPM)

BSC

Recommendation

Target price	N/A
Closed price	25,100
Upside	N/A

Market data

Outstanding stock (mill share)	391
Market cap (bn Dong)	8296
Highest of 52 weeks	26,000
Average trading volume of 10 session	432,231

Major shareholders (%)

PETRO VN	59.59
DEUTSCHE BANK AG	2.61
MARKET VECTOR VN ETF	2.15
GIC	1.78
CITI GROUP	1.31

Price movement

	1M	3M	1Y
DPM	-1%	-8%	-16%
VN-Index	13%	23%	45%

Trần Thị Hồng Tươi
tuoith@bsc.com.vn

Company snapshot: DPM is the largest urea fertilizer producer in the country, with a total capacity of 800,000 tons per year. In 2018, the company plan to put into operation the NH3-NPK plant with a capacity of 250,000 tons of NPK per year and 90,000 added NH3.

Recent reports: [link](#)

Valuation

On 08, Decemer, 2017, DPM shares were traded at VND21,300 per share, equivalent to a PE of 13.64x, much higher than the average PE fertilizer producers.

Company updates

- 10M2017, DPM sold out 700 thousand tons of urea, 330 thousand tons of other fertilizers, 27 thousand tons of other chemicals. Net revenue and EBT of 10M2017 reached VND7,078 billion and VND 800 billion, respectively.
- Average selling price of urea is about VND 6,800-6,900 / kg, up 11% compared to the average price in 2016.
- Gas input prices increased by 31%, to around \$ 5.1 / MMBTU. Gas prices are forecasted to remain high in 2018, negatively impacting DPM's urea business.
- Gross revenue and EAT are forecasted to be at VND 8,571 billion (+ 8% yoy) and VND 698 billion (-39% yoy) respectively due to high gas prices and debt repayment for PVtex of VND 80 billion.
- The NH3-NPK plant is expected to be officially put in to operation in early 2018.
- Advance payment of 10% cash dividend for the fiscal year of 2017.

Catalysts:

- PVN divestment of DPM.

Risk

- Operational risk with regard to new factory
- Having to make debt repayment for PVtex

	2013	2014	2015	2016	2017F
Gross Revenue (bil.)	10,363	9,549	9,765	7,925	8,571
% yoy	-22%	-8%	2%	-19%	8%
Total asset (bn Dong)	10,795	10,111	10,919	9,568	9,270
OE (bn Dong)	9,545	9,005	8,548	8,229	7,886
EAT (bn Dong)	2,215	1,096	1,488	1,141	698
% yoy	-27%	-51%	36%	-23%	-39%
EPS (Dong/share)	0	2,885	3,295	2,558	1,562
BPS (Dong/share)	25,119	23,697	22,493	21,024	20,147
P/E					13.64
P/B					1.06

Source: BSC research, * Accumulated

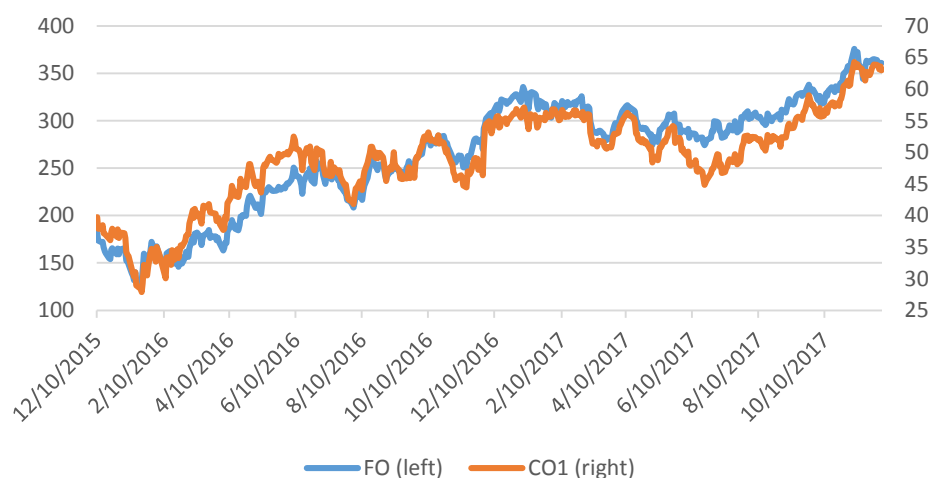
Company Update

9M2017 operating result. Accumulated 9M2017, DPM's total revenue and after tax profit were VND 5,947 billion (+ 10% yoy) and VND 610 billion (-36% yoy) respectively. Revenue and EBT of 10M2017 reached VND 7,078 billion and VND 800 billion, respectively. Business results declined sharply because the urea selling price increased by 12%, much slower than the increase in input gas price.

Output increased slightly in 10M2017. By the end of 10M2017, the total production of urea reached 777 thousand tons, equal 101% of 2017 target. Total sales reached 700 thousand tons of urea and 330 thousand tons of other fertilizers, 27 thousand tons of other chemicals. The consumption of UFC 85 continued to be low because two Urea companies in the north stopped production lines for many months.

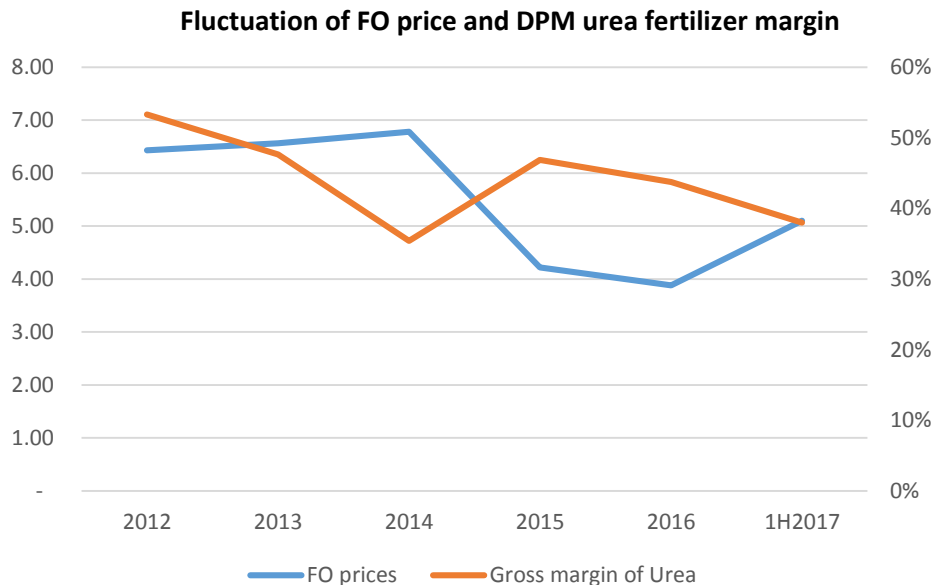
Gas price increased rapidly, the average price of 9M2017 increased by 31% compared to the average price in 2016. On average, the price of gas input 9M2017 is 5.1- 5.2 USD / MMBTU. By the end of 2017, the world oil price tends to increase, Brent oil prices are currently traded at \$62.96 per barrel, leading the gas prices to rise. On average 11M2017, the price of FO gas on the Singapore floor increased 36% over that of 2016. In 2018, many large oil research organizations predict average Brent oil prices range from \$ 55-58 per barrel, higher than the 2017 average (\$ 54.07 a barrel). This may continue to negatively impact DPM's profitability as input gas prices account for 68% of the cost of urea production costs.

Singapore FO price and Brent oil prices from Jan, 2016 – Nov, 2017



Source: Bloomberg

Urea price up by 11% did not keep pace with the rise of gas price. On average, urea price for DPM's tier I distributors is about VND 6,800 - 6,900 / kg. Raising the price of fertilizer is not enough to compensate for the increase in input gas price, causing the gross profit margin to fall sharply from 30% in 2016 to 23% in 9M2017. As the world market for nitrogenous fertilizer is forecasted to continue to surplus (56.42 million metric tons (MMT)) in 2018 and 58.97 MMT in 2020), there are no barriers to importing urea into Vietnam (the highest fertilizer import tax is 5%), we believe that, in the long term, urea fertilizer price is difficult to increase.



Sources: BSC research

NH3-NPK new complex plant progress update. The new plant is currently under construction and will be put in to test phase in November 2017. It is expected to officially commercialize the product in the early of 2018. The total investment capital of the project is VND 5,000 billion. NH3 production capacity increase by 90,000 tons per year and high quality NPK capacity is 250,000 tons. Current disbursement is VND 2,600 billion, of which 60% is financed with equity.

DPM's expectation for a new plant. The company plans to sell 170,000 tonnes of high quality NPK in 2018 with the expected gross margin of 12%, net profit margin of 7-8%. According to DPM, compared to common NPK fertilizer market, in the high quality NPK segment, there are lower competition, higher growth, with the average of 6-7% per year. The company is confident of its high quality NPK consumption plan. Compared to BFC, which is a reputable unit in NPK fertilizer production, DPM's investment in new plants is very high, about VND 20 million per ton of NPK, 1.75x that of BFC. The forecasted depreciation cost and interest expense of the complex is about VND 610 billion, therefore, the efficiency of the plant should be monitored.

2017 earnings forecast update. We forecast total urea sales of 2017 to reach 820 thousand tonnes. Assuming the average urea selling price of Q4 / 2017 is 1% higher than the first three quarters, the output price is about 5.21 USD/MMBTU, DPM's after tax profit is forecasted at VND 798 billion, EPS 2017 is 1,562 VND / share. Our forecast includes a debt repayment on behalf of PVtex, around VND 80 billion

Technical analysis

Technical perspective:

- Current trend: Rebound
- MACD Indicator: Convergence
- RSI Indicator: Bounce back from oversold threshold

Comment: After forming bottom in early November, DPM has recovered continuously, successfully tested the Fibonacci 61.8% level but failed at the 50% level. BSC believes that 21 is a solid support level for DPM and this stock will soon rally in the upcoming session with good RSI and smaller Bolinger band.

Recommendation: Buy DPM at price lower than 21.5, take profit at 25.5 and cutloss at 20.

Technical chart



Nguồn: Amibroker, BSC

Disclosure

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BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

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