

Sector: Fertilizer | RETAIL RESEARCH

Recommendation

BUY

**PetroVietnam Chemicals and Fertilizer JSC (HSX: DPM)
NEW WAVE FOR “GREEN RACE”**

Current price: **19,100**
Previous target price: **18,440**
New target price: **23,030**
Dividend yield: **7.9%**
Upside: **20.6%**

Date: 11/03/2021
Outstanding Shares (Million): 391
Market Cap (VND billion): 7,474
Avg. 6M Trading vol: 3,369,240
% Foreign float: 12.9%

Shareholder Structure
PVN: 59.59%
Nghe An Agricultural Materials: 3.93%
Edgbaston: 3.73%

Retail Research:

Pham Thi Minh Chau
Chauptm@bsc.com.vn

Technical Analyst:

Nguyễn Tiến Đức
ducnt@bsc.com.vn

Target price: 21,500 VND
Stop-loss price: 17,000 VND

VALUATION

We maintain our **BUY** recommendation for DPM and raise our target price to **VND 23,030/share, 20.6% upside** from the price on 10/03/2021, based on the DCF and P/E method (50%/50%).) due to changes in the following assumptions (i) Adjustment of FO oil prices and urea prices, based on 2M/2021 movements; (ii) Sales volume decreased (-4.5%YoY) due to maintenance plan in Q2/2021; (iii) Target P/E adjusted to 11.8x, based on industry median of 11.7x and 3-year median P/E of 11.8x.

FORECAST OF BUSINESS RESULTS

BSC forecasts DPM's revenue and NPAT of VND 9,846 billion (+26.9% YoY) and VND 865 billion (+24.7% YoY), respectively. EPS fw = VND 1,942 and P/E fw= 9.8, P/B fw =0.98.

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.
- Tracking factors not included in our valuation:
 - (i) Recognition of abnormal profits from insurance claims;
 - (ii) Expectation of tax refund when the tax law is revised in 2021.

TECHNICAL VIEW

Investors can buy the stock with the target price located around 21.5, consider to stop loss if the support level 17 is penetrated.

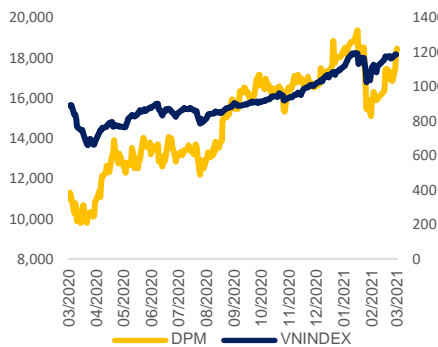
RISKS

- 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.

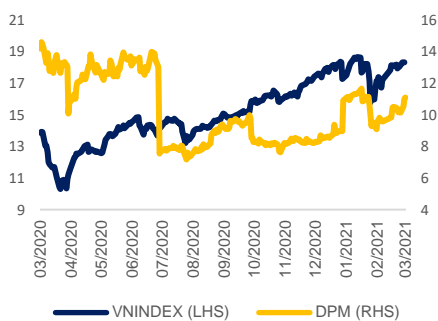
COMPANY UPDATE

- Revenue and NPAT in 2020 will reach VND 7,762 billion (+1% yoy) and VND 693 billion (+83% yoy),** respectively, thanks to a sharp drop in input gas prices and high demand for fertilizer export. In addition, DPM also received an unusual profit from insurance of 90 billion/200 billion in Q4/2020
- DPM sets a conservative plan for 2021:** DTT = 8,331 billion VND, EAT = 365 billion VND, converted urea output is only 770 thousand tons, due to the periodic maintenance plan in Q2/2021.

Price comparison between DPM and VN index



P/E comparison between DPM and VN index



	2020	2021	Peer	VN-Index
PE (x)	12.3	9.8	11.73	14.7
PB (x)	1.01	0.99	0.79	2.0
PS (x)	0.96	0.76	0.3	1.5
ROE (%)	8.4%	10.3%	4.8%	14%
ROA (%)	6.1%	6.9%	3.4%	2%
EV/ EBITDA (x)	6.14	4.69	9.52	11.5

	2019	2020	2021	2022
Net Sales	7,684	7,762	9,846	10,424
Gross Profit	1,402	1,730	2,329	2,318
NPAT	378	693	865	845
EPS	863	1,557	1,942	1,898
EPS Growth	-44.4%	80.4%	24.7%	-2.3%
Net Debt/ Equity	40.2%	36.9%	49.7%	54.1%

COMPANY UPDATE

Billion VND	Q4/2020	Q4/2019	%yoy	2020	2019	% yoy	KH2021	Update 2020 Business Results
Net revenue	1,930	2,285	-15%	7,762	7,683	+1%	8,331	2020: Revenue = VND 7,762 billion (+1% yoy) , NPAT = VND 693 billion (+83% yoy) . Gross profit margin increased from 16.8% to 21% thanks to (1) recovery of urea sales volume (+ 19.7%YoY) which was not affected by plant maintenance and (2) estimated input gas cost of -17.2 % yoy. For Q4/2020: Revenue = VND 1,930 billion (-15% yoy) , NPAT = VND 103 billion (-56% yoy) due to: <ul style="list-style-type: none"> • Gas input prices increased sharply in Q4 • G&A expenses +81% yoy due to an increase in the provision for R&D fund by VND 20 billion and staff expenses • DPM also received an abnormal profit from insurance ~90 billion/200 billion in Q4/2020 and the rest is expected to be recorded in 2021. Other updates: <ul style="list-style-type: none"> • DPM gives a cautious plan for 2021: Net revenue = VND 8,331 billion, PBT = VND 437 billion based on the oil price scenario at USD 45/barrel. • Plan to pay cash dividend for the 1st time in 2020: VND 700/share, the expected date of dividend payment is February 19, 2021.
Gross profit	387	557	-30%	1,730	1,402	+23%		
Selling expenses	-235	-202	+16%	-654	-554	+18%		
G&A expenses	-148	-96	+54%	-409	-415	-2%		
Financial revenue	62	59	+5%	179	140	+28%		
Financial expenses	-19	-26	-27%	-93	-108	-14%		
Other revenue	86	-4		95	1			
PBT	133	290	-54%	850	467	+82%	437	
NPAT	103	237	-56%	693	378	+83%	365	
Sales output (,000 tons)								
Ure				827	680	+20%	770	
NPK				94	76	+23%	140	
Self trading				179	200	-13%	106	

Source: BSC Research

2021 OUTLOOK – NEW WAVE FOR “GREEN RACE”

BSC forecasts revenue and NPAT of VND 9,846 billion (+26.9% YoY) and VND 865 billion (+24.7% YoY), respectively. EPS fw = VND 1,942 and P/E fw= 9.8, P/B fw =0.98. Based on the assumption that gross profit margin will increase from 22.3% to 23.7% due to the fact that the adjusted selling price increases faster than the price of raw gas.

We expect Phu My fertilizer revenue to grow by 27.3% YoY, thanks to:

(1) sales output decreased by 4%, exceeding 3% of the plan due to the factory's maintenance plan in Q2/2021, but fertilizer demand is expected to be good in 2021

(2) The price of urea fertilizer in 2021 is adjusted up (+29%YoY) faster than the price of raw material (+27%YoY), leading to the assumption that gross profit margin increases from 22.3% to 23.7% based on the adjustment based on based on assumptions about FO oil price and selling price data for 2M/2021.

***** The selling price of fertilizer in the period 2015-2019 has no room to increase due to excess supply in the context of weak demand due to** (1) Many fertilizer factories come into operation and increase capacity, while (2) demand is reduced by the adverse effect of El Nino on cultivars and shrinking cultivated area.

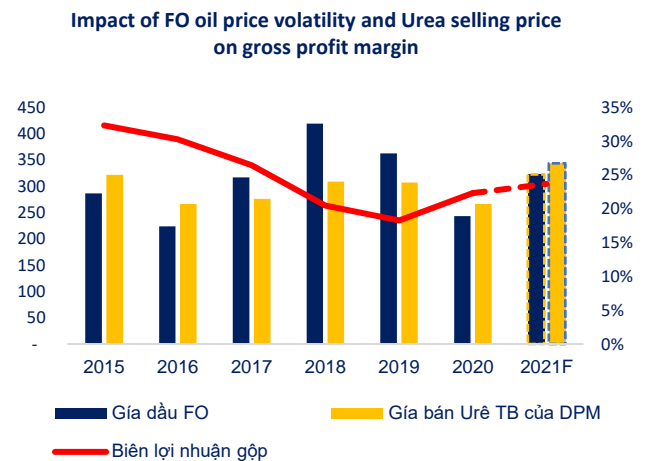
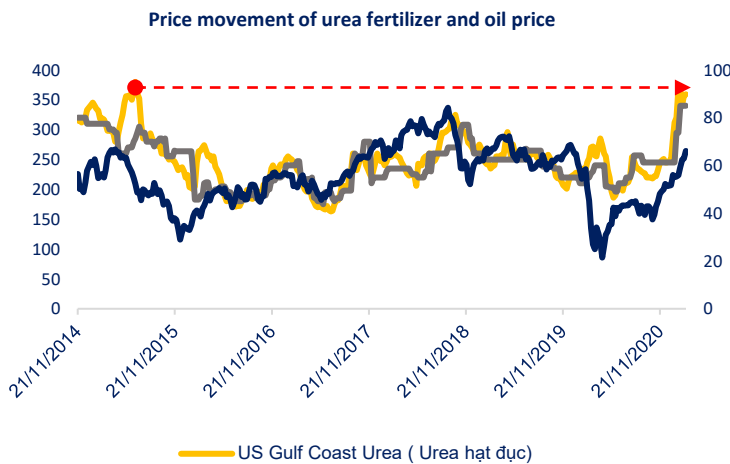
2021- Opportunity to improve fertilizer prices thanks to the dual driving force of supply disruption and recovery in demand due to the complicated developments of the Covid-19 epidemic leading to supply disruptions in leading fertilizer exporting countries such as China, etc. Meanwhile, fertilizer demand increased thanks to (1) policies to ensure food security during and after the epidemic (2) Favorable weather to restore agriculture. These, together with rising oil prices and transportation costs, led to **a sharp increase in world fertilizer prices compared to the average price in 2020 – Even reaching and surpassing the 2015 peak in 2M/2021**; Specifically, urea fertilizer price (+42%), DAP fertilizer price (+46%) and MAP fertilizer price (32%);

The domestic price of urea fertilizer also fluctuated with the world price, increasing by about 42% compared to the average price in 2020 – At 8,500 VND/kg-9,300 VND/kg, thanks to:

(1) Climatic conditions are suitable for growing crops and increasing the yield of food crops, leading to an increase in domestic and export demand for fertilizers; while domestic inventories are low at the end of 2020 down 39% YoY).

(2) FO oil price recovered to \$340/barrel (+40% compared to the average price in 2020), but still increased slower than the increase of fertilizer lines.

However, we believe that selling prices are unlikely to maintain their current high levels and will see a downward correction in Q3-Q4. Therefore, we assume fertilizer price will be at 7,900 VND/kg – the highest average price in the past 5 years.



Source: Bloomberg, DPM, BSC Forecast

Forecast table of DPM's business results:

Unit: Billion VND	2020E	2021F	2022F
FO oil price (USD/MMBTU)	253	322	345
% YoY	-30%	27%	7%
Natural gas price (USD/MMBTU)	4.73	5.71	6.01
% YoY	-17%	21%	5%
Fertilizer revenue	5,865	7,464	8,021
% YoY	5.5%	27.3%	7.5%
Chemical revenue	727	700	702
% YoY	131.9%	96.3%	100.2%
Self-trading fertilizers revenue	1,276	1,816	1,843
% YoY	-23%	42%	1%
Sales output (thousand tons)			
Converted Urea fertilizer	827	790	798
% YoY	20%	-4%	1%
NPK fertilizer	94	130	170
% YoY	23%	38%	31%
Self-trading fertilizer	171	189	189
% YoY	-16%	10%	0%
Revenue	7,762	9,846	10,424
COGS	6,032	7,517	8,107
Gross profit	1,730	2,329	2,318
Selling expenses	655	801	848
G&A expenses	409	520	550
EBIT	666	1,008	919
Financial revenue	180	190	219
Financial expenses	93	115	111
Profit before tax	753	1,083	1,027
Corporate tax	147	199	164
Minority interests	10	19	18
Profit after tax	596	865	845
Basic EPS (VND)	1,557	1,942	1,898
GPM	22.3%	23.7%	22.2%
NPM	7.7%	8.8%	8.1%
ROE	8.4%	10.3%	9.9%

Source: BSC Research forecast

VALUATION

We maintain our **BUY** recommendation for **DPM** and raise our target price to **VND 23,030/share, 20.6% upside** from the price on 10/03/2021, based on the DCF and P/E method (50%/50%) due to changes in the following assumptions (i) Adjustment of FO oil prices and urea prices, based on 2M/2021 movements; (ii) Sales volume decreased (-4.5%YoY) due to maintenance plan in Q2/2021; (iii) Target P/E adjusted to 11.8x, based on industry median of 11.7x and 3-year median P/E of 11.8x.

Method	Valuation (VND/share)	Weight (%)	Contribution (VND/share)
DCF	23,143	50%	11,571
P/E with target P/E of 11.8x	22,918	50%	11,459
Target price (VND/share)			23,030
Closing price on 10/03/2021			19,100
Dividend yield			7.9%
TSR			20.6%
3 year median P/E			11.83
DCF method			
Average cost of capital (%)		FCFF (Billion VND)	
Beta	0.80	Present value of FCF	3,022
Risk-free rate	3.5%	Present value of terminal value	4,799
Market risk premium	10.7%	Total current value of FCF	7,821
Cost of Equity	12.1%	(+) Cash & short-term investments	2,634
Cost of Debt	8.7%	(-) Short and long-term debt	(1,379)
Tax rate	18.4%	(-) Minority interests	(19)
% Debt	11.3%	EV	9,057
% Equity	88.7%	Number of shares outstanding (millions)	391
WACC	11.5%	Share value, VND	23,143
P/E method			
EPS 2021 (VND/share)			1,942
Target P/E 11.8 (times)			11.8
Target price for 2021 (VND)			22,918

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

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	7,762	9,846	10,424	10,848	11,155
Gross profit	1,730	2,329	2,318	2,315	2,259
GPM	22.3%	23.7%	22.2%	21.3%	20.3%
EBIT	666	1,008	919	860	763
EPS	1,557	1,942	1,898	1,871	1,785
P/E method valuation (VND)			22,918		

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 ~286 billion VND/year in the forecast period, positively impacting the company's gross profit margin from 2021.

*** Selling price unchanged from new TH1 - 7,900 VND/kg

Unit: Billion VND	2020	2021	2022	2023	2024
Revenue	7,762	9,846	10,424	10,848	11,155
Gross profit	1,730	2,614	2,622	2,639	2,604
GPM	22%	27%	25%	24%	23%
EBIT	666	1,294	1,223	1,184	1,108
EPS	1,553	2,538	2,549	2,565	2,523
P/E method valuation (VND)			29,946		

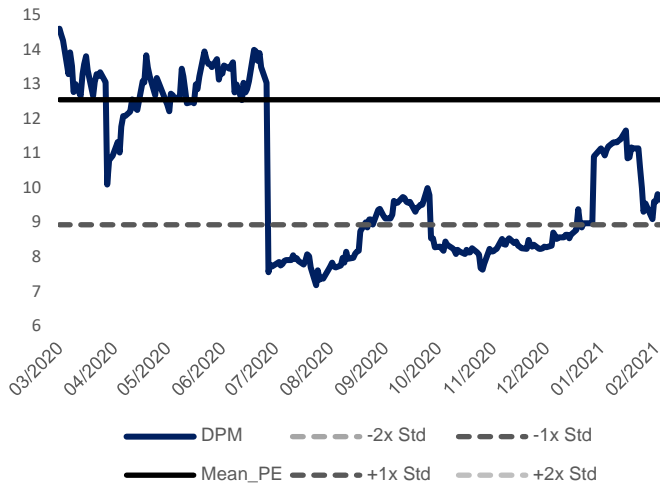
Source: BSC Research forecast

*** The selling price is adjusted down by 5% compared to case 1: According to the draft proposed by the Ministry of Finance ([link](#))

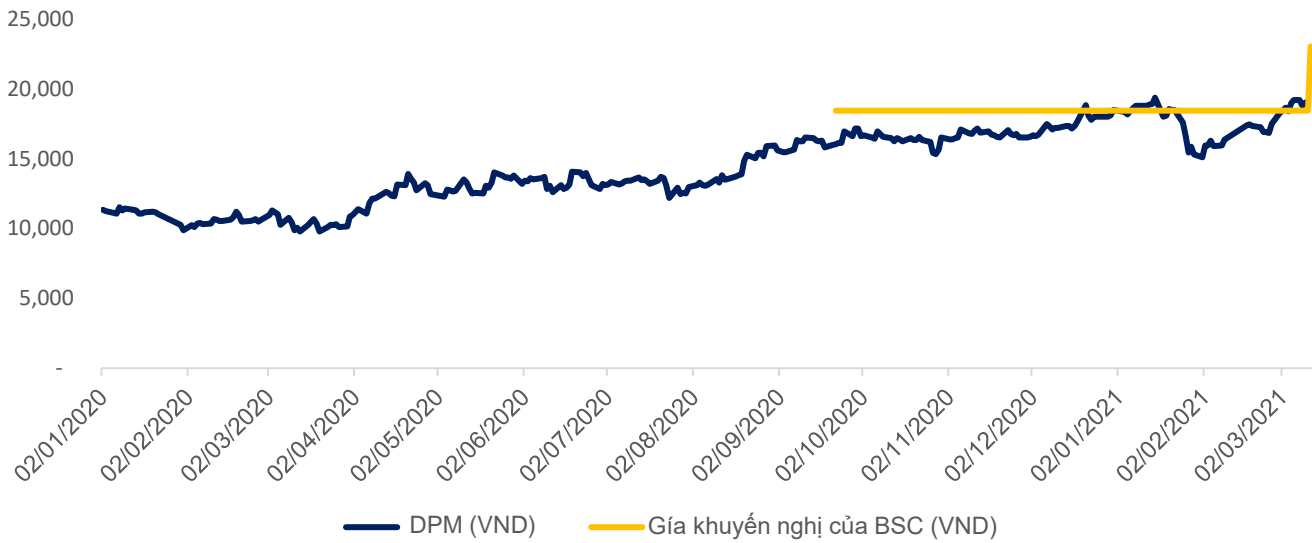
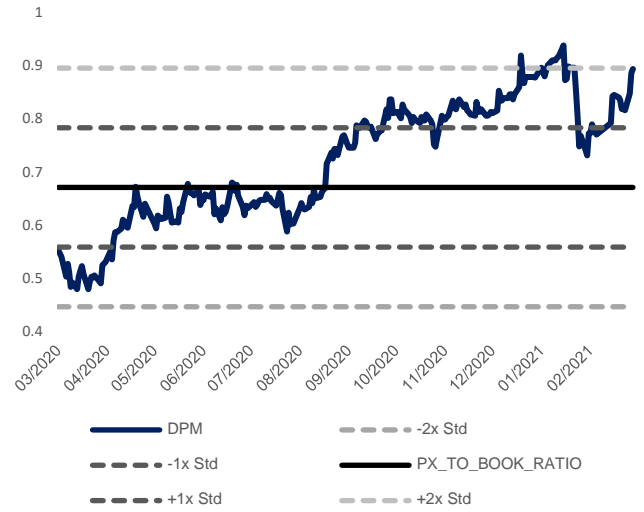
Unit: Billion VND	2020	2021	2022	2023	2024
Revenue	7,762	9,449	10,018	10,432	10,729
Gross profit	1,730	2,317	2,319	2,330	2,287
GPM	22%	25%	23%	22%	21%
EBIT	666	1,050	975	930	848
EPS	1,553	2,101	2,073	2,055	1,980
P/E method valuation (VND)			24,795		

Source: BSC Research forecast

STOCK PE



STOCK PB



Disclosure

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BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84439352722
Fax: +84422200669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84838218885
Fax: +84838218510

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