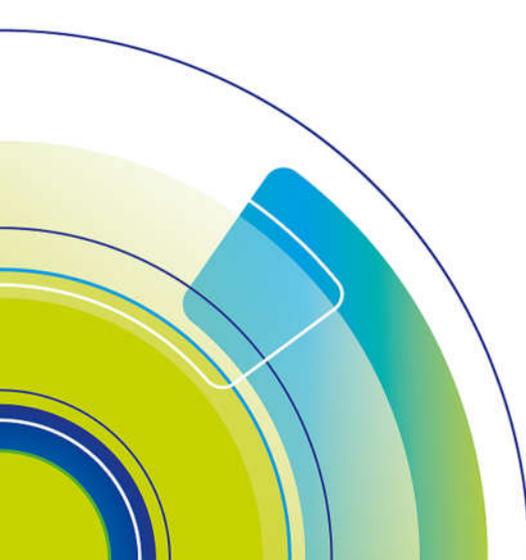




DPM Update – Neutral

September 18, 2024



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Update Report

Recommendation

NEUTRAL

HSX: DPM

Fertilizer

Target price (VND) 35,100

Market price (VND) 35,800

Expected share price return -1.9%

Expected dividend yield 4.2%

Expected total return 2.3%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	13.8	1.8	1.3	-3.5
Relative	-0.3	0.9	1.9	-8.0

Source: Bloomberg



Ownership

PVN 59.59%

Dragon Capital 8.95%

Stock Statistics

18-Sep- 2024

Bloomberg code DPM VN

52-week range (VND) 28,400 - 41,000

Shares O/S (m) 391

Mkt cap (VND bn) 14,049

Mkt cap (USD m) 566

Est. Foreign room left (%) 40.0

Est. free float (%) 39.2

3m avg daily vol (shrs) 3,089,359

VND/USD 24,830

Index: VNIndex / HNX 1270.97/233.49

PetroVietnam Fertilizer and Chemicals Corp (DPM VN)

For the 1H2024, DPM reported a NPAT of VND503 billion (+37% YoY), fulfilling 92.8% of the company's annual target—traditionally set at a very conservative level—and 65% of our forecast. Specifically, Q2/2024 contributed VND235 billion in NPAT, (+123.8% YoY and -12% QoQ). This performance exceeded our expectations. We have revised up our forecast for DPM's 2024 NPAT by 25% from our previous estimate, reaching VND 778 billion (+47% YoY). For 2025, we forecast the company to achieve NPAT of VND676 billion (-13% YoY) due to the prospect of lower urea prices.

Using the discounted cash flow method, we derive a target price for DPM at VND35,100/share by the end of 2025, equivalent to a total return of 2.3%. Rating Neutral.

In Q2/2024, DPM recorded revenue of VND3,947 billion (+6.5% YoY) and NPAT of VND235 billion (+123.8% YoY). Despite a 4.7% YoY decrease in urea sales volume for the Q2, this strong growth can be attributed to several factors:

- The average urea selling price in Q2 2024 increased by an estimated 6.5% YoY, in contrast to the period in 2023 when global fertilizer prices were at their lowest.
- The selling volume of NPK fertilizers rose by 14.5% YoY.
- The gross profit margin of domestically produced products improved to 15.6%, up from 13% in the previous period.

In general, in 6M2024, DPM recorded revenue of VND7,255 billion (+4% YoY) and NPAT of VND494 billion (+37%). Selling urea volume in 6M2024 increased by 4% y/y (Q1: +15% y/y, Q2: -4.7% y/y). However, the increase in urea volume was primarily driven by a 47% YoY increase in urea exports, totalling 94,000 tons. Additionally, the average urea selling price in 6M2024 is estimated to increase by 4% YoY (Q1: 2% YoY, Q2: +6.5% YoY).

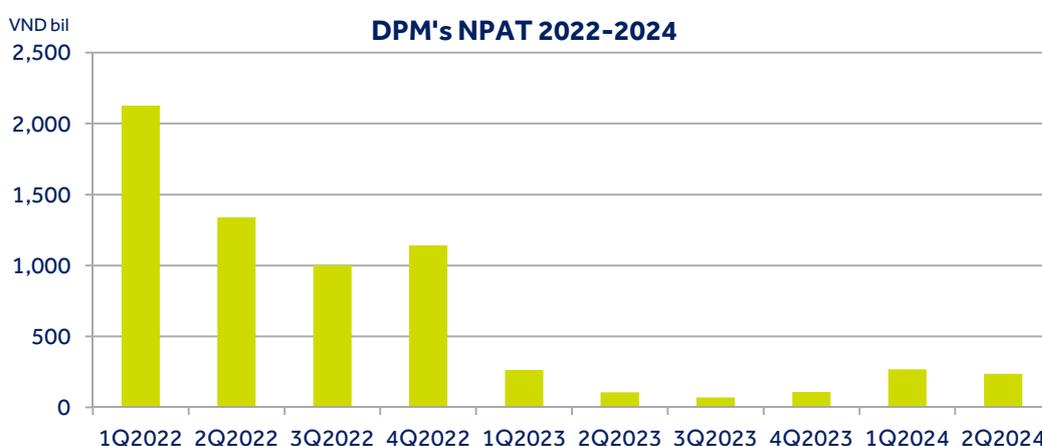
Regarding the draft amendment to the Value-Added Tax (VAT) Law proposes to subject fertilizers to VAT at a rate of 5% (which, if applied, would benefit fertilizer businesses), the majority of National Assembly delegates recently advocated maintaining the current regulations.

Regarding the future outlook for urea prices, the World Bank (April 2024) projects a 2.2% decrease in global urea prices in 2024, followed by a 7.1% decline in 2025. This forecast is driven by a recovery in supply, increased capacity from new production facilities, and a reduction in input costs. Additionally, potential risks include China lifting its restrictions on fertilizer exports and India's plan to halt urea imports by the end of 2025, both of which could negatively impact urea prices.

	2021	2022	2023	2024F	2025F
Net Sales (VNDbn)	12,786	18,627	13,569	13,845	13,546
Growth (%)	65%	46%	-27%	2%	-2%
EBITDA (VNDbn)	4,080	6,819	704	1,049	892
EBITDA margin (%)	32%	37%	5%	8%	7%
NPAT-MI (VNDbn)	3,117	5,565	519	755	656
Growth (%)	351%	79%	-91%	45%	-13%
EPS (bonus-adjusted, VND)	7,811	13,992	1,068	1,699	1,447
Growth (%)	398%	79%	-92%	59%	-15%
ROE	33%	45%	4%	7%	6%
ROIC	25%	34%	2%	4%	3%
Net debt/EBITDA (times)	-1.3	-1.3	-9.4	-7.1	-8.8
PER (times)	4.5	2.5	32.6	20.5	24.1
EV/EBITDA (times)	2.1	1.3	12.2	8.2	9.6
PBR (times)	1.3	1.0	1.2	1.2	1.2
DPS (VND)	3,000	5,000	7,000	2,000	1,500
Dividend yield (%)	9%	14%	20%	6%	4%

Positive Q2 2024 Financial Performance

Unit: '000 billion	6M2023	6M2024	YoY
Revenue	6,971	7,255	4.1%
Total sale volume ('000 ton), in which:			
Ure volume	482	501	3.9%
NPK volume	72	87	20.8%
Imported fertilizer volume	110	113	2.7%
Gross profit	911	1,146	25.8%
GPM	13.1%	15.8%	
SG&A expense	627	642	2.4%
SG&A/Revenue	9.0%	8.9%	
NPAT	367	503	37.1%
Net Profit margin	5.2%	6.8%	4.1%

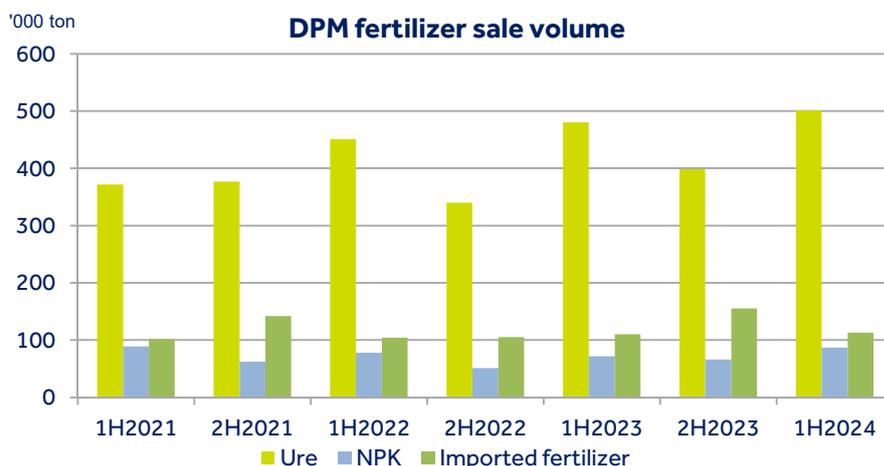
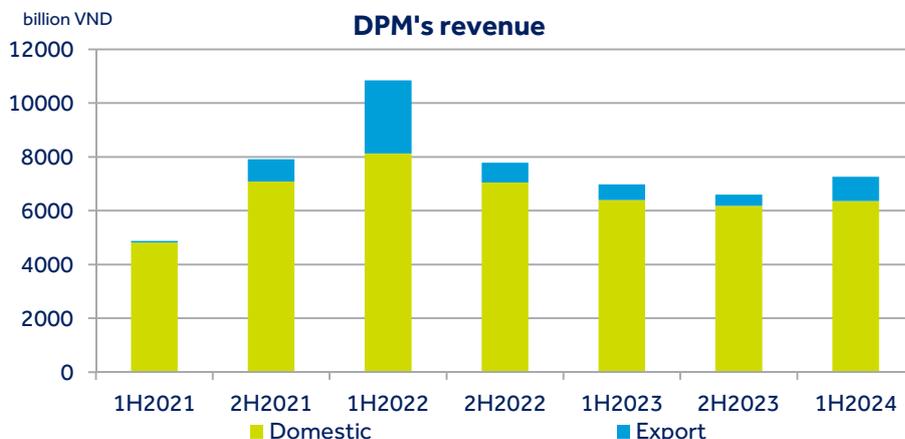


Source: DPM, ACBS

Although DPM's urea sales volume in Q2/2024 decreased by 4.7% YoY, DPM still recorded Q2/2024 revenue of VND3,947 billion (+6.5% YoY) and NPAT of VND235 billion (+123.8% YoY). This relatively positive result is thanks to:

- **Urea Selling Price:** The average selling price of urea in Q2 2024 is estimated to increase by 6.5% YoY, reaching VND9,650/ kg. This increase is attributed to China's continued policy of restricting urea exports and higher agricultural commodity prices driven by tensions in the Middle East. In contrast, global fertilizer prices were at a low during the same period last year due to weak demand and oversupply in most regions worldwide.
- **NPK Fertilizer Sales:** Sales volume of NPK fertilizers rose by 14.5% YoY and 148% QoQ, reaching 62,000 tons in Q2. This growth is partly due to the proactive development of new NPK product lines better aligned with farmers' needs. The gross margin for DPM's NPK trading segment is approximately 5% and represents 7-8% of DPM's total gross profit.
- **Gross Margin Improvement:** The gross margin for domestically produced products (including urea, NPK fertilizers, chemicals, etc.) improved to 15.6% in Q2, up from 13% in the same period last year. This improvement is attributed to a 58.7% YoY reduction in other cash costs, despite an estimated 6% increase in input gas costs.

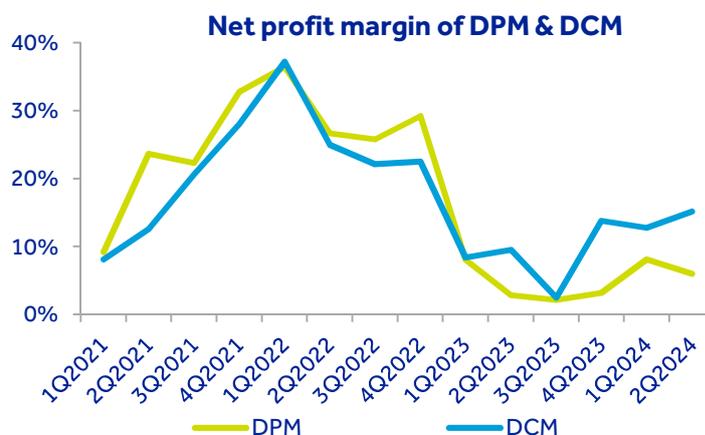
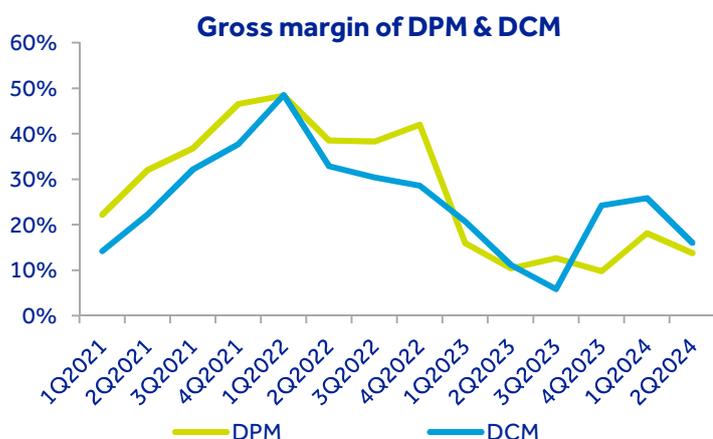
- Imported Fertilizer Revenue: Revenue from imported fertilizers increased by 56.4% YoY, driven by a 50% increase in volume. The margin for this segment improved to 2.3%, compared to a -13.7% margin in the same period last year.



Source: DPM, ACBS

Overall, in 6M2024, DPM recorded total revenue of VND 7,255 billion (+4% YoY) and NPAT of VND 494 billion (+37% YoY). The company saw a rise in fertilizer sales volumes across all segments: urea, NPK, and imported fertilizers, with respective increases of 4%, 21%, and 8% YoY. Additionally, the average selling price of urea is estimated to increase by 4% YoY, contributing positively to DPM's financial performance. Notably, the increase in urea production was primarily driven by a substantial 46.8% YoY rise in urea export volumes, reaching 94,000 tons.

On a quarterly basis, the growth in NPAT in 6M2024 was predominantly supported by the strong performance in Q2/2024, as net profit in Q1/2024 saw only a modest increase of 1.6% YoY.



Compared to DCM, DPM historically reported higher gross and net profit margins prior to Q3 2023. However, since Q3/2023, following DCM's cessation of plant depreciation which amounts to approximate VND 1,200 billion/year, DPM's margins have fallen below those of DCM.

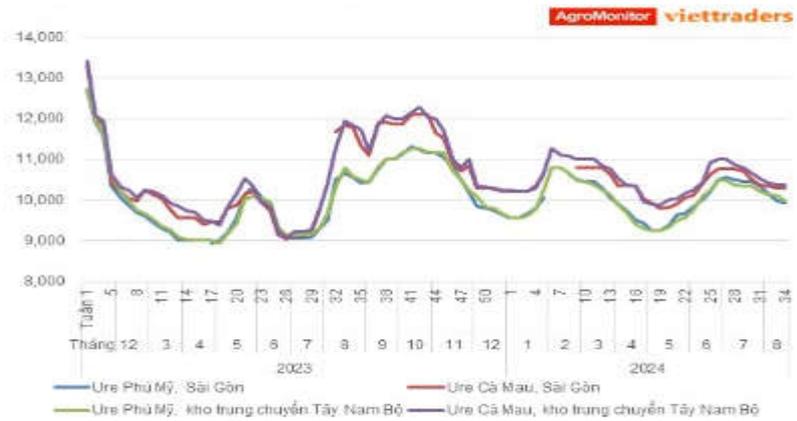
VAT on fertilizer development

The Ministry of Finance has proposed that fertilizers be transitioned from a VAT-exempt status (as defined by Law No. 71/2014/QH13 dated November 26, 2014, which amends and supplements certain tax laws) to being subject to VAT, with a proposed rate of 5%. If approved, DPM could benefit from a VAT input credit amounting to VND 260 billion per year, due to the higher input VAT rate of 10% compared to the output VAT rate. However, this proposal has been put forward repeatedly in previous years without being approved. Furthermore, during a recent National Assembly discussion, the majority of delegates recommended maintaining the current regulations.

Outlook for the 2H2024 and 2025

According to the World Bank report (April 2024), global urea prices are projected to decrease by 2.2% YoY in 2024 and by 7.1% in 2025, although they will remain higher than pre-2020 levels. This decline is attributed to a recovery in supply, particularly in Europe (following a significant drop due to high gas prices in 2022), increased capacity from new production facilities, and reduced input costs. Fitch Ratings also anticipates a downward trend, with Middle Eastern urea prices expected to decrease by 10% YoY in 2025.

Additionally, there is a risk that China may lift its fertilizer export restrictions after the domestic planting season ends, potentially increasing supply. Urea prices in China have already dropped significantly by 16.5% since early June 2024. Moreover, India, the largest importer of urea, plans to cease urea imports by the end of 2025 as part of its efforts to boost domestic production and reduce reliance on urea imports.



Following a recovery from May to June 2024, domestic urea prices have reverted to a downward trend in July and August 2024. This trend is consistent for both DPM's granular urea and DCM's piled urea. Additionally, domestic urea prices are significantly influenced by Chinese urea prices. Consequently, the outlook for urea prices in the 2H 2024 and throughout 2025 is expected to be constrained by these aforementioned factors.

Valuation

As a result, we forecast DPM's 2024 financial performance with revenue of VND13,845 billion, (+2% YoY), and a NPAT of VND778 billion, (+46.9% YoY). For 2025, we project revenue to reach VND13,546 billion, (-2.2% YoY) and NPAT of VND676 billion, (-13.1% YoY).

Using the discounted cash flow (DCF) valuation method, we estimate DPM's share price at VND 35,100 by the end of 2025, which implies a total return of 2.3%.

DPM FINANCIALS MODEL

(VND bn except where stated)	2021	2022	2023F	2024F	2025F
Total Net Sales	12,786	18,627	13,569	13,845	13,546
<i>Sales growth (%)</i>	65%	46%	-27%	2%	-2%
CoGS ex-dep'n	7,464	10,274	11,514	11,466	11,354
SG&A	1,243	1,534	1,351	1,329	1,300
<i>SG&A as % of sales</i>	10%	8%	10%	10%	10%
EBITDA	4,080	6,819	704	1,049	892
<i>EBITDA margin (%)</i>	32%	37%	5%	8%	7%
Depreciation	537	515	403	408	412
Operating profit	3,543	6,304	301	642	480
<i>Operating profit margin (%)</i>	28%	34%	2%	5%	4%
Net interest expense	-92	-259	-393	-257	-295
<i>as % of avg, net debt</i>	2%	4%	5%	4%	4%
Tax	628	1,021	161	148	129
<i>Effective tax rate (%)</i>	17%	15%	23%	16%	16%
Minorities	54	20	10	23	20
NPAT-MI	3,117	5,565	519	755	656
<i>Net profit margin (%)</i>	24%	30%	4%	5%	5%
Cash earnings	3,709	6,100	933	1,186	1,088
Number of shares (m)	391	391	391	391	391
EPS (VND)	7,811	13,992	1,068	1,699	1,447
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00
Adjusted EPS (VND)	7,811	13,992	1,068	1,699	1,447
<i>EPS growth (%)</i>	398%	79%	-92%	59%	-15%

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	1,339	223	(468)	(413)	(88)
Capex	(79)	(14)	129	54	117
Other cash flow items	100	100	100	100	100
Free cash flow	2,548	5,990	1,372	1,645	1,159
Share issues (m)	0	0	0	0	0
Dividends paid	558	1957	2740	783	587
Increase in net debt	(1991)	(4033)	1368	(862)	(572)
Net debt, end of year	(5,274)	(8,762)	(6,627)	(7,434)	(7,848)
Enterprise value	8,366	4,878	7,014	6,206	5,792
Shareholders' equity	10,713	14,017	11,545	11,585	11,649
BVPS (VND)	27,371	35,814	29,497	29,598	29,761
Net debt / equity (%)	-49%	-63%	-57%	-64%	-67%
<i>Net debt / EBITDA (x)</i>	<i>-1.3</i>	<i>-1.3</i>	<i>-9.4</i>	<i>-7.1</i>	<i>-8.8</i>
Total assets	13,918	17,699	13,309	14,182	14,234

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
<i>ROE (%)</i>	<i>33%</i>	<i>45%</i>	<i>4%</i>	<i>7%</i>	<i>6%</i>
<i>ROA (%)</i>	<i>28%</i>	<i>40%</i>	<i>2%</i>	<i>5%</i>	<i>3%</i>
<i>ROIC (%)</i>	<i>25%</i>	<i>34%</i>	<i>2%</i>	<i>4%</i>	<i>3%</i>
<i>WACC (%)</i>	<i>0.15</i>	<i>0.15</i>	<i>0.15</i>	<i>0.15</i>	<i>0.15</i>
<i>EVA (%)</i>	<i>9.6%</i>	<i>19.1%</i>	<i>-13.5%</i>	<i>-10.7%</i>	<i>-11.8%</i>
<i>PER (x)</i>	<i>4.5</i>	<i>2.5</i>	<i>32.6</i>	<i>20.5</i>	<i>24.1</i>
<i>EV/EBITDA (x)</i>	<i>2.1</i>	<i>1.3</i>	<i>12.2</i>	<i>8.2</i>	<i>9.6</i>
<i>EV/FCF (x)</i>	<i>3.3</i>	<i>0.8</i>	<i>5.1</i>	<i>3.8</i>	<i>5.0</i>
<i>PBR (x)</i>	<i>1.3</i>	<i>1.0</i>	<i>1.2</i>	<i>1.2</i>	<i>1.2</i>
<i>PSR (x)</i>	<i>1.1</i>	<i>0.7</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>
<i>EV/sales (x)</i>	<i>0.7</i>	<i>0.3</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>
<i>Dividend yield (%)</i>	<i>8.6%</i>	<i>14.3%</i>	<i>20.1%</i>	<i>5.7%</i>	<i>4.3%</i>

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BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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