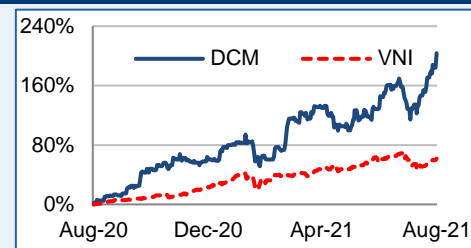


PetroVietnam Ca Mau Fertilizer (DCM) [OUTPERFORM +11.9%]
Update Report

Industry:	Agrochemicals		2020A	2021F	2022F	2023F
Report Date:	August 11, 2021	Rev Growth	7.4%	25.8%	1.2%	-2.4%
Current Price:	VND23,600	EPS Growth	55.4%	14.9%	-5.8%	-11.6%
Target Price (TP):	VND25,600	NPAT (VND bn)	664	763	718	635
Last TP:	VND19,400	DPS (VND/sh) ⁽²⁾	800	800	800	800
Upside:	+8.5%	EV/EBITDA	5.4x	4.5x	4.2x	3.8x
Dividend yield:	3.4%	P/E ⁽³⁾	20.5x	17.8x	18.9x	21.4x
TSR %	+11.9%	P/E ⁽⁴⁾	11.4x	10.5x	11.3x	12.1x



Market Cap:	USD536.4mn		DCM	Peers ⁽¹⁾	VNI
Foreign Room:	USD250.4mn	P/E (ttm) ⁽³⁾	18.2x	10.3x	17.1x
ADTV30D:	USD4.0mn	P/B (curr)	2.0x	2.3x	2.7x
State Ownership:	75.6%	Net D/E	-58.5%	50.5%	N/A
Outstanding Shares:	530 mn	ROE	11.9%	26.8%	16.1%
Fully Diluted Shares:	530 mn	ROA	8.0%	9.1%	2.6%
3-yr PEG	N.M.	(1) average value of foreign peers; (2) our forecasts; (3) reported; (4) adjusted P/E assuming a normal 20-year depreciation policy			

Company Overview

DCM is one of the two largest urea producers in Vietnam and has ~32% market share. DCM owns a urea plant with an annual capacity of 800,000 tons of granular urea. In addition, DCM has invested in an NPK plant with a capacity of 300,000 tons.

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Strong urea prices to support near-term profits

- We maintain our OUTPERFORM rating as we reiterate our optimistic view on DCM being a leading urea producer that will benefit from strong urea prices in 2021-2022F in addition to its long-term potential from rising export demand and its NPK segment.
- We raise our target price by 32% as we increase 2021-2025F earnings 23% in aggregate due to higher forecast urea and NPK selling prices despite higher forecast input gas costs as a result of our revised oil price assumptions as stated in our [July 27, 2021 Energy Sector Report](#).
- We forecast 2021 EPS growth of 14.9% YoY as we expect a 26.0% YoY urea price increase to outweigh a 32.9% YoY input cost hike and a sales volume decline of 8.8% YoY.
- The currently strong global urea price momentum is due to COVID-19 causing higher material and freight costs, shipping disruptions and reduced supply from China amid continued strong demand. We expect strong urea prices to continue until H1 2022 before declining in H2 2022. We expect earnings to drop 6%/12% YoY in 2022/23F, respectively, due to lower urea prices.
- Meanwhile, we expect DCM's urea plant to become fully depreciated in 2024F and forecast net profit to reach VND1.3tn (USD57mn — double YoY) before growing 8.2% YoY in 2025F.
- DCM has strong financial capacity with net cash of USD159mn and a net D/E ratio of -58.5%, which will support our projected cash dividend of VND800/share (3.0% yield) in 2021-2023F and an increase to VND1,200/share (yield 5.1%) in 2024-2025F.
- DCM trades at a 2021F EV/EBITDA of 4.5x (a 45% discount vs peers), based on our forecast.
- Downside risk: Lower-than-expected urea prices in H2 2021 and 2022F.

We expect urea prices could extend their strength until H1 2022. In July-August 2021, average Black Sea urea price doubled YoY and was 27.8% higher vs Q2 2021 due to higher material/freight costs and shipping disruptions as a result of COVID-19. Chinese average urea price also rose 23.7% in July-August 2021 vs Q2 2021. Reuters states that some major Chinese producers recently announced that they will temporarily suspend exports in August and potentially September to ensure supply to the local market, per government guidance. We believe the tightened supply, shipping disruptions and rising costs will keep global urea prices high in the near term. We expect Vietnam's urea prices to follow global prices and raise our 2021/2022F price forecasts by 15%/8%.

We maintain the new NPK plant's utilization rate but raise our NPK price forecasts. DCM had an NPK sales volume of 18,000 tons in Q2 2021 that supported its overall profit. We keep our sales volume assumption of 90,000 tons in 2021 (30% utilization). Following stronger-than-expected NPK prices in H1 2021, we raise our NPK price forecasts by 6% on average in 2021-2025F. We expect a small loss from the NPK plant of VND20bn (USD1mn) in 2021F before annual net profits of ~VND130bn (USD6mn) — or 14% of DCM's total net profit — in 2022-2025F on average.

H1 2021 Recap: Strong urea prices, new NPK products drive Q2 2021 earnings

Figure 1: H1 2021 results

VND bn (Unless stated)	H1 2020	H1 2021	YoY %	% of VCSC's old 2021F	Explanation: (a) For YoY growth % (b) For % of VCSC's forecasts
PRICES & VOLUMES					
Avg. Brent oil price (USD/bbl)	42	65	54.4%		
Avg. fuel oil price - benchmark for input gas cost (USD/ton)	228	366	60.4%		
Avg. Input gas price (USD/MMBTU, exclusive of VAT)	4.0	5.9	45.8%		(a) Following increased Brent oil and fuel oil (FO) prices. Input gas price is benchmarked to Brent oil price and FO price based on the following formula: Weighted input cost = 90% of gas volume based on 46% of medium FO prices and 10% of gas volume based on 12.7% of Brent oil price.
Urea selling price (VND/kg)	6,375	8,038	26.1%		(a & b) Following the global urea price rally, which was higher-than-expected.
Urea sales volume ('000 tons)	433	422	-2.5%	45.9%	(a) Q2 2021 sales volume dropped 19% YoY from a high base in Q2 2020 when there was a large remaining amount of inventory from the end of Q1 2020. (b) Urea sales volume was in line with expectation.
INCOME STATEMENT					
Revenue	3,276	4,236	29.3%	49.3%	(a) Driven by a urea selling price increase and initial sales volume of new NPK products.
Gross profit	617	784	27.2%	72.4%	(a) Driven by 1) higher urea prices as strong selling prices outweighed an input cost hike and sales volume declines, 2) initial volume from NPK products and 3) strong selling prices for the chemical and trading segments. (b) Selling prices across all products beat expectations.
Sales & marketing expense	-172	-201	17.3%	51.5%	
General admin expense (G&A)	-83	-172	106.5%	74.4%	(a & b) DCM allocated ~VND50bn (USD2mn) of expenses for the science fund in Q2 2021
Operating profit	362	411	13.6%	89.2%	
Financial income	61	70	14.7%	49.1%	
Financial expenses	-45	-16	-64.7%	41.8%	
In which, interest expense	-31	-5	-82.5%	29.6%	(a & b) DCM paid off debts faster than we expected.
Share profit/loss from associates	0	0	N.M.	N.M.	
Net other income/(loss)	5	2	-68.7%	20.8%	
PBT	383	467	21.8%	81.3%	
Income tax expense	-24	-36	50.5%	85.0%	
NPAT	359	430	19.8%	81.1%	
Minority interest	-3	3	N.M.	N.M.	
NPAT-MI	357	434	21.6%	82.5%	(a) Driven by 1) urea profit increasing as H1 average urea price increased 26% YoY — which outweighed the impact of a 45.8% YoY input cost increase and sales volume decrease of 2.5% YoY — 2) initial sales volume of NPK products in Q2 2021 and 3) strong selling prices of chemicals and trading products. (b) H1 profit beat our expectation thanks to stronger-than-expected selling prices of urea, NPK and chemical products.
EBITDA	1,018	1,088	6.8%	58.3%	
			ppt changes		
Gross profit margin %	18.8%	18.5%	-0.3 ppts		
Sales & marketing as % of sales	5.2%	4.8%	-0.5 ppts		
General admin as % of sales	2.5%	4.1%	1.5ppts		

Source: DCM, VCSC estimates

2021 Outlook: Strong urea prices boost 2021 earnings

Figure 2: Forecast summary, 2021F

VND billion (Unless stated)	2020A	2021F	YoY growth %	2021F New vs Previous	Explanation: (a) For YoY growth % (b) For forecast changes
PRICES & VOLUMES					
Avg. Brent oil price (USD/bbl)	43	65	49.8%	8.2%	(b) We raise oil price assumptions as stated in our July 27, 2021 Energy Sector Update .
Avg. fuel oil price - benchmark for input gas cost (USD/ton)	245	350	42.9%	20.7%	(b) We raise oil price assumptions as stated in our July 27, 2021 Energy Sector Update.
Avg. Input gas price (USD/MMBTU)	4.2	5.6	32.9%	14.1%	(b) Following our revised oil price assumptions.
Urea selling price (VND/kg)	6,273	7,904	26.0%	14.5%	(a) We expect domestic urea prices to move in line with the global urea price rally thanks to input cost increases and supply disruptions amid continued strong demand. (b) H1 2021 urea price beat our expectation; we expect urea prices to remain high in H2 2021 due to continued supply disruptions in H2 2021 and early 2022.
Urea sales volume (thousand tons)	1,009	920	-8.8%	0.0%	(a) We forecast urea sales volume to cool off from 2020's high base when there was high remaining inventory from end-2019. (b) H1 2021 sales volume was in line with our expectation.
NPK sales volume (thousand tons)	0	90	N.M.	0.0%	(a & b) Although COVID-19 has caused the commissioning date of the plant to be delayed, DCM already delivered 18,000 tons of NPK in Q3 2021. We maintain our forecast that NPK plant's utilization will be 30% in 2021.
INCOME STATEMENT					
Revenue	7,563	9,515	25.8%	10.8%	(a) Revenue growth is driven by the urea segment and new NPK plant. (b) We revise up urea and NPK selling prices.
Gross profit	1,312	1,437	9.5%	32.7%	(a & b) Strong urea prices outweigh an input cost hike and volume decline — coupled with additional profit from the chemical and NPK segments.
Sales & marketing expense	-368	-433	17.8%	10.8%	
General admin expense (G&A)	-299	-296	-1.2%	28.0%	
Operating profit (EBIT)	645	708	9.7%	53.6%	
Financial income	128	143	11.4%	0.0%	
Financial expenses	-63	-30	-52.3%	-20.5%	
In which, interest expense	-43	-10	-76.1%	-42.8%	(a) Lower debt as we expect DCM to pay off debt for the urea plant in mid-2021 — although there will be new debt for the NPK plant in H2 2021. (b) DCM paid off debt in H1 2021 faster than we expected.
Share profit/loss from associates	0	0	N.M.	N.M.	
Net other income/(loss)	8	8	0.0%	0.0%	
PBT	719	828	15.3%	44.4%	
Income tax expense	-54	-62	15.3%	44.4%	
NPAT	665	767	15.3%	44.4%	
Minority interest	-1	-4	232.5%	-27.8%	
NPAT-MI	664	763	14.9%	45.1%	(a) We expect 1) the urea price increase to outweigh the impact of the input cost hike and sales volume declines and 2) we forecast NPK to incur a minimal loss — assuming a 30% utilization rate despite strong NPK prices. (b) We revise up urea, NH3 and NPK selling prices following H1 2021 results. We anticipate prices will remain strong in H2 2021.
EBITDA	1,963	2,113	7.7%	13.2%	
Gross profit margin %	17.4%	15.1%	-2.3 ppts	2.5 ppts	
Sales & marketing as % sales	4.9%	4.6%	-0.3 ppts	0.0 ppts	
General admin as % sales	4.0%	3.1%	-0.8 ppts	0.4 ppts	

Source: DCM, VCSC estimates

New developments regarding the company's outlook

In July-August 2021, average Black Sea urea price doubled YoY and was 27.8% higher vs Q2 2021 due to higher material/freight costs and shipping disruptions as a result of COVID-19. Meanwhile, global demand has remained strong and is driven by India (the world's largest urea importer). India's urea imports increased 8% YoY in the financial year 2020-2021, according to India's Chemicals and Fertilizers Minister.

China — a major fertilizer exporter that accounted for 31% of global urea supply in 2020 — has been reducing its coal-fired urea production since 2018 to protect the environment. Due to urea prices skyrocketing in H1 2021, major Chinese urea producers announced in early August that they will temporarily suspend exports in August and potentially September to ensure supply to the local market as per the Chinese government's guidance.

China temporarily suspending exports does not impact the urea supply in Vietnam as we estimate Chinese urea imports typically account for only ~5%-10% of Vietnam's urea supply, whereas Vietnam's four major urea producers (DPM, DCM, Ha Bac and Ninh Binh) to ensure 80%-90% of domestic demand.

Nevertheless, reduced supply from China could keep global prices high and thus affect domestic prices. We believe the tightened supply, shipping disruptions and rising costs will keep global urea prices high in the near term. We expect Vietnamese urea prices to follow global prices and thus raise our 2021F/2022F price forecasts by 14.5%/7.8%. Global NPK prices also rallied — especially from Q2 2021 following rising input (urea, phosphate and potassium) prices.

As such, we raise 2021-2025F earnings by ~30% on average as we revise up urea prices by 15%/8%/3% in 2021/22/23-25F and NPK selling prices by ~6% on average, outweighing the negative impact of our upward revisions on gas costs. Our forecasts imply urea prices to rise 26% YoY in 2021F before cooling 3%-4% p.a. in 2022-2023F.

Figure 3: Global urea prices

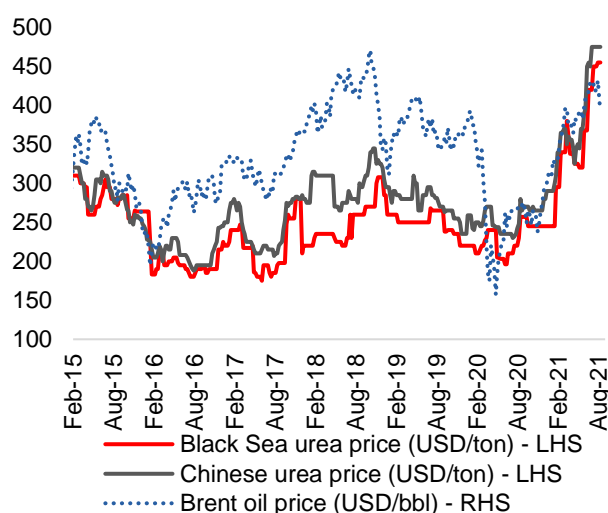
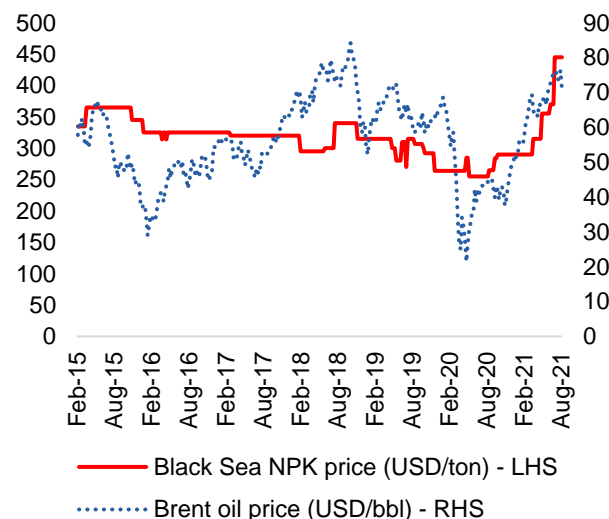


Figure 4: Global NPK prices



Source: Bloomberg, VCSC

We assume average urea price in 2022-2025F to be the level of the 10-year average, which is still 8% lower than average price in 2011-2015.

Figure 5: Historical Vietnam urea price and our forecasts for DCM's urea prices

	2011-2015	2015-2020	2011-2020	VCSC's forecast average DCM's urea price in 2022-2025F
Average urea price (VND/kg)	8,200	6,600	7,400	7,500

Source: DPM, DCM, Agromonitor

Figure 6: Selling price forecast changes

	2021F	2022F	2023F	2024F	2025F
Urea prices (VND/kg)					
- New forecast	7,904	7,588	7,360	7,507	7,658
- Old forecast	6,900	7,038	7,179	7,323	7,469
- Forecast changes	14.5%	7.8%	2.5%	2.5%	2.5%
NPK selling price (VND/kg)					
- New forecast	8,000	8,000	8,000	7,800	7,800
- Old forecast	7,500	7,500	7,500	7,500	7,500
- Forecast changes	6.7%	6.7%	6.7%	4.0%	4.0%

Source: DCM, VCSC estimates

Figure 7: Input cost forecast changes

	2021F	2022F	2023F	2024F	2025F
Brent crude oil price (avg. USD/bbl)					
	65	65	60	60	60
Fuel oil price (avg. USD/ton)					
- New forecast	350	350	330	330	330
- Old forecast	290	330	330	330	330
- Forecast changes	20.7%	6.1%	0.0%	0.0%	0.0%
Input gas price (USD/MMBTU, excludes VAT)					
- New forecast	5.6	5.6	5.4	5.4	5.4
- Old forecast	4.9	5.3	5.4	5.4	5.4
- Forecast changes	14.1%	5.3%	0.0%	0.0%	0.0%

Source: DCM, VCSC estimates

Figure 8: Volume forecast changes

	2021F	2022F	2023F	2024F	2025F
Urea total sales volume ('000 tons)					
- New forecast	920	880	850	850	850
- Old forecast	920	880	850	850	850
- Forecast changes	0.0%	0.0%	0.0%	0.0%	0.0%
NPK sales volume ('000 tons)					
- New forecast	90	210	240	270	300
- Old forecast	90	210	240	270	300
- Forecast changes	0.0%	0.0%	0.0%	0.0%	0.0%

Source: DCM, VCSC estimates

Figure 9: Profit forecast changes

	2021F	2022F	2023F	2024F	2025F
NPAT-MI (VND bn)					
- New forecast	763	718	635	1,300	1,406
- Old forecast	526	455	463	1,174	1,287
- Forecast changes	45.1%	58.0%	37.2%	10.7%	9.2%
EBITDA (VND bn)					
- New forecast	2,113	2,031	1,921	1,939	2,008
- Old forecast	1,866	1,784	1,776	1,856	1,946
- Forecast changes	13.2%	13.8%	8.1%	4.5%	3.2%

Source: DCM, VCSC estimates

Valuation

In this Update Report, we continue to use a 100%-discounted cash flow (DCF) valuation model as we believe the DCF approach is the most suitable method to reflect the intrinsic value of urea producers and their robust cash generation capacities. Meanwhile, we think the P/E multiple valuation is not a suitable method to value DCM because the company's fast depreciation policy (12 years) compared to the normal 20-year life cycle of a urea plant depresses earnings numbers. In addition, we believe that regional peers are not perfectly comparable with DCM given their much larger scale and diversified fertilizer products.

We continue to apply a 20% 'transparency discount' to our fair value estimate due to the company's limited disclosure regarding sales volume, quarterly selling price, input gas price and NPK sales outlook.

We lift our target price by 32% as we raise 2021-2025F earnings by 23% in aggregate due to higher urea and NPK selling price assumptions.

Figure 10: VCSC valuation

Method	DCF valuation
Fair value	32,000
Discount %	20%
Target price (VND)	25,600
TTM P/E at TP	19.8x
2021F P/E at TP	19.3x
2022F P/E at TP	20.5x

Source: VCSC forecast

Discounted cash flow

Figure 11: DCF valuation summary, VND bn

Cost of Capital	Previous report	Revised	FCFF (Five Year)	
Beta	0.9	0.9	PV of Free Cash Flow	5,358
Market Risk Premium %	9.9	9.9	PV of Terminal Val (0.5% g)	8,603
Risk Free Rate %	2.6	2.6	PV of FCF and TV	13,961
Cost of Equity %	11.5	11.5	add Cash & ST investments	3,753
Cost of Debt %	12.0	12.0	less Short & Long-term debt	699
Debt %	9.9	9.5	less Minority Interest	30
Equity %	90.1	90.5	Equity Value	16,938
Corporate Tax Rate %	7.5	7.5	Shares (million)	530
WACC %	11.5	11.5	Value per share, VND	32,000

Source: VCSC forecast

Figure 12: Cash flow projections

(VND bn)	2021F	2022F	2023F	2024F	2025F
EBIT	708	625	515	1,192	1,262
less Tax	-53	-44	-36	-83	-88
add Depreciation	1,406	1,406	1,406	747	747
less Capex	-200	-300	-300	-300	-300
<i>less Working cap increase</i>	<i>-485</i>	<i>-354</i>	<i>-211</i>	<i>-187</i>	<i>-88</i>
Free Cash Flow	1,375	1,333	1,374	1,369	1,532
Present Value of FCF	1,303	1,133	1,047	936	940
Cumulative PV	1,303	2,435	3,482	4,418	5,358

Source: VCSC forecast

Regional and Domestic Peers

Regional peers

In the Asia-Pacific region, there is no perfect peer for DCM as regional fertilizer companies are significantly larger than DCM and produce various kind of fertilizers, including urea and compound fertilizers (NPK, DAP and MAP, among others).

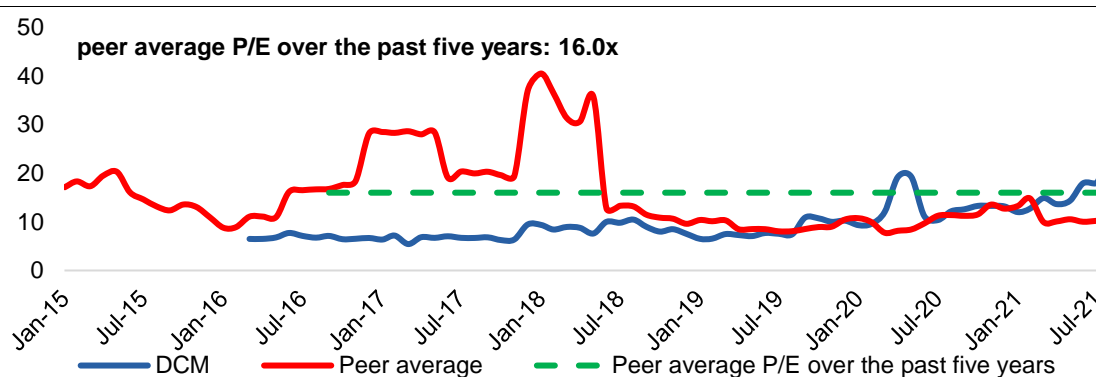
Figure 13: Regional peers

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y %	TTM NPAT (USD mn)	Y-o-Y %	Net D/E %	ROE %	Div yield %	TTM P/E	1YF P/E	LQ P/B	TTM EV/EBITDA
Shandong Hualu Hengsheng Chemical Co Ltd	China	11,280	2,239	11.4	435	31.4	2.3	18.6	N/A	24.8	11.1	4.3	17.4
Luxi Chemical Group Co Ltd	China	5,512	3,722	55.8	489	170.6	82.5	24.3	N/A	10.5	7.6	2.2	10.2
China BlueChemical Ltd	Hong Kong	1,404	1,511	(4.1)	108	6.0	(52.4)	5.1	4.1	12.0	6.2	0.6	N.M.
China XLX Fertiliser Ltd	Hong Kong	658	1,976	44.2	123	231.8	143.4	17.3	2.7	5.2	3.0	0.8	7.3
Coromandel International Ltd	India	3,358	1,915	8.2	179	24.8	(6.0)	28.1	0.7	18.8	16.4	4.9	11.1
Chambal Fertilizers and Chemicals Ltd	India	1,785	1,714	4.2	223	35.0	43.1	37.7	1.3	8.0	8.6	2.5	4.8
Engro Corp Ltd	Pakistan	1,023	1,691	20.4	185	91.4	48.2	20.2	7.6	6.5	5.8	1.1	4.1
Fatima Fertilizer Co Ltd	Pakistan	362	483	6.4	90	27.5	22.6	17.0	N/A	4.1	6.0	0.7	3.5
Fauji Fertilizer Bin Qasim Ltd	Pakistan	210	657	24.4	69	N.M.	170.5	72.8	N/A	2.6	N.M.	3.3	6.0
Average		2,844	1,767	19.0	211	77.3	50.5	26.8	3.3	10.3	8.1	2.3	8.1
Median		1,404	1,714	11.4	179	33.2	43.1	20.2	2.7	8.0	6.9	2.2	6.7
DCM	Vietnam	516	371	24.0	35	53.3	(58.5)	11.9	3.5	17.5	17.1	1.9	4.1

Source: Bloomberg, VCSC estimates (peer figures are as at August 10, 2021)

DCM's trailing P/E has been trading 60%-80% lower than the average P/E of its peer group from 2013 to mid-2018; however, the gap has tightened significantly to 0%-5% since mid-2018. Recently, DCM's P/E has become higher than its peers, which we attribute to strong the earnings growth of the peers in H1 2021 compared to DCM.

Figure 14: DCM's historical TTM P/E vs regional peer average



Source: Bloomberg (data to August 10, 2021), VCSC

Domestic peers

As shown in **Figure 16**, DCM has been trading at a discount vs DPM since 2017, which we attribute to DPM having stronger financial capacity as it has paid off its debt while its urea plant has fully depreciated compared to that of DCM. Notably, DPM traded at a huge premium vs DCM in 2019, which we attribute to DCM being in negotiation with PVN about the input price mechanism and as the outlook was unclear at that time, whereas the input gas contract for DPM remained valid until the end of 2019. Nevertheless, DCM started to trade at a premium vs DPM from April 2020 as the input gas price mechanism was finalized.

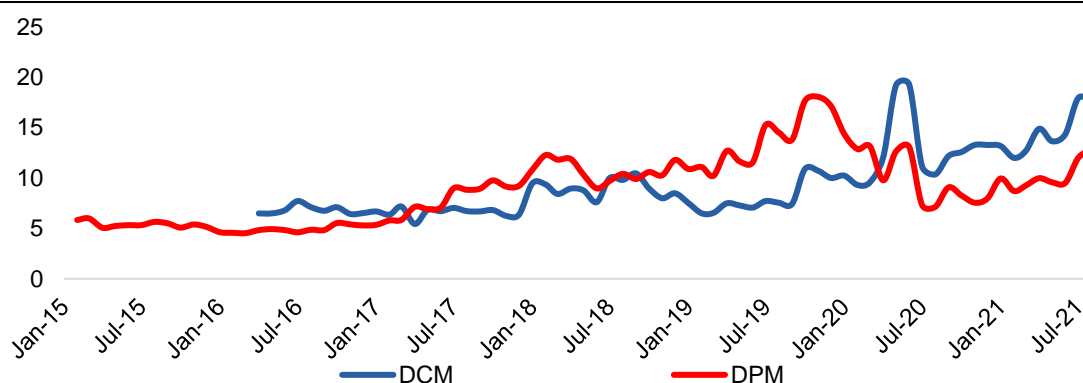
We also note there is a huge gap between the reported P/Es of DCM and DPM (**Figure 15**), which is mainly because high depreciation expenses weigh on DCM's earnings while DPM's urea plant has already fully depreciated. Therefore, we could reference the adjusted P/E figures that we estimate for the 2021 P/E of DCM assuming a normal 20 years of depreciation rather than 12 years as currently. DCM's adjusted P/E number is currently much lower compared to that of DPM.

Figure 15: Key financial metrics of DCM and DPM

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y %	TTM NPAT (USD mn)	Y-o-Y %	Debt/Equity %	ROE %	Div yield %	TTM P/E	1YF P/E	Adjusted 1YF P/E (*)	LQ P/B	TTM EV/EBITDA
DPM (**)	Vietnam	546	381	8.8	49.6	62.4	(48.2)	13.3	3.7	13.4	18.5	18.5	1.5	5.3
DCM	Vietnam	516	371	24.0	35	53.3	(58.5)	11.9	3.5	17.5	17.1	10.1	1.9	4.1

Source: Bloomberg, VCSC estimates. * Adjusted P/E assuming a normal 20-year depreciation policy; ** our forecasts for DPM as of May 12, 2021.

Figure 16: DCM's historical TTM P/E vs DPM



Source: Bloomberg (data to August 10, 2021), VCSC

Sensitivity Analysis

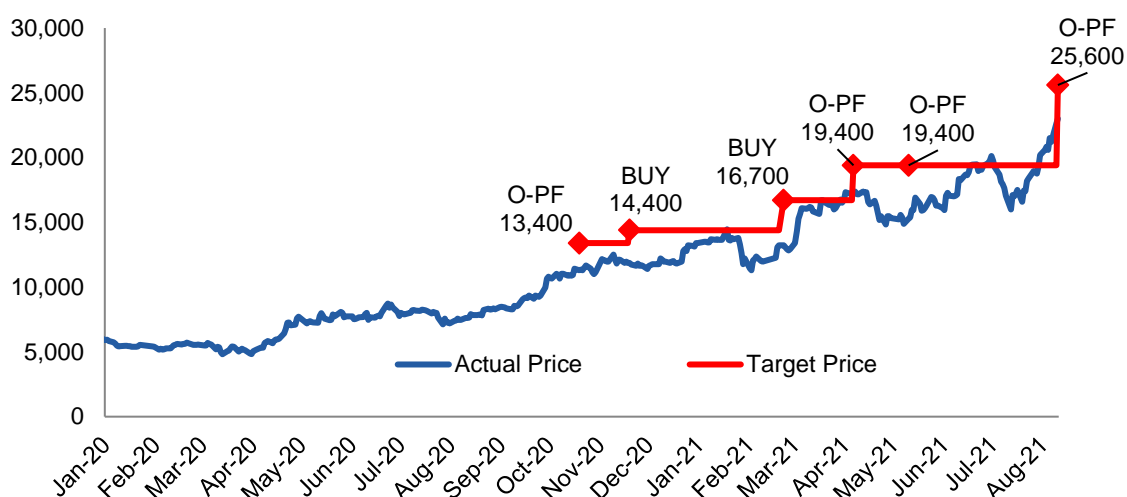
Figure 17: Sensitivity of DCM's 2021 earnings and fair value under various Brent oil price scenarios

Assumptions for 2021	Lower oil price		Base case	Higher oil price	
Average Brent oil price (USD/bbl) (*)	45	55	65	75	85
Fuel oil price assumption (USD/ton)	270	310	350	390	430
Input gas price (USD/MMBTU) – Inclusive of tariff and VAT tax	4.5	5.0	5.6	6.1	6.7
Urea selling price (USD/ton)	328	334	339	345	350
Key 2021 financials					
NPAT-MI (VND bn)	1,057	910	763	616	469
EPS (VND/share)	1,836	1,580	1,325	1,070	469
EPS growth (%)	59.2%	37.0%	14.9%	-7.2%	-29.4%
ROE (%)	15.9%	13.8%	11.7%	9.6%	7.4%
Valuation					
2021 PER (x)	12.9	14.9	17.8	22.1	29.0
2021 PBR (x)	1.8	1.8	1.9	1.9	2.0
Fair value (VND/share)	30,400	28,000	25,600	23,200	20,700
Upside (%)	28.8%	18.6%	8.5%	-1.7%	-12.3%
Dividend yield (%)	3.4%	3.4%	3.4%	2.5%	1.3%
TSR (%)	32.2%	22.0%	11.9%	0.8%	-11.0%

Source: VCSC estimate. Note: (*) Our current oil price base case for Brent oil is USD65/bbl in 2021-2022F. and USD60/bbl in 2023-2025F. Our oil price forecast for future years is based on the oil price assumed for 2021 with the same absolute gain assumed throughout the forecast horizon (i.e., if the oil price is estimated at USD55/bbl for 2021-2022F, then our assumed oil price will be USD50/bbl in 2023-2025F).

Recommendation History

Figure 18: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC

Appendices

Appendix 1: Input gas price mechanism for DCM from 2021-2025F

Based on the CEO's announcement at DCM's June 2020 AGM, DCM has finalized the input gas cost mechanism with PVN for 2020-2025F following PVN finalizing an agreement to purchase gas from Petronas (Malaysia) from the PM3 gas field until 2031. Since February 29, 2020, the input gas cost mechanism for DCM is as follows:

Figure 19: DCM's input price mechanism

Weighted input gas cost = 90% gas input from existing gas fields + 10% of gas input purchased from Malaysia + gas transportation tariff

In which:

- Gas input from existing gas fields = 46% of medium fuel oil price
- Gas input purchased from Malaysia = 12.7% of Brent oil price until 2027, then 13.7% of Brent oil price from 2027 to 2031.
- Transportation tariff = USD1.17/MMBTU for 2020 and increases 2% p.a.

Source: DCM

DCM is still waiting to sign the official contract with PVN after the latter finalizes the gas volume with GAS, POW and Vietnam Electricity (EVN). We maintain our gas cost forecasts and see limited risk of changing this mechanism as 1) we believe the Government is supporting urea producers to ensure national food security and 2) that gas input volumes of urea producers are small vs those of power plants.

Appendix 2: We estimate DCM could save ~ VND200bn of input cost p.a. if the VAT proposal is approved

Since 2015, fertilizer products have been on the ineligible list for an input VAT deduction. Fertilizer producers and the Ministry of Industry and Trade (MoIT) have proposed to amend the VAT law several times; specifically, they have proposed to apply a 5% output VAT on fertilizer products so fertilizers could be eligible for an input VAT deduction. Currently, as fertilizer products do not have an output VAT, they are not eligible for an input VAT deduction.

As DCM's input gas cost has VAT of 10%, we estimate that DCM could save ~VND220bn (USD10mn) of input tax p.a. As such, the VAT change could lift DCM's NPAT-MI by ~25% in 2021-2025F on average vs the scenario without VAT approval. In this scenario, we forecast that DCM

could pay a cash dividend of VND1,500/share (yield ~7%) in 2021-2023F and VND2,000/share (yield ~9%) in 2024-2025F.

Figure 20: NPAT-MI in the scenarios with and without VAT approval

VND bn	2021F	2022F	2023F	2024F	2025F
Without VAT change (base case)					
NPAT-MI	763	718	635	1,300	1,406
With VAT change					
NPAT-MI	952	958	858	1,531	1,646

Source: VCSC forecasts

Appendix 3: State divestment

In the divestment master plan, PetroVietnam planned to reduce its stake in DCM from 75.6% to 51% by the end of 2020, which did not happen. Previously, the merger proposal between DCM and its sister company DPM was considered as one of the options in the State's divestment plan. However, this idea was not supported by minority shareholders; therefore, PVN said that it is likely to separately reduce its stake in DPM and DCM to 51% rather than undergoing divestment after the merger. In DCM's November 2020 analyst meeting, management shared that the State divestment progress could not meet 2020 deadlines and hoped that the Government could speed up the divestment progress in 2021-2022.

We believe the State divestment will be positive for DCM in the long term as 1) management could be more flexible in cost-cutting and 2) as a new strategic investor could provide advice for further long-term projects such as organic fertilizers or chemicals.

Appendix 4: DCM's new NPK plant

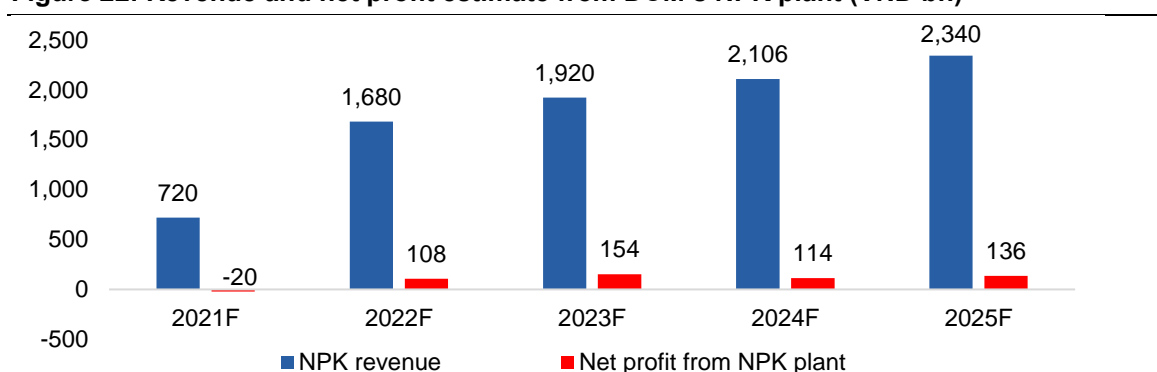
DCM's NPK fertilizer project broke ground in November 2017. The plant has a production capacity of 300,000 tons of high-quality NPK fertilizer and an investment capital of VND880bn (USD38mn). We expect this new NPK plant to contribute to DCM's net profit in 2021. Key information regarding this project is in the table below.

Figure 21: DCM's NPK project

Key information	
NPK production capacity (tons)	300,000
Investment capital (VND bn)	880
Debt/equity ratio	70% debt – 30% equity
Progress	Broke ground in November 2017; currently in trial run; expected to officially come online in 2021
Products	Premium NPK fertilizers based on granulation technology
Input materials	Urea, ammonia, DAP, MOP and MAP fertilizers

Source: DCM, VCSC

Figure 22: Revenue and net profit estimate from DCM's NPK plant (VND bn)



Source: VCSC estimates

Financial Statements

P&L (VND bn)	2020	2021F	2022F	2023F	B/S (VND bn)	2020	2021F	2022F	2023F
Revenue	7,563	9,515	9,627	9,400	Cash & equivalents	510	1,451	1,916	2,960
COGS	-6,250	-8,078	-8,313	-8,216	ST investment	2,302	2,302	2,302	2,302
Gross Profit	1,312	1,437	1,314	1,184	Accounts receivable	45	261	264	258
Sales & Marketing exp	-368	-433	-433	-421	Inventories	843	1,328	1,594	1,801
General & Admin exp	-299	-296	-256	-248	Other current assets	288	288	288	288
Operating Profit	645	708	625	515	Total Current assets	3,987	5,629	6,364	7,608
Financial income	128	143	166	185	Fixed assets, gross	15,180	15,380	15,680	15,980
Financial expenses	-63	-30	-24	-22	- Depreciation	-10,463	-11,869	-13,275	-14,680
- o/w interest expense	-43	-10	-4	-2	Fixed assets, net	4,717	3,511	2,406	1,300
Associates	0	0	0	0	LT investment	0	0	0	0
Net other income/(loss)	8	8	8	8	LT assets other	23	23	23	23
Profit before Tax	719	828	776	687	Total LT assets	4,740	3,534	2,428	1,323
Income Tax	-54	-62	-54	-48	Total Assets	8,726	9,163	8,792	8,931
NPAT before MI	665	767	722	638	Accounts payable	713	996	911	900
Minority Interest	-1	-4	-4	-3	Short-term debt	685	624	115	50
NPAT less MI, reported	664	763	718	635	Other ST liabilities	664	598	598	598
NPAT less MI, adjusted	664	763	718	635	Total current liabilities	2,063	2,218	1,624	1,548
EBITDA	1,963	2,113	2,031	1,921	Long term debt	137	75	0	0
EPS reported, VND	1,153	1,325	1,248	1,104	Other LT liabilities	197	197	197	197
EPS adjusted, VND	1,153	1,325	1,248	1,104	Total Liabilities	2,398	2,491	1,821	1,745
EPS fully diluted, VND	1,153	1,325	1,248	1,104	Preferred Equity	0	0	0	0
DPS, VND	800	800	800	800	Paid in capital	5,294	5,294	5,294	5,294
DPS/EPS (%)	69%	60%	64%	72%	Share premium	0	0	0	0
RATIOS	2020	2021F	2022F	2023F	Retained earnings	1,008	1,348	1,642	1,854
Growth					Other equity	2	3	4	4
Revenue growth	7.4%	25.8%	1.2%	-2.4%	Minority interest	26	30	34	37
Op profit (EBIT) growth	64.0%	9.7%	-11.6%	-17.6%	Total equity	6,328	6,671	6,970	7,185
PBT growth	54.8%	15.3%	-6.3%	-11.6%	Liabilities & equity	8,726	9,162	8,791	8,930
EPS growth, adjusted	55.4%	14.9%	-5.8%	-11.6%	Y/E shares out, mn	530	530	530	530
Profitability					CASH FLOW (VND bn)	2020	2021F	2022F	2023F
Gross Profit Margin	17.4%	15.1%	13.7%	12.6%	Beginning Cash Balance	472	511	1,451	1,916
Op Profit, (EBIT) Margin	8.5%	7.4%	6.5%	5.5%	Net Income	664	763	718	635
EBITDA Margin	26.0%	22.2%	21.1%	20.4%	Dep. & amortization	1,318	1,406	1,406	1,406
NPAT-MI Margin, adj,	8.8%	8.0%	7.5%	6.8%	Change in Working Cap	-196	-485	-354	-211
ROE	10.7%	11.7%	10.5%	9.0%	Other adjustments	-108	0	0	0
ROA	7.0%	8.5%	8.0%	7.2%	Cash from Operations	1,678	1,683	1,770	1,830
Efficiency					Capital Expenditures, net	-172	-200	-300	-300
Days Inventory On Hand	62.6	60.0	70.0	80.0	Investments, net	-189	0	0	0
Days Accts, Receivable	0	10.0	10.0	10.0	Cash from Investments	-360	-200	-300	-300
Days Accts, Payable	46.5	45.0	40.0	40.0	Dividends Paid	-318	-424	-424	-424
Cash Conversion Days	16.1	25.0	40.0	50.0	Δ in Share Capital	0	0	0	0
Liquidity					Δ in ST debt	-471	-61	-509	-66
Current Ratio x	1.9	2.5	3.9	4.9	Δ in LT debt	-491	-62	-75	0
Quick Ratio x	1.5	1.9	2.9	3.8	Other financing C/F	2	4	4	3
Cash Ratio x	0.2	0.7	1.2	1.9	Cash from Financing	-1,279	-543	-1,004	-486
Debt / Assets	9.4%	7.6%	1.3%	0.6%	Net Change in Cash	39	940	465	1,044
Debt / Capital	11.5%	9.5%	1.6%	0.7%	Ending Cash Balance	511	1,451	1,916	2,960
Net Debt / Equity	-31.6%	-46.0%	-59.2%	-72.9%					
Interest Coverage x	14.9	68.4	161.7	229.4					

Source: Company data, VCSC forecasts

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Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
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