

UPDATE REPORT

Sep 22th, 2021

DCM – HOLD

INFORMATIONS
(22.09.2021)

Exchange	HSX
Volume	118,792,605
10 days – average	2,785,310
Market price	24,500
Fair price	24,200

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VCBS's Report System

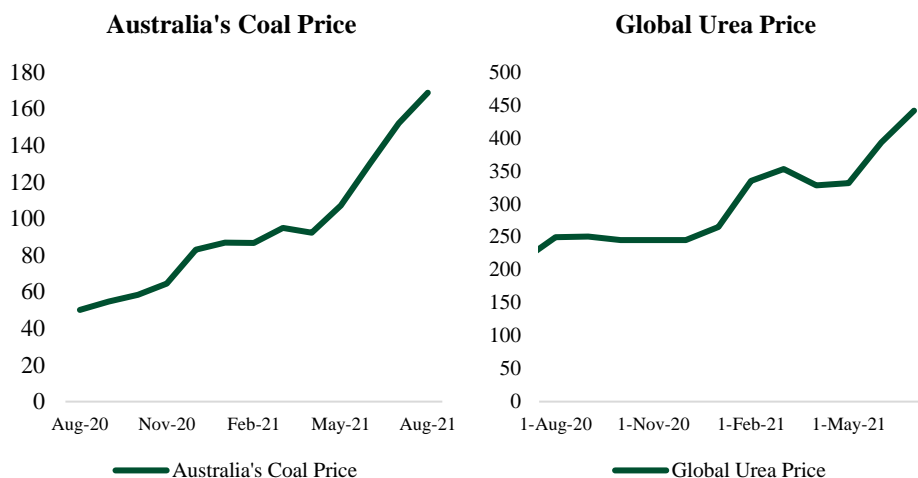
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DCM - "TRACKING COAL'S PRICE IN CHINA"

➤ **China is playing an important role in the Vietnam fertilizer market as well as the global market.**

Urea factories in China mostly use coal as the main raw material input. China's domestic coal price has increased by more than 70% since the beginning of the year. The shortage of China's domestic coal supply puts hard pressure on many related industries such as iron, steel, electricity, chemicals, fertilizers, etc.



China used to be the world's source of Urea fertilizer with an export surplus of 14-15 million tons/year. But now, China has stopped exporting temporary, leading to a sharp increase in urea demand of China's traditional partner countries such as India and Pakistan, etc which was DCM's main export markets in 2021

➤ **Q4.2021 output decreased due to maintenance of Ca Mau Urea fertilizer plant.** Ca Mau Urea Fertilizer Plant has a maintenance schedule in Q4.2021, therefore, VCBS estimates that the output of 2H.2021 will be at 98% of design capacity compared to the operating efficiency of 115% of design capacity in 1H.2021.

➤ **Recommendation**

The increase in global urea prices created a good premise for the promotion of Vietnam's export of Urea fertilizer. VCBS believes that the world Urea fertilizer price will be closely related to the price of natural gas and coal (the price of these materials in some regions is showing a significant rise). In terms of output, DCM's Urea production is considered as "no longer be able to grow". Profit from Urea segment will depend entirely on future Urea price movements.

About NPK plant, VCBS expects DCM to complete the processes and put the plant into operation with high efficiency in 2022.

VCBS recommends "HOLD" for DCM with a target price of 24,200 VND/share.

1H.2021 UPDATE REPORT

1H.2021 PERFORMANCE

In 1H.2021, DCM recorded VND 4,436 billion (+31% yoy) in revenue and VND 448 billion (+25% yoy) in profit after tax.

1H.2021 DCM's PERFORMANCE

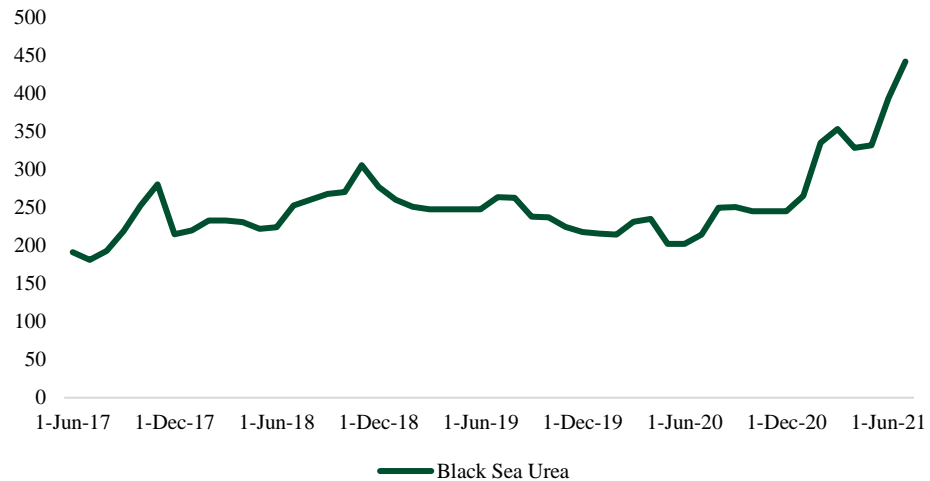
Criteria	Comparison			Explanation
	1H.2020	1H.2021	+/- (%)	
Giá dầu Brent	40	70	+75%	Positive movements of oil prices in 1H.2021 after OPEC + agreements and economic recovery after the epidemic
Giá khí	4.1	6.2	+51%	
Urea's volume	365,000	456,770	+26.2%	Output grew well due to a shortage of domestic imported Urea fertilizer supply and increased overseas demand.
Urea's price	6,500	11,500	+83%	Local urea price increase as well as global uptrend
Sales	3,379	4,436	31%	Revenue growth thanks to (1) increasing in output; (2) Fertilizer selling prices hit a record high
COGs	(2,659)	(3,441)	29%	Natural gas prices increased as Brent oil price
Gross profit	616	794	28%	Gross profit margin grew strongly due to the increase in urea price outweighed inputs.
Selling exp	(171)	(155)	-13%	Selling expenses were lower than the same period last year despite the strong increase in revenue. The reason is due to the scarcity of fertilizer supply in Vietnam when the price of imported goods increases sharply.
Adm exp	(83)	(211)	-3%	General and administrative expenses increased sharply again mainly due to the sharp increase in labor costs and cash expenses. In addition, VCBS also noticed more than VND 50 billion in extraordinary expenses into the Science - Technology fund. VCBS assesses this as a part of profit that can be reversed in the future.
EBIT	482	631	31%	
Financial earnings	58	65	12%	
Financial exp	(46)	(30)	-35%	
EBT	494	664	34%	
Tax	(24)	(40)	67%	
EAT	469	625	33%	

Souce: VCBS

VALUATION

World urea price In 3Q.2021, the domestic price of Urea fertilizer has increased by an average of 75-80% over the same period last shows no signs of year.
cooling down

Black Sea Urea



Source: VCBS, Indexmundi

The reasons for the sharp increase in the domestic price of Urea fertilizer has come from: (1) The price of input materials for the urea fertilizer industry, which is natural gas + coal, has increased sharply; (2) The global urea price has increased sharply, forcing local price to adjust.

VCBS forecasts, Urea is not likely to cool down in 3Q2021 because winter in China is approaching, leading to high gas consumption demand while coal prices continue to reach a peak. In addition, the power shortage in China has also been very serious, Chinese government is aggressive in cutting down capacity of industries causing environmental pollution. Therefore, VCBS forecasts that fertilizer prices will continue to increase by 5% at the end of 3Q2021 – early Q4.2021.

Stable oil price movement

VCBS forecast DCM's input gas price in Q3.2021 would remain stable equivalent to Q2.2021 as world oil price fluctuates in a narrow range at 70-75 USD. Following our forecast, VCBS estimates DCM's average gas price in Q3.2021 at USD 6.2/MMBTU.

Global Brent Price



VCBS thinks that oil price in 2H.2021 is unlikely to increase even though the world oil outlook received support

from the OPEC+ meeting in July 2021. The impact of the COVID-19 virus can cause slowing down in economic recovery effort and global reopening.

It is necessary to monitor the actions of OPEC + executives in the near future. In the perspective of VCBS, the oil price at 70-75 USD has satisfied major oil producers in the world. Therefore, VCBS still maintains the view that oil prices will not increase strongly in 2H.2021.

Production output 2H.2021 VCBS assesses that the demand for Urea fertilizer in the next period will continue to be good as well as the price of Urea fertilizer thanks to a shortage in global supply and favorable weather.

However, the Ca Mau Urea fertilizer plant has a maintenance schedule in Q4.2021, so VCBS estimates that the output of 2H.2021 will be at 98% of design capacity compared to 115% in 1H.2021.

The impact of COVID – 19 **Cost factor:** The impact of the COVID-19 epidemic on DCM's business activities in Q3.2021 will be clearly reflected through the administrative costs of the business. VCBS estimates, the current total cost of launching the plant in the current condition will cost DCM more than 50 billion in additional expenses.

Output factor: VCBS predicts that domestic consumption may be affected due to the impact of the epidemic and regulations on social distancing. However, export volume will increase due to high demand from offshore such as India, Pakistan which will offset the decline.

VALUATION

Assumption VCBS uses 2 methods of valuation, discounted cash flow (DCF) and comparison (P/E) in valuing DCM.

Assumption: VCBS continues to identify urea price as the main growth driver for DCM's stock in 2H.2021 in case the urea plant has almost operated exceeded 115% of design capacity.

Regarding the NPK factory, VCBS forecasts that the utilization rate of the NPK factory in 2021 will be at 25% compared to the old estimate of 30%.

Assumption	Criteria
- Avg Urea price (VNĐ/kg)	9,300
- Avg Natural gas price (USD/MMBTU)	5.8
- Urea volume (tấn)	880,000
Business Result	
- Sales	9,107
- NPAT	842
- Dividend	10%
Valuation	
- DCF	26,500
- P/E	22,267
Target Price	24,200
- Upside %	-2%

Business Result

Kết quả kinh doanh	2020	2021E	2022F
Sales	7,522,884	9,107,820	9,426,590
- COGs	6,233,089	7,432,951	7,668,515
Gross Profit	1,289,795	1,574,869	1,758,075
- Selling exp	359,624	365,715	372,542
- Adm exp	292,324	370,444	332,899
Operating Profit	706,426	938,710	1,052,634
- (Loss)/Gain financial return	19,850	22,550	26,885

- Other returns	8,402	6,115	11,203
EBIT	1,021,163	922,275	1,036,952
- Interest exp	41,810	10,132	10,449
EBT	714,828	912,143	1,026,503
- Tax	53,264	69,871	70,913
EAT	661,564	842,272	955,590
EAT - ml	661,564	842,272	955,590

Source: VCBS

VCBS gives a general forecast for the whole year of 2021, revenue of 9,107 billion VND (+21% yoy) and NPAT of 842.3 billion VND (+27.3% YoY), equivalent EPS of 2,578 dong/share.

Recommendation:
HOLD

The increase in global urea prices created a good premise for the promotion of Vietnam's export of Urea fertilizer. VCBS believes that the world Urea fertilizer price will be closely related to the price of natural gas and coal (the price of these materials in some regions is showing a significant rise). In terms of output, DCM's Urea production is considered as "no longer be able to grow". Profit from Urea segment will depend entirely on future Urea price movements.

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