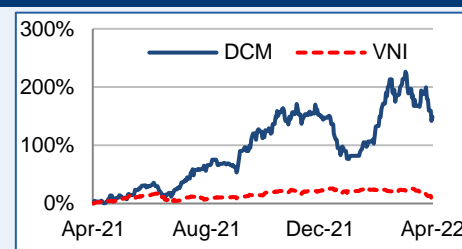




PetroVietnam Ca Mau Fertilizer (DCM)

AGM Note

Industry:	Agrochemicals		2021	2022F	2023F	2024F
Report Date:	April 26, 2022	Rev Growth	30.5%	22.2%	-8.7%	-5.8%
Current Price:	VND38,000	EPS Growth	188.9%	9.6%	-33.3%	0.7%
Target Price ⁽¹⁾ :	VND45,200	NPAT (VND bn)	1,918	2,102	1,403	1,412
Upside:	+18.9%	DPS (VND/sh)	1,800	1,200	1,200	2,000
Dividend Yield:	3.2%	EV/EBITDA	4.9x	4.0x	4.6x	5.9x
TSR %:	+22.1%	P/E ⁽²⁾	11.4x	10.4x	15.6x	15.5x
Rating ⁽¹⁾ :	BUY	P/E ⁽³⁾	8.9x	8.4x	11.6x	20.7x



Market Cap:	USD875.0mn		DCM	VNI
Foreign Room:	USD365.2mn	P/E (ttm) ⁽²⁾	6.7x	15.1x
ADTV30D:	USD12.5mn	P/B (curr)	2.3x	2.3x
State Ownership:	75.6%	Net D/E	-68.1%	N/A
Outstanding Shares:	530 mn	ROE	36.6%	15.7%
Fully Diluted Shares:	530 mn	ROA	25.3%	2.6%
3-yr PEG ⁽²⁾ :	N.M.	(1) TP and rating last updated February 25, 2022; (2) reported; (3) 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 tonnes of granular urea. In addition, DCM has invested in an NPK plant with a capacity of 300,000 tonnes.

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Strong urea selling prices drive robust Q1 2022 results

- We attended DCM's online AGM on April 26. The meeting discussed conservative 2022 guidance, Q1 2022 results, the outlook for urea prices and exports, the new NPK plant and the State's divestment progress.
- Management expects urea prices to remain high in 2022-2023 and that the company will take advantage of rising international demand if domestic demand is hurt by high urea prices. Furthermore, DCM targets to increase its urea plant's utilization rate to 115%-117% in 2022, fully penetrate the NPK segment and diversify its products to include organic fertilizers for its long-term growth outlook.
- Shareholders approved conservative 2022 guidance for revenue of VND9.1tn (USD394mn; -8.2% YoY) and NPAT-MI of VND513bn (USD22mn; -73.2% YoY), which is conservative in our view. Management expects to revise this guidance in Q3 2022.
- DCM also released preliminary Q1 2022 results with revenue of VND4.1tn (USD177mn; +117.6% YoY) and NPAT-MI of VND1.5tn (USD66mn; +10x YoY), which were mainly driven by urea prices surging 121.2% YoY. Preliminary Q1 NPAT-MI completed 72.1% of our full-year forecast and beat our expectations.
- Shareholders approved a 2021 cash dividend of VND1,800/share (5.2% yield), beating our current forecast by 50%. Additionally, shareholders approved a 2022 cash dividend of VND800/share vs our current forecast of VND1,200/share (3.4% yield). We note that DCM usually raises cash dividends based on actual profit performance achieved by the end of the year.

Shareholders approved conservative 2022 guidance for revenue of VND9.1tn (USD394mn; -8.2% YoY) and NPAT of VND513bn (USD22mn; -73.2% YoY). DCM's 2022 NPAT guidance is equivalent to only 24.4% of our 2022F forecast, which we believe is due to the company's conservative nature in setting targets. We note that actual 2020 and 2021 NPAT was 12.8x and 9.7x higher than the company's targets set at the beginning each respective year. In addressing many questions regarding this conservative guidance, DCM's management clarified that the current guidance was devised in September-November 2021 with urea price and oil price forecasts at that time. DCM will revise its guidance in Q3 2022 with more up-to-date price forecasts; this revised guidance will be the benchmark to evaluate management's performance.

Stellar Q1 2022 results surpassed our expectations. DCM's Q1 2022 revenue rose 117.6% YoY while its NPAT-MI was 10x higher vs Q1 2021. According to management, the Q1 2022 average urea price was VND15,651/kg (~USD680/tonne; +121.2% YoY) — a ~14%-17% discount vs the

average international urea price for the same period. Management explained that DCM sold urea on the domestic market at a discount vs international price as it helped encourage farmers to buy urea as international prices were unaffordable. We estimate DCM's urea sales volume at 241,000 tonnes (+11.0% YoY) in Q1 2022, which was driven by urea export volume of 151,000 tonnes. Compared to Q4 2021 numbers, Q1 2022 NPAT-MI rose 38.1% QoQ as urea prices and sales volume climbed 14.3% and 34.2%, respectively. For Q2 2022, DCM targets revenue of VND4.8tn (USD211mn; +105.1% YoY) and NPAT-MI of VND711bn (USD31mn; +2.5x YoY).

Management expects urea prices to cool in H2 2022; however, average prices in 2022-2023 could remain much higher than in the past. Per management, international urea prices sometimes reached USD1,300/tonne in Q1 2022 before cooling off to the present level of ~USD900/tonne. The company uses prices from four markets — the Middle East, Asia, US and Europe — to establish its selling prices. Notably, urea prices recently decreased to USD600/tonne in the US. DCM expects urea prices will decline in the future quarters; however, the company believes average prices in 2022-2023 could remain much higher than in the past.

DCM targets to raise its urea plant's utilization rate to 115%-117% by end-2022. DCM is finalizing the upgrade project of its CO₂ plant (capex of only USD4mn), which would allow the company to collect more CO₂ for the urea production process. After finishing this upgrade project, DCM could raise its utilization from 112% to 115%-117% by end-2022, helping the company to capture future export demand — especially from the Cambodian market.

DCM's NPK plant officially went into operation at end-March 2022. After having a trial run, DCM's NPK plant officially came into operation on March 31. In 2021, DCM sold ~40,000 tonnes of NPK out of a total of ~50,000 tonnes produced during the trial run. The company now is confident that the NPK plant could operate at a 100% utilization rate. However, DCM only guides for 80,000 tonnes of NPK (or a 27% utilization rate) because 1) DCM is still penetrating the NPK segment, which is more competitive and complex than the urea segment, and 2) as prices of NPKs inputs urea, DAP and potassium are too high for NPK production — potassium is especially difficult to import. DCM expects prices of these input materials to fall beginning in Q3 2022.

DCM can deduct input VAT tax for urea exports. On April 26, 2022, the Ministry of Finance proposed that the Government set a 5% tax rate on several types of fertilizers for export to ensure the domestic supply and help to ease fertilizer prices. According to DCM's CEO, the company's urea export products have been under the 5% export tax category since 2021. This export tax has a positive impact on DCM as the company can deduct the input VAT (~10% of production cost) for its urea export volume.

State's divestment progress. While there are no significant developments regarding this matter, DCM expects the Government could accelerate divesting its stake in the company from 75.6% to 51% in late 2022/early 2023.

DCM is finding a way to diversify its products to include organic biological fertilizers. In addition to developing higher quality urea and NPK products, DCM is targeting to diversify to greener and more environmental-friendly products. In 2021, DCM experimented and produced 7,000 tonnes of an organic fertilizer product named OM Ca Mau. The company targets to produce ~22,000 tonnes of organic fertilizer in 2022 and aims for 240,000 tonnes by 2024.

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UNDERPERFORM	If the projected TSR is between -10% and -20%
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