

PetroVietnam Fertilizer & Chemicals (DPM)

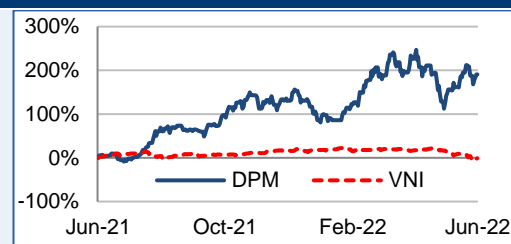
AGM Note

Industry:	Agrochemicals		2021	2022F	2023F	2024F
Report Date:	June 23, 2022	Rev Growth	64.7%	22.3%	-10.6%	-11.2%
Current Price:	VND53,000	EPS Growth*	370.3%	31.3%	-30.2%	-27.1%
Target Price***:	VND66,800	EPS Growth**	350.8%	21.4%	-30.2%	-27.1%
Upside to TP:	+26.1%	NPAT (VND bn)**	3,117	3,784	2,640	1,925
Dividend Yield:	9.4%	DPS (VND/sh)	5,000	5,000	5,000	3,000
TSR:	+35.5%	EV/EBITDA	3.9x	2.8x	4.0x	5.5x
Rating***:	BUY	P/E	8.0x	6.6x	9.5x	13.0x

*Recurring, **Reported

Market Cap:	USD901.9mn	DPM	VNI
Foreign Room:	USD793.1mn	P/E (ttm)	4.9x 13.2x
ADTV30D:	USD14.3mn	P/B (curr)	1.7x 2.4x
State Ownership:	59.6%	Net D/E	-62.2% N/A
Outstanding Shares:	391.4 mn	ROE	41.5% 15.7%
Fully Diluted Shares:	391.4 mn	ROA	32.0% 2.6%

*** TP and rating last updated May 20, 2022



Company Overview

DPM is the leading urea producer in Vietnam and has ~35% market share. The company also trades other fertilizers, including NPK, SA and DAP. DPM owns the Phu My urea plant (capacity of 800,000 tonnes), an NPK-NH₃ plant (capacity of 250,000 tonnes) and a distribution network of 3,000 points of sale.

Tram Ngo
Manager
tram.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 135

Duong Dinh
Senior Manager
duong.dinh@vcsc.com.vn
+84 28 3914 3588 ext. 140

DPM focuses on long-term development strategy

- DPM's AGM took place in Ba Ria-Vung Tau Province on June 23. The meeting discussed the urea selling price and volume outlook for 2022, gas transportation tariff recalculation for 2014-2018, the company's long-term development strategy and its input gas supply.
- While PetroVietnam's (PVN) representative stated that DPM's H1 2022 performance was strong as it nearly met the company's full-year guidance, he is concerned about DPM's outlook in H2 2022 due to declining urea prices.
- DPM targets 2022 revenue of VND17.2tn (USD750mn; +34.8% YoY) and NPAT of VND3.5tn (USD151mn; +9.5% YoY). These 2022 targets are based on urea price updates as of Q1 2022 and are significantly higher than the 2022 guidance announced in December 2021. Nevertheless, we believe this guidance is conservative.
- Shareholders approved to raise the 2021F and 2022F cash dividends to VND5,000 from VND3,500 and VND1,500 per share respectively, which is in line with our expectation.
- Shareholders did not approve an input gas transportation tariff recalculation for 2014-2018. As such, DPM will not pay the additional gas transportation cost of USD18.09mn (VND420bn) to PetroVietnam Gas (HOSE: GAS).
- DPM is laying out the development strategy to move into the chemical and petrochemical segments for its long-term growth.

Shareholders approved revised 2022 guidance for revenue of VND17.2tn (USD750mn; +34.8% YoY) and NPAT of VND3.5tn (USD151mn; +9.5% YoY). This revised guidance is significantly higher than the preliminary 2022 targets announced in December 2021 — notably with the NPAT target quadrupling the previous number. In addition, the revised 2022 NPAT target is equivalent to ~90% of our current forecast. We believe the higher 2022 targets are based on more up-to-date urea price assumptions; nevertheless, these targets are still conservative, in our view.

H1 2022 average urea prices and gas costs were higher than expected; urea sales volume trailed our forecast. H1 2022 average urea and NPK prices were ~VND16,600/kg (USD720/tonne) and VND15,300/kg (USD664/tonne), increasing 114% YoY and 74% YoY, respectively. The average input gas cost in H1 2022 was USD10/MMBTU (+54.2% YoY). Meanwhile, H1 2022 urea and NPK sales volume amounted to 400,000 tonnes (+7.5% YoY) — of which one-third was from export volume — and 85,000 tonnes (-4.4% YoY), completing 48% and 49% of our respective full-year forecasts. H1 2022 sales volume slightly trailed our expectation because high prices hurt domestic demand. Overall, we foresee insignificant changes to our 2022F net profit forecast of VND3.8tn (+21.4% YoY) as we expect higher-than-expected urea prices to offset higher-than-expected input costs and lower-than-expected volume.

Shareholders did not approve the input gas transportation tariff recalculation for 2014-2018. DPM submitted a proposal for shareholders to authorize the Board of Management to recalculate

and make payment for the input gas transportation tariff in 2014-2018. In the input gas contracts between PVN, GAS and DPM, all parties agreed that DPM could use input gas from the Bach Ho – Rong Doi Moi gas fields that had a low gas transportation tariff (from USD0.9 to USD1 per MMBTU in 2014-2018). However, GAS submitted a document to PVN stating that the gas volume from the Bach Ho – Rong Doi Moi gas fields was insufficient for DPM's demand in 2014-2018 and that GAS had to collect gas from more expensive gas fields (with a tariff of USD3/MMBTU) to supply DPM. The owner of these gas fields — Vietsovpetro — also confirmed that the gas volume from Bach Ho – Rong Doi Moi was insufficient to provide a full supply to DPM. GAS estimates an additional gas transportation cost of USD18.09mn (the difference between a temporary tariff of ~USD1/MMBTU and the actual tariff of USD3/MMBTU multiplied by the volume from the more expensive gas field) and requests a payment from DPM. As the shareholders did not approve the proposal, DPM will not pay the additional gas transportation cost of USD18.09mn (VND420bn) to GAS. However, this development could create challenges for the negotiation progress for a long-term input gas supply between these two companies.

No new information regarding an input gas supply/transportation tariff mechanism in 2023.

Despite many questions regarding the long-term gas supply and transportation tariff, DPM has not yet provided a clear outlook on the input gas supply for 2023 and beyond. DPM shared that the current input gas sources and transportation tariff mechanism are the same as before — from three gas fields (cheap gas fields Bach Ho – Rong – Doi Moi, other more expensive gas fields from the Cuu Long basin and gas fields in the Nam Con Son basin). In our forecasts, we assume DPM's transportation tariff will rise 16% YoY in 2023F and 10% YoY in 2024F as we expect DPM will have to use more gas from expensive gas fields in the Cuu Long basin.

Long-term development strategy to move into the chemical and petrochemical segments.

Shareholders approved the development strategy through 2035 and orientation to 2045. Notably, DPM has hired consultant to map out its long-term plan. In 2022-2025, DPM targets to maintain a market share of 35% in the urea market, gradually increase the utilization of its NPK plant to 100% and expand its NPK production capacity through joint ventures and/or mergers & acquisitions. In addition, the company targets to study and develop organic and environmentally friendly fertilizer products. In 2026-2030, DPM targets to increase its market share in the NPK segment and participate in the organic fertilizer segment. The company also aims to participate in the petrochemical segment by developing an integrated petrochemical complex. In 2031-2035, in addition to increasing market share in the NPK and organic fertilizer segments, DPM targets to become a reputable chemical and petrochemical producer. In terms of the company's orientation to 2045, DPM aims to become the leading producer of fertilizers, chemicals and petrochemicals in Vietnam and Southeast Asia. The company estimates total capex of VND12.6tn (USD546mn) for chemical and petrochemical projects in 2023-2030 (see table below). Throughout this long-term plan, the consultant has advised DPM to utilize its distribution network (four distribution subsidiaries) and increase its presence, influence and interaction with agents and farmers to improve efficiency as well as profitability.

Figure 1: DPM's long-term projects

Chemical projects	Annual capacity (thousand tonnes)	Capex (VND bn)	2023	2024	2025	2026	2027	2028	2029	2030
NPK plant (phase 2)	250	950								
Organic fertilizer plant (three phases)	200	240								
H2O2	40	296								
Soda Ash	200	2,300								
DEF (diesel exhaust fluid)	40	58								
Melamine	40	3,322								
H2SO4 (Sulfuric acid)	200	2,355								
Caprolactam	50	1,707								
PVC (Polyvinyl chloride)	200	1,313*								
Caustic Soda	75	23*								
Total	1,295	12,564								

Source: DPM. Note (*): These capex plans are based on DPM's plan of investing a 51% stake in these projects.

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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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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 15th Floor
2 Hai Trieu Street, District 1, HCMC
+84 28 3914 3588

Head Office

Vinatex Building, 1st & 3rd Floor
10 Nguyen Hue Street, District 1, HCMC
+84 28 3914 3588 (417)

Transaction Office Dong Da

9 Nguyen Ngoc Doan
Dong Da District, Hanoi
+84 24 6262 6999

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office Ham Nghi

16th Floor, Doji Tower, 81-83-83B-85 Ham Nghi
Street
District 1, HCMC
+84 28 3914 3588 (400)

Transaction Office ABS

Sailing Tower, 8th Floor
111A Pasteur Street, District 1, HCMC
+84 28 3914 3588 (403)

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Alastair Macdonald, Head of Research, ext 105
alastair.macdonald@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Truc Ngo, Analyst, ext 116
- Ngoc Huynh, Analyst, ext 138
- Nga Ho, Analyst, ext 516

Macro

Luong Hoang, Manager, ext 364

- Nguyen Truong, Senior Analyst, ext 132

Consumer

Nam Hoang, Manager, ext 124

- Ha Dao, Senior Analyst, ext 194
- Ha Huynh, Analyst, ext 185
- Huy Phan, Analyst, ext 173
- Nhan Nguyen, Analyst, ext 139

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Manager, ext 135
- Thang Hoang, Analyst, ext 196

Real Estate and Infrastructure

Hong Luu, Senior Manager, ext 120

- Dang Thai, Senior Analyst, ext 149
- Thuc Than, Analyst, ext 174

Materials and Industrials

Vy Nguyen, Manager, ext 147

- Vinh Bui, Analyst, ext 149

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363
- Ha Bui, Analyst, ext 364

Brokerage and Institutional Sales & Trading

Tuan Nhan

Managing Director, Brokerage & Institutional Sales & Trading

+84 28 3914 3588, ext 107
tuan.nhan@vcsc.com.vn

Quynh Chau

Managing Director Brokerage

+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Dung Nguyen

Director Institutional Sales & Trading

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn