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**4Q21 NPAT reached VND1,668.2 billion, up 1,468.5% YoY**

In 4Q21, PV Fertilizer & Chemicals (DPM) disclosed impressive business results with net revenue of VND5,086 billion (+163.5% YoY), driven by high fertilizer prices and fertilizer export ban of some major producers.

**DPM should fulfill the business plan soon in 2022**

As one of the businesses winning the bid package to export 130 thousand tons of urea to India, we expect DPM to record a profit of VND1,000–1,100 billion and fulfill the 2022 profit plan right in the first quarter.

**However, the urea price movements may be less positive in the medium term**

With fertilizer demand forecast to follow a flat trend this year and crude oil prices of USD65/barrel, urea prices should trade at around USD400/ton, similar to the 2012–2013 levels.

**We recommend HOLDING DPM shares with a target price of VND49,100/share**

Based on valuation results, business outlook, and possible risks, we recommend HOLDING DPM shares with a target price of VND49,100/share, 3.6% higher than the closing price on February 22, 2022.

## Hold

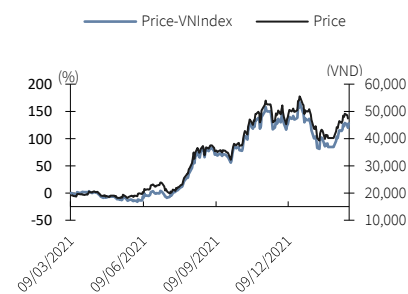
<b>Target price</b>	<b>VND49,100</b>
Upside/Downside	3.6%
Current price (Feb 22, 2022)	47,400
Market cap (VNDbn)	19,212.75

<b>Trading data</b>	
Free float	40%
3M avg trading value (VNDbn/USDmn)	229/10
Foreign ownership	8.77%
Major shareholder	National Petroleum Group (PLX) (59.59%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	19	9	39	158
<b>Relative</b>	16	1	26	128

### Forecast earnings & valuation

FY-end	2021A	2022F	2023F	2024F
Net revenue (VNDbn)	12,786.14	11,735.00	10,870.67	10,687.97
Growth (%)	65%	-8%	-7%	-2%
Gross profit (%)	4,785.54	3,520.50	2,717.67	2,671.99
Gross profit margin (%)	37.43%	30.00%	25.00%	25.00%
Net profit (VNDbn)	3,170.94	2,125.28	1,517.61	1,492.10
Growth (%)	352%	-33%	-29%	-2%
EPS (VND)	7,747	5,476	3,920	3,854
ROE (%)		21%	16%	16%
P/E (x)	4.8	9.0	12.5	12.7
P/B (x)	1.4	2.0	2.0	2.0



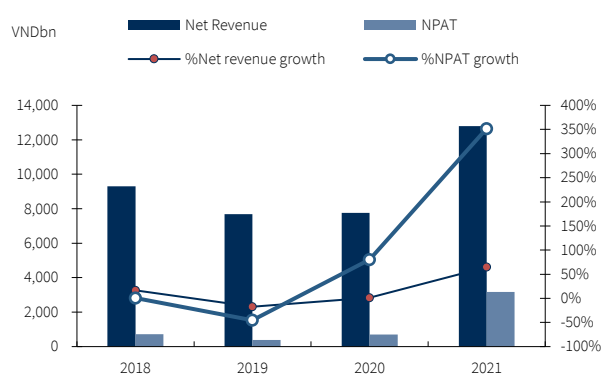
Source: Bloomberg, KB Securities Vietnam

## Updated business performance

**4Q21 NPAT was VND1,668.2 billion, up 1,468.5% YoY**

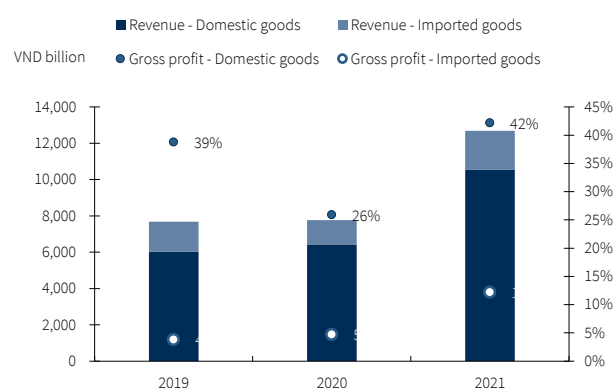
DPM achieved impressive business results in the last three months of 2021, with net revenue of VND5,086 billion (+163.5% YoY), driven by high fertilizer prices and fertilizer export restrictions in major fertilizer producers namely China, Russia, Egypt. The gross profit margin reached 46.6% (+9.77 percentage points QoQ, +26.6 percentage points YoY). Meanwhile, well-controlled expenses and costs helped NPAT increase significantly to VND1,668.2 billion (+1,468.5% YoY) in 4Q21. This figure for the whole year of 2021 was VND3,171 billion (4.5-fold YoY).

Fig 1. DPM – Revenue and profit growth (VNDbn, %)



Source: PV Fertilizer & Chemicals, KB Securities Vietnam

Fig 2. DPM – 2019A–2021A revenue structure (VNDbn, %)



Source: PV Fertilizer & Chemicals, KB Securities Vietnam

**Costs and expenses were well controlled while revenue increases strongly, helping DPM record a huge profit in 2021**

Production output throughout last year surpassed 1 million tons of fertilizers and chemicals of all kinds with two main products: 792 thousand tons (-8% YoY) of urea fertilizers and 162 thousand tons (+41% YoY) of nitrogenous phosphatic potassic (NPK) fertilizers. Net revenue witnessed a sharp increase in 4Q21, reaching VND5,085 billion (+163% YoY), while selling and general & administrative expenses only grew by 27.7% and 12.2% YoY, helping PBT surge to VND2,000 billion (+1,415% YoY).

**Inventories nearly doubled against the corresponding period a year earlier**

Notably, inventories at the end of 4Q21 in the financial statements jumped by VND1,200 billion QoQ to over VND2,900 billion, the highest in the past three years. The total value of fertilizer products available for sale reached VND1,859 billion (2.5-fold YoY).

**The management set a conservative business plan with total revenue of VND11,058 billion (-14.2% YoY)**

In 2022, DPM set a conservative business plan: 828 thousand tons of Phu My Urea (+4.5% YoY & 103.5% of the design capacity), 165 thousand tons of Phu My NPK (+1.8% YoY & 66% of the design capacity), 70 thousand tons of NH<sub>3</sub> (-0.5% YoY) and 8.5 thousand tons of UFC85 (-9.5% YoY). The corporation also set relatively low targets for NPAT at VND945 billion (-68.8% YoY) and total revenue at VND11,058 billion (-14.2% YoY).

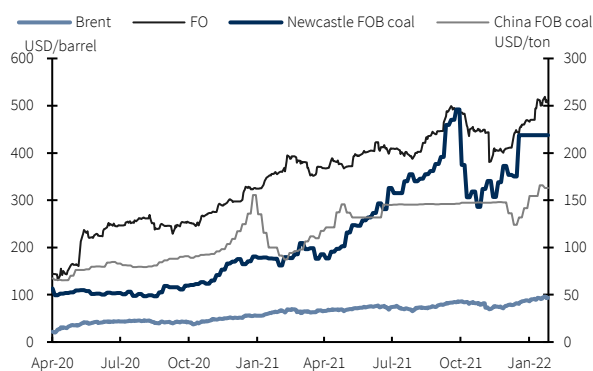
**Urea prices likely reached their mid-term peak and are expected to trade around USD400/ton in 2022**

We believe that the above financial ratios are consistent with the forecast of world oil and fertilizer price movements in 2022. Escalating tensions between Ukraine and Russia along with gas shortages in Europe have made oil prices anchor at high levels, meaning fertilizer prices will less likely ease off in the near future. However, the International Fertilizer Association predicted that the world's urea production capacity this year may increase by 7.5 million tons to 224.5 million tons/year thanks to Nigeria's export promotion programs and Brunei and India's import substitute projects. Besides, the lifting of restrictions on Russian fertilizer exports from June 2022 will lead to resurging fertilizer supply in the second half of the year. With fertilizer demand forecast to follow a flat trend in 2022 and crude oil prices of USD65/barrel, urea prices are expected to trade at around USD400/ton, similar to the 2012–2013 levels.

**DPM may have recorded more than VND1,000 billion in profit in the first half of January**

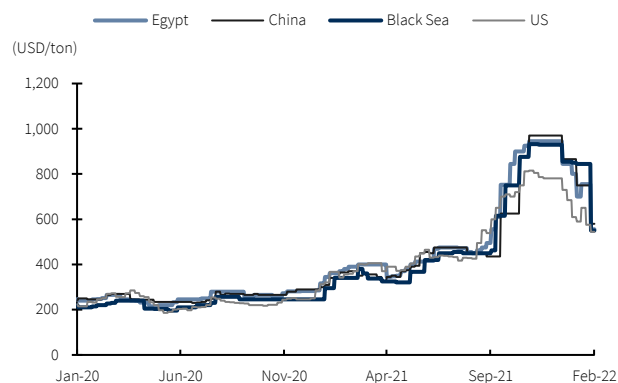
According to the preliminary statistics figures of the General Department of Vietnam Customs, fertilizer exports in January 2022 marked USD171 million (+349.5% YoY). In particular, in the first half of January, more than 130 thousand tons of urea were exported to India with a total value of USD105 million. As far as we know, DPM promptly exported fertilizers to India in January after winning the above bid package. With urea prices ranging around USD750–800/ton at that time, DPM may have recorded VND1,000–1,100 billion in profit.

**Fig 5. Australia & China – Input material prices**



Source: Bloomberg, KB Securities Vietnam

**Fig 6. Global – Urea prices (USD/ton)**



Source: Bloomberg, KB Securities Vietnam

## Forecast business performance

### 2022F business results

For 2022, assuming the average price of crude oil at USD65/barrel (-10% YoY) and urea prices at USD400/ton (-20% YoY), we forecast DPM's NPAT to be VND2,125 billion (-33% YoY) on revenue of VND11,735 billion (-8.9% YoY), supported by the following reasons:

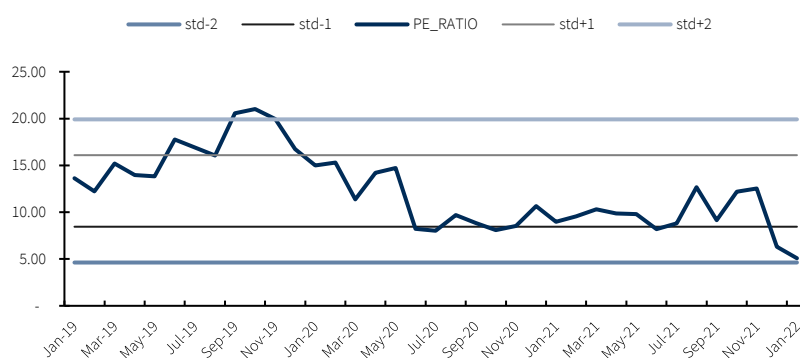
- Urea consumption is 800,000 tons in 2022F, given no major maintenance that disrupts production this year;
- NPK consumption should grow by 10% YoY, reaching 176 thousand tons due to the high demand for NPK fertilizer;
- Accordingly, revenue from urea and NPK may hit VND7,452 billion and VND1,936 billion, respectively;
- Urea prices may have reached their peak and are forecast to decrease faster than input material prices, similar to the 2013–2014 period, causing DPM's gross profit margin to decrease by 20% YoY.

**Table 7. DPM – 2022A–2024E business results**

	2021A	2022F	2023F	2024F
Net revenue	12,786	11,735	10,871	10,688
COGS	-8,001	-8,215	-8,153	-8,016
Gross profit	4,786	3,521	2,718	2,672
Selling expenses	-818	-821	-761	-748
G&A expenses	-426	-411	-380	-374
Financial expenses	-75	-117	-109	-107
PBT	3,799	2,561	1,828	1,798
<b>NPAT of the parent company</b>	<b>3,193</b>	<b>2,125</b>	<b>1,518</b>	<b>1,492</b>

Source: KB Securities Vietnam

**Fig 8. DPM – P/E (x)**



Source: PV Fertilizer & Chemicals, KB Securities Vietnam

**We recommend HOLDING DPM shares with a target price of VND49,100/share**

Based on the two valuation methods DCF and P/E multiple with a ratio of 50:50, business outlook, and possible risks, we recommend HOLDING DPM shares with a target price of VND49,100/share, 3.6% higher than the closing price on February 22, 2022. DPM shares are trading at a 2022 forward P/E of 8.65x. We expect a reasonable P/E for DPM shares by the end of this year at 9.0x, equivalent to -1Std of DPM's average P/E over the last three years.

**Table 8. DPM – DCF valuation method**

Model assumptions	Value
Cost of equity	10.4%
Cost of debt	8.6%
Risk-free rate	3.1%
Risk Premium	8.3%
Beta	0.88
Long-term growth	2%
WACC	9.69%

Source: PV Fertilizer & Chemicals, KB Securities Vietnam

**Table 9. DPM – Target price according to valuation methods (VND)**

Valuation method	Forecast price (VND)	Weight	Weighted price (VND)
FCFE	49,700	50%	24,850
P/E	48,500	50%	24,250
<b>Target price</b>			<b>49,100</b>

Source: PV Fertilizer & Chemicals, KB Securities Vietnam

## DPM – 2021A–2024E financials

Income statement					Balance sheet				
(VND billion)	2021A	2022F	2023F	2024F	(VND billion)	2021A	2022F	2023F	2024F
Net revenue	12,786	11,735	10,871	10,688	TOTAL ASSETS	13,918	12,360	12,171	12,308
Cost of goods sold	-8,001	-8,215	-8,153	-8,016	CURRENT ASSETS	9,519	8,147	8,250	8,670
Gross profit	4,786	3,521	2,718	2,672	Cash and cash equivalents	2,524	2,686	3,118	3,547
Financial income	176	176	163	160	Short-term investments	3,171	2,937	2,888	0
Financial expenses	-75	-117	-109	-107	Accounts receivable	489	273	433	261
Gain/(loss) from joint ventures (from 2015)	3	2	2	2	Inventories	2,776	1,736	1,444	1,682
Selling expenses	-818	-821	-761	-748	Other current assets	276	281	317	292
General and admin expenses	-426	-411	-380	-374	LONG-TERM ASSETS	4,213	3,922	3,638	0
Operating profit/(loss)	3,645	2,349	1,633	1,605	Fixed assets	3,717	3,427	3,106	2,833
Other incomes	155	117	109	107	Investment properties	210	318	318	318
Other expenses	-2	-12	-11	-11	Long-term incomplete assets	174	174	174	174
Net other income/(expenses)	153	106	98	96	Long-term investments	45	41	38	37
Income from investments in other entities	3,799	2,561	1,828	1,798	Other long-term assets	252	252	285	274
Net accounting profit/(loss) before tax	-605	-435	-311	-306	LIABILITIES	3,206	2,700	2,731	2,786
Corporate income tax expenses	3,193	2,125	1,518	1,492	Current liabilities	2,152	2,349	2,551	2,678
Minority interests	54	18	16	16	Trade accounts payable	771	771	771	0
NPAT-MI	3,139	2,143	1,534	1,508	Advances from customers	124	124	123	81
EPS	7,747	5,476	3,920	3,854	Short-term borrowings	434	650	863	0
					Provision for ST liabilities	0	1	2	3
					Other payables	1,020	1,007	963	0
Operating ratio					Long-term liabilities	351	180	108	77
(%)	2021A	2022F	2023F	2024F	Long-term trade payables	296	126	53	22
Revenue growth	65%	-8%	-7%	-2%	Other long-term payables	9	9	9	9
EBIT growth	305%	-32%	-28%	-2%	OWNER'S EQUITY	10,712	9,659	9,466	9,566
EBITDA growth	193%	-33%	-25%	-1%	Paid-in capital	3,914	3,914	3,914	3,914
NPAT-MI growth	351%	-32%	-28%	-2%	Share premium	21	21	21	21
Gross profit margin	37%	30%	25%	25%	Treasury shares	(2)	(2)	(2)	(2)
EBITDA	34%	25%	20%	20%	Undistributed earnings	3,085	1,923	1,542	1,590
EBIT	30%	23%	18%	18%	Budget sources and other funds	0	1	2	3
EBT	30%	22%	17%	17%	MINORITY INTERESTS	197	180	164	147
NPAT-MI	25%	18%	14%	14%	TOTAL LIABILITIES & CAPITAL	13,918	12,360	12,197	12,352
Cash Flow statement					Main ratio				
(VND billion)	2021A	2022F	2023F	2024F	(x, %, VND)	2021A	2022F	2023F	2024F
Net accounting profit/(loss) before tax	3,799	2,125	1,518	1,492	Valuation				
Depreciation	537	293	293	294	P/E	4.8	9.0	12.5	12.7
Gain/(loss) from investment activities	-169	-173	-129	-138	P/B	1.4	2.0	2.0	2.0
Changes in working capital	-2,057	-36	-415	-480	P/S	1.1	1.6		
Other adjustment for operation	0	0	0	0	Earnings per share (EPS)	7,747	5,476	3,920	3,854
Net cash inflows/(outflows) from operating activities	2,358	2,473	1,512	1,409	Dividend per share (DPS)	4,000	1,500	1,500	1,500
Short-term investment	0	0	0	0	Dividend payout ratio (%)	40%	15%	15%	15%
Purchases of fixed assets and other long-term assets	-79	93	85	79	Profitability				
Other adjustment for investment	-1,096	-693	-629	-615	ROE		21%	16%	16%
Net cash inflows/(outflows) from investing activities	-1,174	-575	-538	-533	ROA		16%	12%	12%
Proceeds from borrowings	725	534	560	581	Financial Structural				
Repayment of borrowings	-869	-705	-515	-441	Debt/Owner's Equity	0.2	0.3	0.3	0.3
Other financing activities	0	0	0	0	Quick ratio	4.4	3.5	3.2	3.2

Source: PV Fertilizer &amp; Chemicals, KB Securities Vietnam

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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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