

# PV Fertilizer & Chem (DPM)

Expecting a recovery thanks to improved urea prices

March 1, 2024

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**2023 business results sharply declined from 2022's comparative highs**

Revenue of PV Fertilizer & Chemicals Corporation (DPM) in 2023 plummeted 27% YoY as the recovery in sales could not offset the YoY plunge in fertilizer prices. The corporation was also hit hard by the input gas supply shortage last year, which caused input gas prices to spike and partly made gross profit drop 79% YoY. The brightest spot is that DPM has paid off all short and long-term debt, helping financial costs to decrease by 16.5% YoY.

**Growth in global crop demand is expected to support fertilizer consumption in 2024**

The prices of rice, wheat, and corn in 2023 remained high compared to the 10-year averages. The supply of the above agricultural crops is tight, compared with global consumption demand in the past seven years. Therefore, we believe this would urge countries to increase agricultural production, thereby boosting consumption demand and supporting urea fertilizer prices.

**Gas input costs should be more favorable when El Nino becomes weaker**

We expect El Nino to peak in 1Q24, and then gradually weaken and change to neutral and La Nina phases for the rest of the year. Therefore, the input gas source disputes between gas power and fertilizer plants should be less serious than in 2023. We forecast that natural gas input costs for DPM may slightly decrease 3% YoY for the whole year 2024.

**BUY recommendation – target price VND41,800**

Using FCFF method, we give a BUY rating to DPM with the target price VND41,800/share, equivalent to a return of 20.3% compared to the closing price of VND34,750 on February 29, 2024. Expected dividend yield is 5.8%.

**Buy** change

<b>Target price</b>	<b>VND41,800</b>
Upside	20.3%
Current price (Feb 29, 2024)	VND34,750
Consensus target price	VND32,600
Market cap (VNDbn/USDmn)	13,403/559

## Forecast earnings & valuation

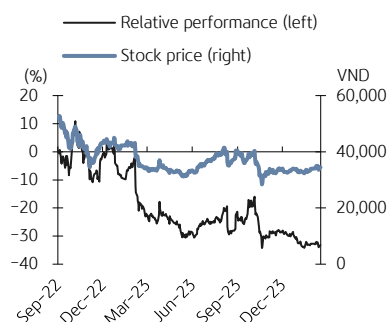
FY-end	2022A	2023	2024F	2025FA
Net revenue (VNDbn)	18,627	13,569	14,209	13,617
Operating income/loss (VNDbn)	6,304	302	1,166	972
NPAT-MI (VNDbn)	5,565	533	1,229	1,062
EPS (VND)	13,897	1,063	2,501	2,161
EPS growth (%)	79.3	-92.4	135.0	-14.0
P/E (x)	2.5	32.2	13.7	15.9
P/B (x)	1.0	1.3	1.2	1.2
ROE (%)	39.8	4.7	10.6	9.1
Dividend yield (%)	14.7	20.4	5.8	5.8

## Trading data

Free float	36.8%
3M avg trading value (VNDbn/USDmn)	59.5/2.5
Foreign ownership	9.0%
Major shareholder	Petrovietnam (59.6%)

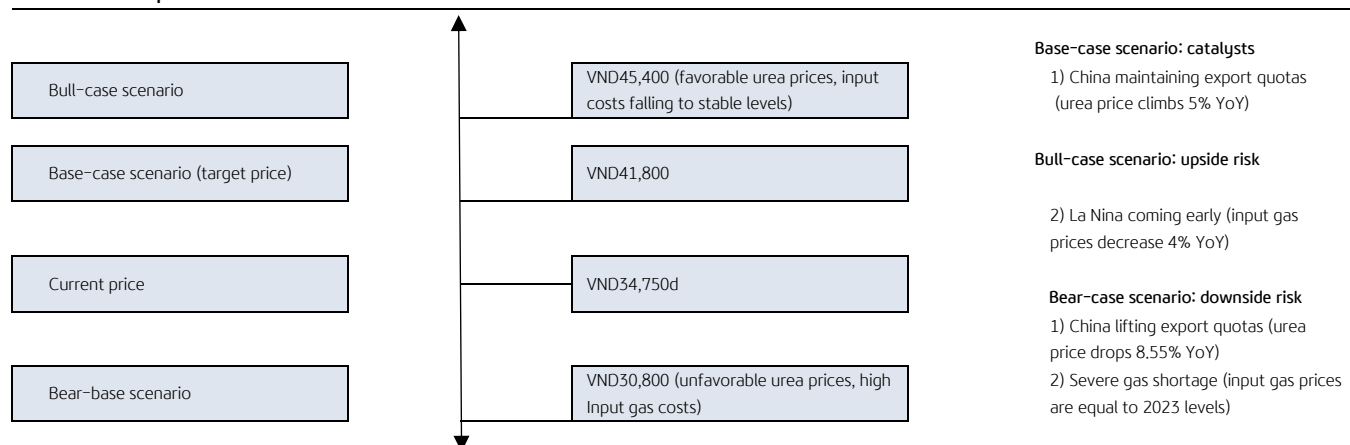
## Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	4.7	4.4	-3.8	-1.7
<b>Relative</b>	0.6	-6.5	-6.5	-18.0



Source: Bloomberg, KB Securities Vietnam

## Investment opinion &amp; risks



Source: Bloomberg, KB Securities Vietnam

## 2023 performance updates

### 2023 business results sharply declined from 2022's comparative highs

2023 revenue of DPM plummeted 27% YoY as the recovery in sales could not offset the YoY plunge in fertilizer prices. The corporation was also hit hard by the input gas supply shortage last year, which caused input gas prices to spike and partly made gross profit drop 79% YoY. The brightest spot is that DPM has paid off all short and long-term debt, helping financial costs to decrease by 16.5% YoY.

Table 1. DPM – 2023 business results

	2022	2023	YoY %	KBSV's notes
Revenue (VNDbn)	18,627	13,569	-27%	The revenue decrease was mainly because the recovery in sales could not offset the YoY plunge in fertilizer prices.
Gross profit (VNDbn)	7,838	1,652	-79%	
Gross profit margin (%)	42.1%	12.2%		Product prices dropped sharply YoY, and input material costs strongly rose.
SG&A costs (VNDbn)	-1,534	-1,350	-12.0%	
Operating income (VNDbn)	6,304	302	-95.2%	
Financial income (VNDbn)	365	458	25.5%	DPM had a large cash balance accumulated from 2022.
Financial expenses (VNDbn)	-85	-71	-16.5%	DPM has paid off all short and long-term loans since the end of 2023.
Other incomes (net, VNDbn)	19	1	-94.7%	
Profit before taxes (VNDbn)	6,606	691	-89.5%	
Profit after taxes (VNDbn)	5,585	543	-90.3%	
Brent oil price (USD/barrel)	101	83	-17.7%	
Input gas price (USD/mmBTU)	8.8	10.5	19.3%	The El Nino, combined with problems in mobilizing power sources, has forced PVN to prioritize gas allocation to power plants. DPM is almost not allocated gas from low-cost fields such as Bach Ho and Nam Con Son but receive all expensive gas from Cuu Long basin.
DPM urea price (VND/kg)	15.5	10.0	-35.5%	World urea prices dropped sharply mainly due to the need to handle inventory from 2022.
DPM NPK price (VND/kg)	15.5	12.4	-20.0%	NPK prices dropped due to the general decrease in world fertilizer prices and fierce competition with domestic competitors and cheap imports.
Urea sales volume (thousand tons)	794	879	10.7%	Purchasing power recovered as prices returned to reasonable levels but was affected by the overhaul in 1Q23.
NPK sales volume (thousand tons)	129	138	7.0%	

Source: PV Fertilizer & Chemicals, KB Securities Vietnam

## Investment catalysts

### 1. A recovery in global demand for urea in 2024

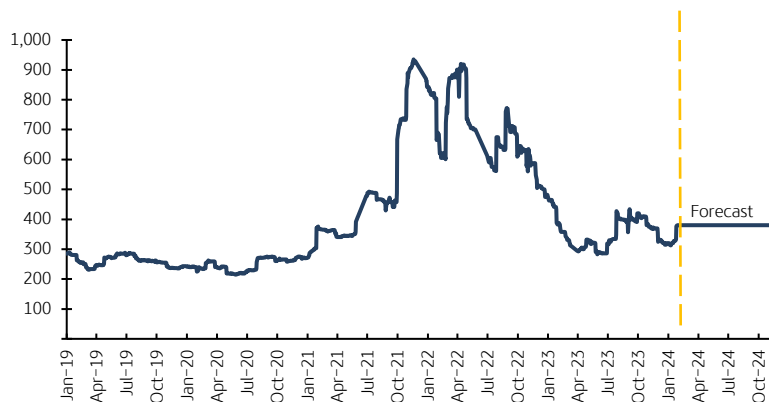
#### Urea price developments in the Middle East in the period 2022–2023

2023 urea prices in Middle East plunged 48% YoY from 2022 high base to an average of USD358/ton. Urea prices saw a steep fall in the first half of 2023 mainly because urea prices were too high in 2022, causing consumption demand to plunge. Urea output also increased in the European region, following a sharp drop in natural gas input prices. The market only recovered from mid-2023 when a series of export restriction policies were introduced by Russia, China and Egypt, and India boosted urea purchasing to ensure domestic food security during the El Nino. However, the market quickly fell into a quiet state in 4Q23 when Brazil crop failed, and India had ensured enough urea supply for the winter crop.

#### Middle East urea prices are expected to increase in 2024 from 2023 low bases

For 2024, we assume Middle East granular urea prices will grow 6.1% YoY from 2023's low base to USD380/ton, based on an expected recovery in consumption demand and improvement in oversupply situation.

Fig 2. Middle East – Urea price developments (USD/ton)

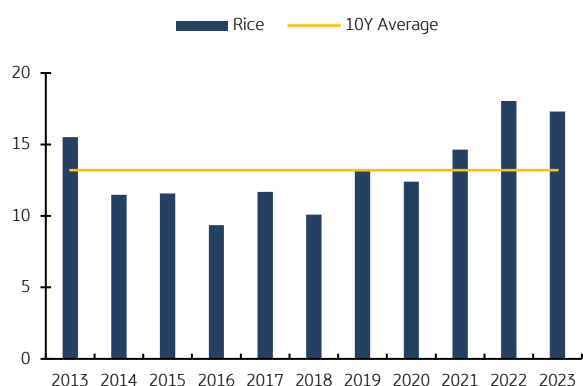


Source: Bloomberg, KB Securities Vietnam

#### Growth in global crop demand should support fertilizer consumption in 2024

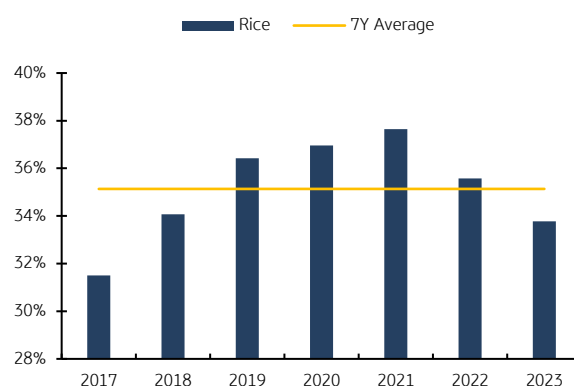
We see that factors such as geopolitical instability, extreme weather conditions, and steady growth in global consumer demand made the prices in 2023 of key agricultural crops such as rice, wheat, rice, and corn stay high compared to the 10-year average. In addition, the stock-to-use ratio for the above items has remained lower than the seven-year average, implying that the supply of rice, wheat and corn is in a tight state compared to global demand. We believe that high prices and tight supply will be incentives for countries to increase agricultural output. The US Department of Agriculture (USDA) forecast that total global agricultural output would grow 2.22% YoY, helping to increase the world demand for fertilizer.

Fig 3. Global – Rice prices vs 10-year average (USD/bushel)



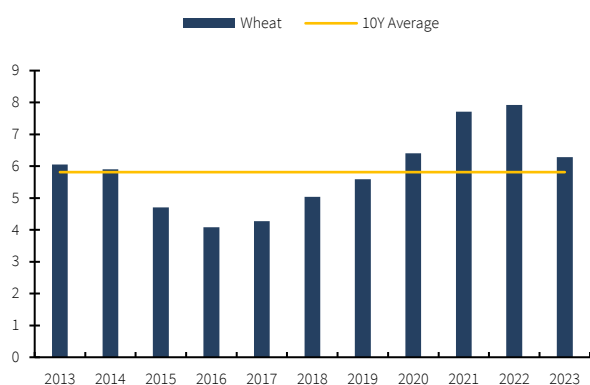
Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – Stock-to-use ratio of rice vs seven-year average (%)



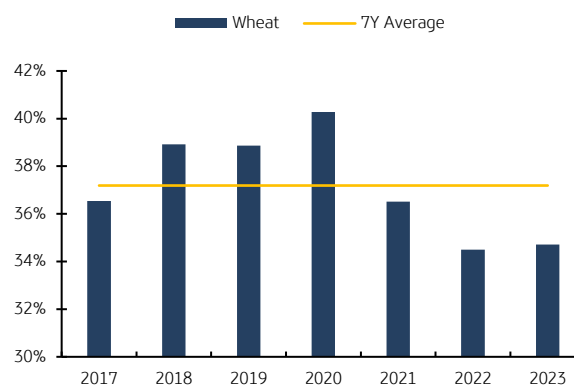
Source: Bloomberg, USDA, KB Securities Vietnam

Fig 5. Global – Wheat prices vs 10-year average (USD/bushel)



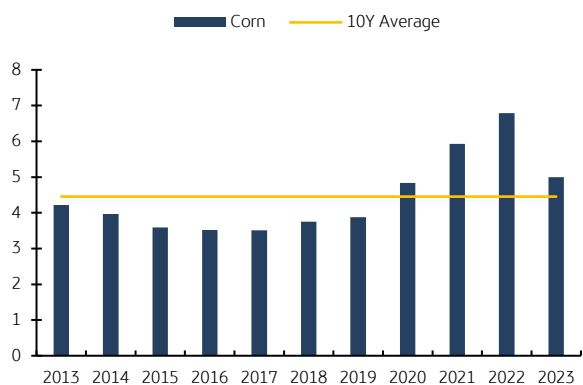
Source: Bloomberg, KB Securities Vietnam

Fig 6. Global – Stock-to-use ratio of wheat vs seven-year average (%)



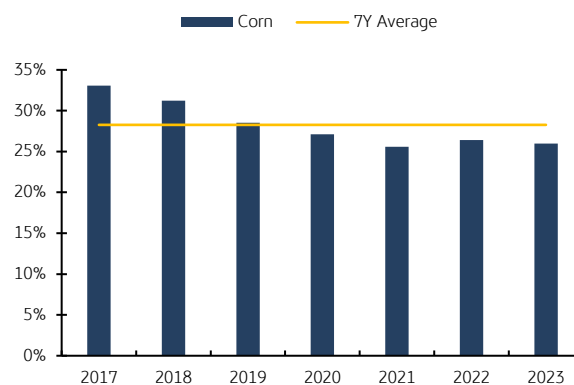
Source: Bloomberg, USDA, KB Securities Vietnam

Fig 7. Global – Corn prices vs 10-year average (USD/bushel)



Source: Bloomberg, KB Securities Vietnam

Fig 8. Global – Stock-to-use ratio of corn vs seven-year average (%)

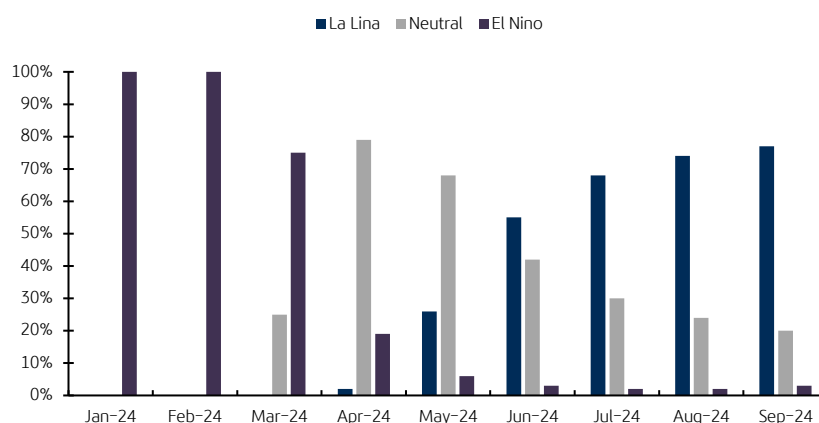


Source: Bloomberg, USDA, KB Securities Vietnam

**The weakening of El Nino phenomenon from 2Q24 could help fertilizer demand in Asia recover**

According to the International Research Institute for Climate and Society (IRI), the El Nino may start to lose strength after 1Q24, and the weather may turn to a neutral phase and have a high probability of transitioning to the La Nina between July and September 2024. We expect Asian urea demand to begin to show obvious signs of recovery from 2Q24 thanks to more favorable weather for planting.

**Fig 9. Global – Probability of weather phases in 9M24 (%)**



Source: IRI, KB Securities Vietnam

**It is expected that the urea fertilizer trading market will be more active from the peak season in early 2Q24**

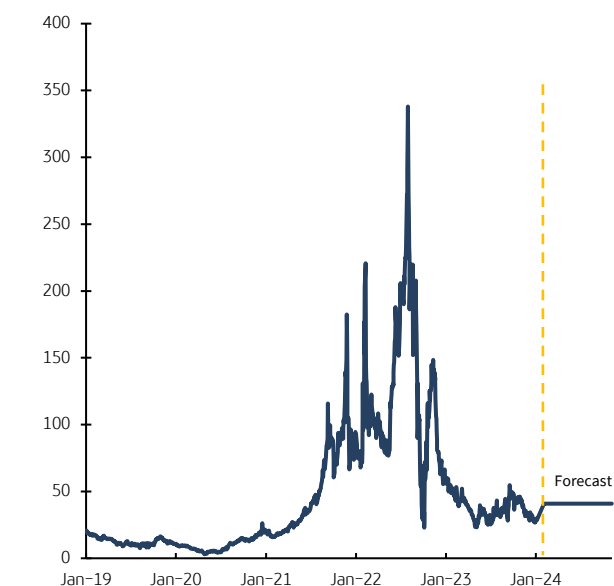
After a quiet year in 2023 due to high inventory, we expect the urea trading market to become more active from 2Q24 when major consumers including China, India, the US, Brazil and Europe all returned to bidding to ensure fertilizer supply for the upcoming peak summer-autumn crop.

## **2. Expect the urea supply surplus to improve slightly in 2024**

**Natural gas prices are expected to remain high in 2024, alleviating the pressure on oversupply**

The International Energy Agency (IEA) forecast that global natural gas demand in 2024 might grow by 2.5% YoY as this winter is projected to be much colder than the unusually warm 2023, and the electricity demand from Asia, North America and the Middle East should increase. The agency also lowered its forecast for natural gas supply in 2024 because the completion progress of new LNG plants is still slow while existing plants are facing a decline in gas input sources. US Energy Information Administration (EIA) projected that US natural gas prices would gain 4.3% YoY in 2024 with similar arguments to the IEA. High natural gas input prices will cause urea producers (especially in the European region) to limit capacity due to reduced profit margins, thereby minimizing the global supply surplus. According to the base scenario of Green Markets (Bloomberg), global urea consumption efficiency will grow slightly from 76.9% in 2023 to 77.2% in 2024 as total maximum capacity only grows 1.8% YoY while consumption demand is expected to climb 2.1% YoY.

Figure 10. Europe – Natural gas price developments (EUR/kWh)



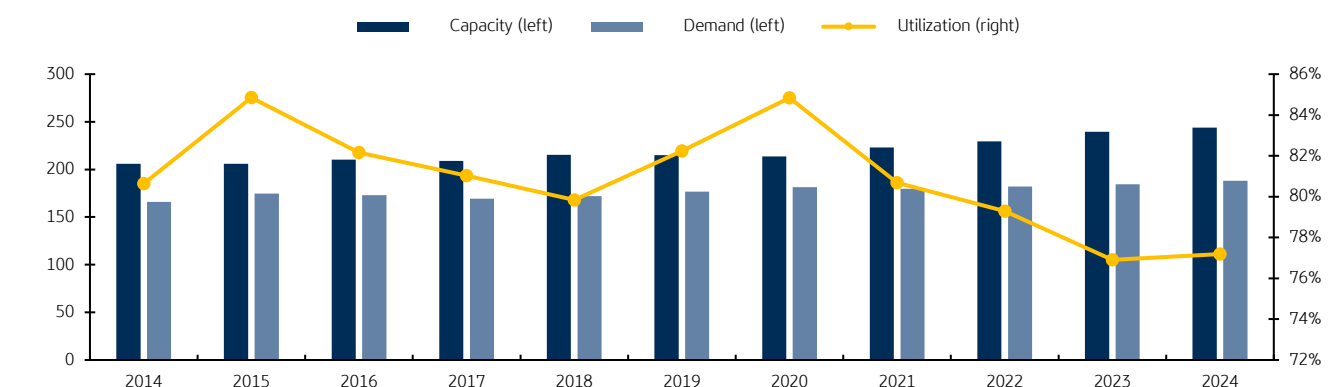
Source: Bloomberg, KB Securities Vietnam

Table 11. Europe – Forecast TTF natural gas prices for 2024 (EUR/kWh)

Agency	Date of forecast (dd/mm/yyyy)	2024
BMI, Fitch Solutions	14/02/2024	40.00
JPMorgan Chase & Co	02/02/2024	35.00
HSBC Holdings PLC	01/02/2024	40.92
Goldman Sachs Group Inc	01/02/2024	42.00
Citigroup Inc	31/01/2024	49.45
Rabobank	31/01/2024	35.13
Natixis SA	19/01/2024	29.50
Berenberg	18/01/2024	40.80
ING Groep NV	12/01/2024	35.00
Panmure Gordon & Co PLC	11/01/2024	36.00
BNP Paribas SA	10/01/2024	43.67
MUFG Bank	04/01/2024	43.50
MPS Capital Services	04/01/2024	41.00
<b>Median</b>		<b>40.86</b>

Source: Bloomberg, KB Securities Vietnam

Fig 12. Global – Forecast of supply, demand, and consumption of urea producers in 2024 (*left* – million tons, *right* – %)



Source: Bloomberg, Green Markets, KB Securities Vietnam

**Urea supply from Russia and China should only grow slightly, but there is still a risk that countries relax urea export restriction policies in 2024**

We forecast the urea supply growth from Russia will be limited due to the new export tax policy applied to fertilizer products (effective from 3Q23 to the end of 2024). However, the decision of this country to raise its import quota of nitrogen fertilizers (urea, ammonia, and ammonia nitrate) by 18% to 9.8 million tons from November 2023 to May 2024 may boost global supply. For China, the country's current urea export restriction, combined with high domestic urea prices, will make the urea supply in the region relatively balanced. On the other hand, if the Chinese government suddenly eases its policy, the global urea market will likely face an oversupply shock, causing urea prices to plummet. In addition, we also do not rule out the possibility that Chinese coal prices (the main input material for urea plants in China) will continue to saw further deep corrections due to the weakening manufacturing industry, causing domestic urea prices to decline and China's exports to neighboring countries to increase.

### 3. Expect DPM's business situation to be more positive than in 2023

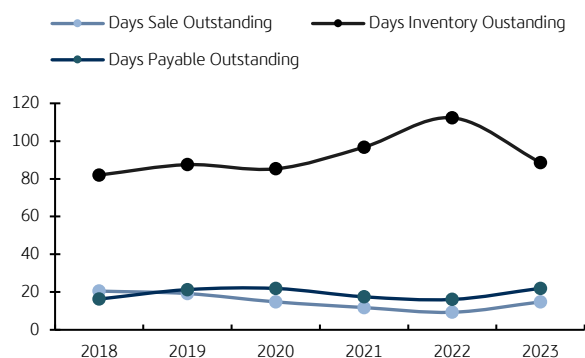
#### Gas input costs should be more favorable when El Nino weakens

For 2024, we assume the average Brent crude oil price will be at USD83/barrel (flat compared to 2023). As mentioned above, we expect El Nino to peak in 1Q24, and then gradually weaken and move to neutral and La Nina phases for the rest of the year. Therefore, we believe that the input gas source disputes between gas power and fertilizer plants will be less serious than in 2023. Natural gas input costs for DPM may slightly decline 3% YoY and average USD10.2/mmBTU for 2024.

#### DPM's balance sheet quality significantly improved in 2023, which helps strengthen long-term development

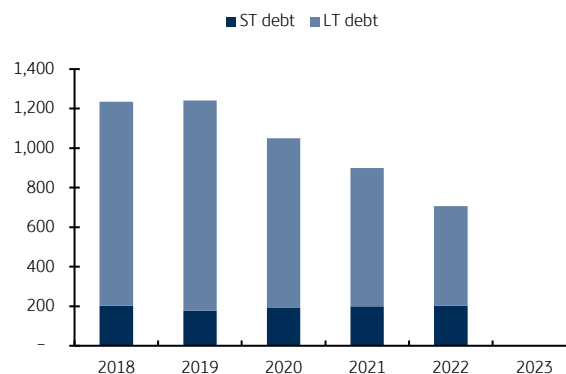
In contrast to business results, the balance sheet is the bright spot in the 2023 financial picture of DPM. The inventory of the corporation suddenly increased by 40% YoY to VND3,871 billion in 2022 due to high fertilizer prices, causing global consumption demand to almost disappear. By the end of 2023, inventory lowered by 51% YoY to VND1,911 billion, bringing the number of inventory days to balance. During this period, DPM paid off all short- and long-term loan principals, thereby reducing the interest burden in the future. We see that with a debt-free structure, plus cash of VND6,627 billion and forecast of minimal investment needs, DPM will be able to pay sustainable dividends of about VND2,000–VND2,500/share, equivalent to a dividend yield of about 6–7%.

Fig 13. DPM – Cash conversion cycle in 2018–2023 (days)



Source: PV Fertilizer & Chemicals, KB Securities Vietnam

Fig 14. DPM – Debt status in 2018–2023 (VNDbn)



Source: PV Fertilizer & Chemicals, KB Securities Vietnam



## Forecast & valuation

Table 15. DPM – 2024F business results

	2023	2024	YoY %	KBSV's notes
<b>Revenue (VNDbn)</b>	<b>13,569</b>	<b>14,209</b>	<b>4.7%</b>	The slight growth in revenue mainly comes from the increase in urea prices.
<b>Gross profit (VNDbn)</b>	<b>1,652</b>	<b>2,649</b>	<b>60.4%</b>	
<b>Gross profit margin (%)</b>	<b>12.2%</b>	<b>18.6%</b>		Profit margin is expected to recover (but still lower than the five-year average of 22.3%) thanks to increased product prices and slightly decreased input gas costs.
SG&A costs (VNDbn)	-1,350	-1,414	4.7%	
Operating income (VNDbn)	302	1,235	308.9%	
Financial income (VNDbn)	458	412	-10.0%	
Financial expenses (VNDbn)	-71	0	-100.0%	It is assumed that DPM will maintain the debt-free structure as in 2023.
Other incomes (net, VNDbn)	1	1	0.0%	
<b>Profit before taxes (VNDbn)</b>	<b>691</b>	<b>1,651</b>	<b>138.9%</b>	
<b>Profit after taxes (VNDbn)</b>	<b>543</b>	<b>1,304</b>	<b>140.1%</b>	
Brent oil price (USD/barrel)	83	83	0.0%	
Input gas price (USD/mmBTU)	10.5	10.2	-2.9%	El Nino should gradually weaken from 2Q24, helping gas supply allocation to nitrogen plants become more active.
DPM urea price (VND/kg)	10.0	10.5	5.0%	World urea prices may slightly increase thanks to demand recovery while supply is less redundant.
DPM NPK price (VND/kg)	12.4	12.4	0.0%	It is expected that there is not much room for growth due to fierce competition in the domestic market.
Urea sales volume (thousand tons)	879	853	-3.0%	The forecast is in line with the company's plan. Urea sales volume in 2023 is unexpectedly high because the company had to handle the inventory from 2022.
NPK sales volume (thousand tons)	138	142	2.9%	The forecast is in line with the company's plan.

Source: PV Fertilizer & Chemicals, KB Securities Vietnam

**Valuation: BUY recommendation  
with target price VND41,800/share**

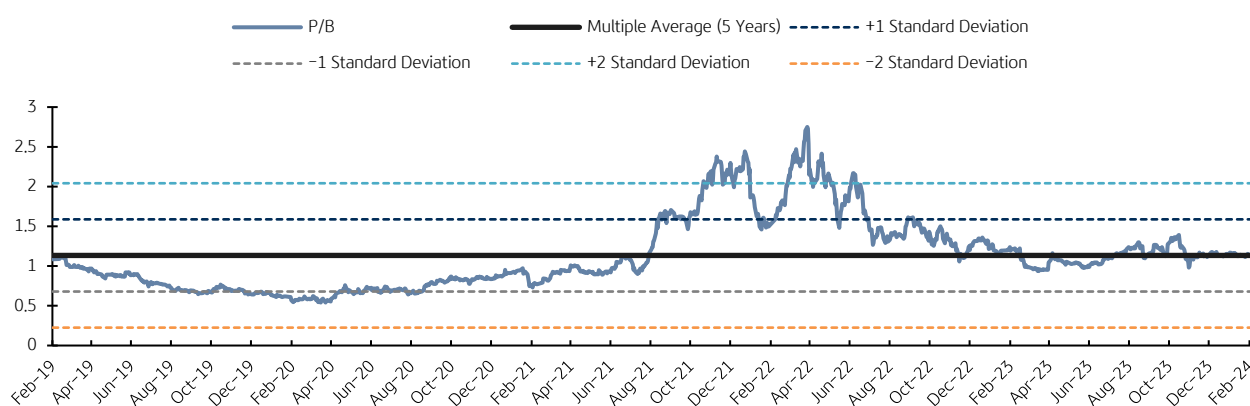
We used FCFF method to give a BUY rating to DPM with a target price of VND41,800/share, equivalent to a return of 20.3% compared to the closing price of VND34,750/share on February 29, 2024. In addition, we also expect a dividend yield of about 5.8% from DPM at the current closing price. For 2024, KBSV adjusted the risk-free interest rate assumption from 5.0% to 4.7% and reduced the risk premium from 8.2% to 7.6%.

**Table 16. DPM – FCFF valuation**

Risk-free rate	4.7%	Present value of terminal value	6,313
Equity risk premium	7.6%	Total present value for the period 2024–2028	3,887
Beta	1.2	<b>Total present value</b>	<b>10,200</b>
Average interest rate	7.0%	Plus: Cash & Short-term investments	6,356
Taxes	20.0%	Minus: Net Debt	-5
<b>Weighted cost of capital</b>	<b>12.2%</b>	Minus: Minority interest	-196
Terminal growth rate	1.0%	<b>Equity value</b>	<b>16,355</b>
		Number of shares outstanding (million shares)	391.40
		<b>Equity value/share (VND)</b>	<b>41,800</b>
		Market price (29/02/2024)	34,750
		Upside	20.3%

Source: Bloomberg, KB Securities Vietnam

**Fig 17. DPM – P/B in 2019–2024 (x)**



Source: Bloomberg, KB Securities Vietnam

Source: PV Fertilizer & 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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