

Binh Dien Fertilizer (BFC)

On track to beat full-year performance target

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Strong 1H earnings driven mostly by lower input costs due to the collapse in oil prices

1H earnings were VND60 billion and up 565% YoY due to lower input costs following the collapse in Brent oil prices. This came despite the 15% YoY drop in revenue to VND2,598 billion arising from saline intrusion in the Mekong Delta and the lower plantation demand during the coronavirus outbreak. The sharp fall in oil prices reduced natural gas prices used to make urea – one of the main raw materials for NPK fertilizer – which in turn dropped input costs for minerals by 15% to VND2,019 billion.

Management expects benefits from lower oil prices to continue into 2H to easily beat its full-year earnings target

Management expects to easily beat its full-year pre-tax earnings target of VND153 billion and have already met 63% of this goal in 1H. Management did not provide any guidance for full-year results but believes they can maintain the gross profit margin at a minimum of 12% even with higher oil/natural gas prices (vs 12% in 2019) as well as pass through higher commodity costs to customers. That said, the 4Q margin will likely fall modestly due to the dry season.

Trading at about 11x P/E based on the company's 2020E performance target but earnings surprises could see P/E drop to about 9x-10x

We estimate the 2020E P/E multiple at 11x based on this year's performance target but forward trading multiples could fall to about 9x-10x based on potential earnings surprises arising from lower raw material input costs. This would be lower than the 12x P/E multiple based on BFC's consensus forecast for 2020E but roughly in line with the 10.4x for PV Fertilizer & Chemical (DPM) based on consensus forecasts for 2020E.

No Rating

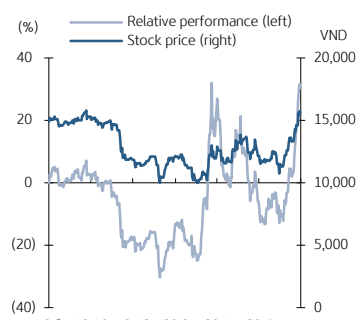
Target Price	NA
Total return (%)	na
Current price (Aug 27)	VND15,550
Consensus target price	VND10,000
Mkt capitalization (USDbn)	USD59mn

Trading data	
Free float (%)	34.6%
Avg trading value (3M)	USD0.27mn
Foreign available (%)	44.0%
Major shareholders (%)	VinaChem (65%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	44.7	22.4	28.0	4.4
Relative	49.5	18.0	50.1	30.4

Forecast earnings & valuation

Fiscal year-end	2017A	2018A	2019A	1H 2020
Revenue (VNDbn)	6,306	6,405	6,152	2,544
EBIT	555	418	257	146
NP attributable to parent	278	194	69	60
EPS (VND)	3,137	2,187	779	943
EPS growth (%)	0.3	(30.3)	(64.4)	565.4
P/E (x)	5.0	7.1	20.0	8.2
EV/EBITDA (x)	4.2	5.2	6.3	na
P/B (x)	0.9	0.9	0.9	0.9
ROE (%)	18.6	12.7	4.6	11.4
Div yield (%)	16.5	17.6	7.8	na



Source: Bloomberg, KB Securities Vietnam

Weaker sales environment in 1H due to saline intrusions in the Mekong Delta and the coronavirus but some improvement expected for 2H

Binh Dien Fertilizer (BFC) is Vietnam's largest NPK fertilizer manufacturer among eight large companies at about 20% market share. The company operates a nationwide distribution network and over 99% of sales are from NPK fertilizers, with the Mekong Delta being its most important market. Management has already warned that it will likely miss its VND6,023 billion full-year revenue target due to saline intrusion in the Mekong Delta and slowdown in plantation operations during the pandemic. Sales in 1H were only about 43% of the full-year objective but fewer saline intrusions could see a pickup in volume demand in 2H. Unlike the volatile input costs for its commodity raw materials, pricing for the company's NPK fertilizer products are more stable due to more steady agricultural demand. NPK fertilizer products are priced according to a pass through mechanism for raw material costs, with about a one-week time lag.

Earnings surprises coming from lower urea input costs and benefit should continue into 2H

Despite the weaker sales, earnings rose sharply to VND60 billion in 1H or up 565% YoY primarily due to lower urea input costs. Urea is made from natural gas and used to make nitrogen, with plummeting oil prices leading to a drop in natural gas costs. The three main components of NPK fertilizer are nitrogen, phosphorus and potassium and represent about 85% of total operating costs. Mineral costs fell to VND2,019 billion or down 15% YoY to boost the gross profit margin to 13% in 1H from 9% in 1H 2019. Management indicated that the company is still seeing benefits from lower input costs and expects strong earnings results to continue into 3Q results before falling modestly during the 4Q dry season. Importantly, management believes it can maintain a gross profit margin of at least 12% even with rising natural gas prices by passing through higher raw material costs to product prices.

Back to normal conditions in 2021E & no plans to expand capacity for the next few years

Earnings will likely normalize in 2021E after this year's strong performance, with no plans to expand capacity. BFC is the country's largest NPK fertilizer producer in a fragmented market. Currently, the company's annual capacity is about 975 thousand tons per year and management does not have any plans to expand this capacity due to intense competition from both local production and imports. NPK fertilizer demand is also heavily dependent on weather conditions and the outlook for plantations.

Trading at 11x P/E multiple of management's 2020E earnings target but closer to 9x-10x after factoring in potential earnings surprises

We estimate the forward P/E multiple at 11x based on the company's earnings target for 2020E. As management believes that earnings are likely to beat this target – and guiding for another strong result in 3Q at a similar level to 2Q – earnings surprises could drop P/E multiples to 9x-10x. This compares to the 12x P/E multiple based on BFC's 2020E consensus estimate and the 10.4x P/E multiple for PV Fertilizer & Chemical (DPM) based on consensus forecasts for 2020E.

Binh Dien Fertilizer (BFC) – Summarized financials & forecasts, 2017A–1H2020A

Income statement (VNDbn)					Balance sheet (VNDbn)				
	2017A	2018A	2019A	1H2020		2017A	2018A	2019A	1H2020
Net sales	6,306	6,405	6,132	2,544	Total assets	4,162	4,034	3,650	3,596
Cost of sales	5,305	5,567	5,397	2,204	Current assets	3,322	3,198	2,798	2,753
Gross Profit	1,001	838	735	340	Cash & equivalents	666	635	709	505
Financial income	5	14	7	4	ST investments	18	46	24	0
Financial expenses	142	139	147	55	Accounts receivable	499	578	696	730
of which: interest expenses	105	107	118	44	Inventory	2,099	1,899	1,347	1,495
Gain/(loss) from joint ventures	0	0	0	0	Other current assets	40	40	21	23
Selling expenses	318	298	350	121	Long-term assets	840	836	852	843
General & admin expenses	128	122	129	73	LT trade receivables	9	6	4	4
Operating profit/(loss)	418	293	117	94	Fixed assets	777	763	761	750
Other income	19	22	20	3	Investment properties	0	0	0	0
Other expense	10	2	1	1	LT incomplete assets	41	51	64	66
Net other income/(expenses)	9	20	19	2	LT investments	9	8	8	8
Pretax profit/(loss)	427	313	136	96	Goodwill	1	0	0	0
Income tax	77	59	42	17	Other LT assets	4	7	16	15
Net profit/(loss)	350	254	94	79	Liabilities	2,620	2,529	2,184	2,131
Minority interests	73	60	25	19	Current liabilities	2,449	2,352	2,043	2,001
Net profit after MI	278	194	69	60	Trade accounts payable	571	591	572	624
					Advances from customers	21	22	62	15
					ST borrowings	1,770	1,678	1,334	1,310
					Special reserves	14	13	14	13
					Other current liabilities	73	49	62	39
					Long-term liabilities	171	177	141	130
					LT payables	0	0	0	0
					LT borrowings	171	177	141	130
					Other LT liabilities	0	0	0	0
					Shareholders' equity	1,542	1,506	1,466	1,465
					Paid-in capital	885	885	885	885
					Share premium	8	8	8	8
					Treasury stock	0	0	0	0
					Undistributed earnings	254	165	131	138
					Reserve & others	134	177	195	195
					Minority interests	246	256	231	224
					Total liabilities & equity	4,162	4,034	3,650	3,596
					Key ratios				
					(x, %, VND)	2017A	2018A	2019A	1H2020
					Valuations				
					P/E	5.0	7.1	20.0	10.0
					P/E diluted	5.0	7.1	20.0	10.0
					P/B	0.9	0.9	0.9	n.a
					P/S	0.2	0.2	0.2	n.a
					EV/EBITDA	2.2	2.8	4.0	n.a
					EV/EBIT	2.5	3.3	5.4	n.a
					Dividend yield, ordinary (%)	16.5	17.6	7.8	n.a
					EPS	3,137	2,187	779	779
					BVPS	17,418	17,004	16,553	16,559
					SPS	71,226	72,345	69,262	75,233
					DPS (annual, ordinary)	2,568	2,731	1,213	98
					Dividend payout ratio (%)	81.9	124.9	155.6	n.a
					Operating performance				
					ROE	18.6	12.7	4.6	n.a
					ROA	7.0	4.7	1.8	n.a
					ROIC	46.2	32.4	18.3	n.a
					Financial structure				
					Total liab/equity	169.9	168.0	149.0	145.5
					Net debt/equity	82.6	81.0	52.2	63.9
					Current ratio (x)	1.4	1.4	1.4	1.4
					Interest coverage (x)	5.3	3.9	2.2	1.2
					Activity ratios				
					Asset turnover	1.6	1.6	1.6	1.8
					Receivables turnover	11.4	11.9	9.6	8.0
					Inventory turnover	3.4	3.2	3.8	4.8
					Payables turnover	10.8	10.6	9.8	10.6

Source: Company reports, KB Securities Vietnam

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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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