

Sector: Fertilizer | RETAIL RESEARCH

Ca Mau Petroleum Fertilizer Joint Stock Company (HSX: DCM)
CONTINUE THE EXPECTATION RACE IN 2021

Recommendation

BUY

Current price: **17,450**
Previous target price: -
New target price: **21,100**
Dividend yield: **3.5%**
Upside **20.9%**

Date: 1/4/2021
Outstanding Shares (Million): 529.4
Market Cap (VND billion): 9,159
Avg. 6M Trading vol: 4,134,200
% Foreign float: 2.44%

Shareholder Structure
PVN: 75.56%
PVFCC: 8.43%

Retail Research:

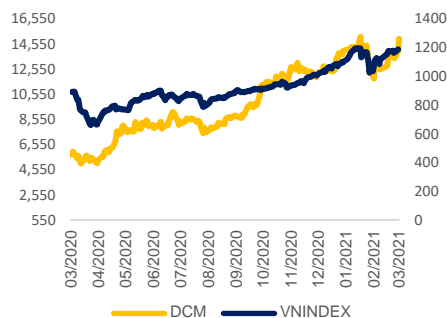
Pham Thi Minh Chau
Chauptm@bsc.com.vn

Technical Analyst:

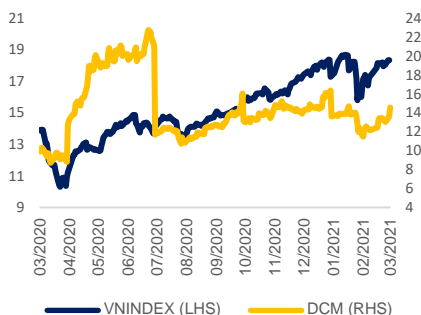
Nguyen Tien Duc
ducnt@bsc.com.vn

Target price: 20,370 VND
Stop-loss price: 12,470 VND

Price comparison between DCM and VN index



P/E comparison between DCM and VN index



VALUATION

We recommend **BUY** for **DCM** with target price **VND 21,100/share**, upside 20.9% compared to the price on 31/3/2021 with DCF method and P/E, with weight 40% - 60%.

FORECAST OF BUSINESS RESULTS

BSC forecasts that revenue and net profit in 2021 will reach VND 9,493 billion (+23.5% YoY) and VND 888 billion (+34.3% YoY). EPS fwd = VND 1,366 and P/E fwd= 13x, P/B fwd = 1.4x.

INVESTMENT THESIS

- Improved gross profit margin thanks to the expectation that selling price will increase faster than input material price - Due to high oil price and maintaining positive signal from fertilizer demand in 2021.
- We expected that Ca Mau fertilizer plant will be almost depreciated by 2024, improving the company's net profit (+125.9% YoY).
- Expectation of tax refund when the tax law is revised in 2021:
According to the P/E method:
 - Base scenario: Target Price 2021 = VND 18,440
 - Adjustment of VAT
 - Conservative scenario: Target Price 2021 = VND 22,210
 - Best Scenario: Target Price 2021 = VND 28,070
- Tracking information: PVN plans to divest capital at DCM, NPK Factory go on operation in 2021, M&A add another NPK factory and cooperate in investing in factories producing organic fertilizers and micro-organisms.

TECHNICAL VIEW

Investors can buy the stock with the target price located at 20-20.5, consider to stop loss if the support level of 12.5 is penetrated.

RISKS

- Input gas price increased faster than forecast and adjusted selling price was lower than expected;
- Performance of plants is lower than expected due to routine maintenance.

COMPANY UPDATE

- Revenue and net profit in 2020** reached **VND 7,563 billion (+7% yoy)** and **VND 665 billion (+56% yoy)**, respectively, thanks to a sharp drop in input gas prices and high demand for fertilizer export.
- DCM sets the 2021 plan:** Revenue = VND 7,839 billion VND, NPAT = VND 197 billion, converted urea output 860 thousand tons.

| | 2020 | 2021 | Peer | VN-Index |
|----------------|-------|-------|-------|----------|
| PE (x) | 17.2 | 12.8 | 11.73 | 14.7 |
| PB (x) | 1.5 | 1.4 | 0.79 | 2.0 |
| PS (x) | 1.2 | 1.0 | 0.3 | 1.5 |
| ROE (%) | 10.4% | 13.5% | 4.8% | 14% |
| ROA (%) | 7.6% | 9.9% | 3.4% | 2% |
| EV/ EBITDA (x) | 2.5 | 1.9 | 9.52 | 11.5 |

| | 2021F | 2022F | 2023F | 2024F |
|------------------|-------|-------|--------|--------|
| Net Sales | 9,335 | 9,651 | 9,996 | 10,299 |
| Gross Profit | 1,742 | 1,683 | 1,600 | 2,607 |
| NPAT | 888 | 810 | 705 | 1,592 |
| EPS | 1,366 | 1,246 | 1,084 | 2,450 |
| EPS Growth | 34.3% | -8.8% | -13.0% | 125.9% |
| Net Debt/ Equity | 35.9% | 35.6% | 36.7% | 33.5% |

COMPANY UPDATE

| (billion VND) | Q4/2020 | Q4/2019 | %yoy | 2020 | 2019 | % yoy | Plan 2021 | Update 2020 Business Results |
|-------------------------------------|---------|---------|-------|-------|-------|-------|-----------|---|
| Net revenue | 2,258 | 2,111 | +7% | 7,563 | 7,043 | +7% | 7,839 | Revenue = VND 7,563 billion (+7% yoy) , NPAT = VND 665 billion (+56% yoy) , gross margin improved from 13.6% to 18.3% due to: <ul style="list-style-type: none"> • Average selling price of commercial urea -10% yoy, sales volume +20.6% yoy (boosting exports thanks to high demand in Asian countries) • Average cost of gas -24.2% yoy thanks to the new floating gas price mechanism in the context of falling oil prices. |
| Gross profit | 446 | 300 | +48% | 1,312 | 959 | +37% | | |
| Selling expenses | -106 | -128 | -17% | -368 | -364 | +1% | | |
| G&A expenses | -136 | -56 | +143% | -299 | -201 | +49% | | |
| Financial revenue | 33 | 22 | +50% | 128 | 127 | +1% | | For Q4/2020: Revenue = VND 2,258 billion (+7% yoy), NPAT = VND 207 billion (+74% yoy) thanks to: <ul style="list-style-type: none"> • Sales volume +15% yoy • The selling price of urea remained at a lower level compared to the same period last year due to complicated developments of diseases and weather. • Gas input price +3% yoy |
| Financial expenses | -8 | -12 | -33% | -63 | -103 | -39% | | |
| PBT | 230 | 127 | +81% | 719 | 463 | +55% | 210 | |
| NPAT | 207 | 119 | 74% | 665 | 427 | +56% | 197 | |
| Amount of urea converted (000 tons) | | | | 931 | 801 | +16% | 860 | According to BSC's assessment, DCM sets the 2021 plan relatively conservative: Revenue = VND 7,839 billion, NPAT = VND 197 billion, equivalent urea output of 860 thousand tons. |

2021 OUTLOOK – CONTINUE EXPECTATION RACE IN 2021

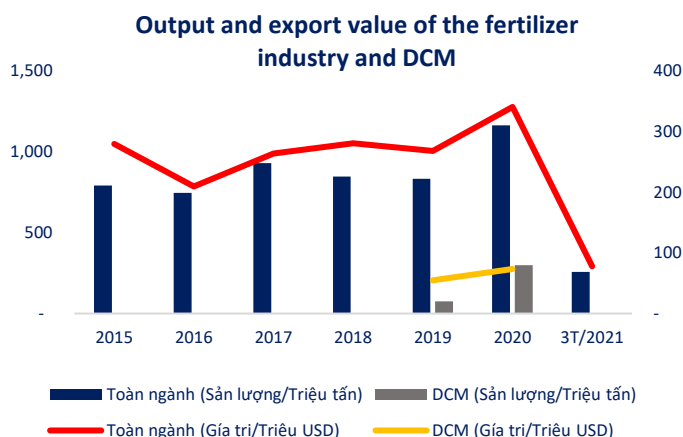
BSC forecasts revenue and net profit of 9,335 billion dong (+23.5% YoY) and 888 billion dong (+34.3% YoY). EPS fwd = VND 1,366 and P/E fwd= 13x, P/B fwd = 1.4x. Based on the assumptions (1) gross profit margin will increase from 17.4% to 18.7% due to the fact that the adjusted selling price increases faster than the price of raw gas in 2021 (2) Gross profit margin in 2024 will reach 25.3% to from the fact that Ca Mau fertilizer plant ran out of depreciation, helping DCM to have more than 1,200 billion in depreciation expense over the same period.

We expect Urea fertilizer revenue to grow 19.2% YoY, thanks to:

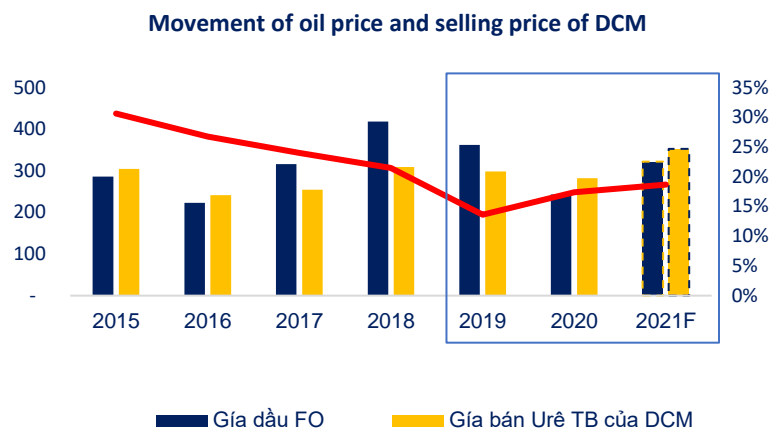
(1) Business output decreased by 5% YoY, as the factory increased the use of Ca Mau Urea as an input for NPK production, but still exceeded 12% of the plan. Fertilizer demand continued to grow positively in the first half of the year. 2021.

(2) The selling price of Urea fertilizer in 2021 is adjusted up (+25%YoY) faster than input materials (accounting for 40% of COGS), leading to the assumption that gross profit margin increases from 17.4% to 18.66% - Adjusted based on assumptions about Brent oil price and 2M/2021 selling price data.

Based on industry data ([DPM report link](#)), we believe that selling prices are unlikely to maintain their current high levels and will see a downward correction in Q3-Q4 when food demand is stable and supply from Producers recover from Covid 19. Therefore, we assume that the average price of Urea fertilizer will be at VND 8,200/kg – a high price of +4% compared to competitors, expecting a business advantage. leading exporter in the fertilizer industry.



Source: General Department of Customs, DCM



* 2019: Applying floating price mechanism

Source: DCM, BSC Forecast

DCM business results forecast table::

| Unit: Billion VND | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|--------------|--------------|--------------|--------------|---------------|
| Brent oil price (USD/barrel) | 43 | 55 | 59 | 63 | 67 |
| % YoY | -33% | 27% | 7% | 7% | 7% |
| FO oil price (USD/MMBTU) | 253 | 322 | 345 | 369 | 395 |
| % YoY | -30% | 27% | 7% | 7% | 7% |
| Natural gas price (USD/MMBTU) | 4.27 | 5.11 | 5.38 | 5.68 | 6.31 |
| % YoY | -11% | 20% | 5% | 5% | 11% |
| Urea fertilizers converted revenue | 6,073 | 7,241 | 6,918 | 6,937 | 6,920 |
| % YoY | 9.0% | 19.2% | -4.5% | 0.3% | -0.2% |
| NPK revenue | | 1,032 | 1,594 | 1,888 | 2,179 |
| % YoY | | | 54.5% | 18.4% | 15.4% |
| Sales Output (thousand tons) | | | | | |
| Urea fertilizers converted | 929 | 883 | 819 | 809 | 799 |
| % YoY | 15% | -5% | -7% | -1% | -1% |
| NPK fertilizer | - | 120 | 180 | 210 | 240 |
| % YoY | | | 50% | 17% | 14% |
| Revenue | 7,561 | 9,335 | 9,651 | 9,996 | 10,299 |
| COGS | 6,244 | 7,593 | 7,968 | 8,396 | 7,692 |
| Gross profit | 1,317 | 1,742 | 1,683 | 1,600 | 2,607 |
| Selling expenses | 369 | 484 | 500 | 518 | 534 |
| G&A expenses | 304 | 411 | 425 | 440 | 453 |
| EBIT | 643 | 847 | 759 | 642 | 1,620 |
| Financial revenue | 128 | 148 | 148 | 148 | 148 |
| Financial expenses | 63 | 20 | 13 | 11 | 9 |
| Profit before tax | 709 | 975 | 893 | 779 | 1,758 |
| Corporate tax | 54 | 84 | 67 | 60 | 134 |
| Profit after tax | 654 | 891 | 826 | 719 | 1,624 |
| Basic EPS (VND) | 1,017 | 1,366 | 1,246 | 1,084 | 2,450 |
| GPM | 17.4% | 18.7% | 17.4% | 16.0% | 25.3% |
| NPM | 8.7% | 9.5% | 8.6% | 7.2% | 15.8% |
| ROE | 10.4% | 13.5% | 12.4% | 11.1% | 23.0% |

Source: BSC Research dự báo

Valuation

We recommend **Buy** for **DCM** with target price **VND 21,100/share**, upside 20.9% compared to the price on 31/03/2021 with the DCF and P/E method, with the weight of 40% - 60%.

| Valuation method | Valuation (VND/share) | Weight (%) | Contribution (VND/share) |
|------------------------------------|-----------------------|---|--------------------------|
| DCF | 25,097 | 40% | 10,039 |
| P/E with target P/E 13.5x | 18,439 | 60% | 11,064 |
| Target price (VND/share) | | | 21,100 |
| Closing price on 31/03/2021 | | | 17,450 |
| Dividend rate | | | 3.4% |
| TSR | | | 20.9% |
| 3 year P/E | | | 13.5 |
| DCF method | | | |
| WACC (%) | | FCFF (Billion VND) | |
| Beta | 0.86 | Present value of FCF | 5,336 |
| Risk-free rate | 3.5% | Present value of terminal value | 5,196 |
| Market risk premium | 11.5% | Total current value of FCF | 10,532 |
| Equity cost | 13.3% | (+) Cash & short-term investments | 3,205 |
| Debt cost | 3.1% | (-) Short and long-term debt | (447) |
| Corporate tax rate | 8.6% | (-) Minority interests | (4) |
| % Debt | 11.5% | EV | 13,286 |
| % Equity | 88.5% | Number of shares outstanding (millions) | 529 |
| WACC | 11.9% | Share value, VND | 25,097 |
| P/E method | | | |
| EPS 2021 (VND/share) | | | 1,366 |
| Target P/E (times) | | | 13.5 |
| Target price for 2021 (VND) | | | 18,439 |

Source: BSC Research

Summary table of enterprises in the industry by capitalization

| Stock code | Company | Exchange | Market cap (billion VND) | Basic P/E (TTM) | P/B (TTM) | P/S (TTM) | EV/EBITDA |
|---------------|--|----------|--------------------------|-----------------|-------------|-------------|-------------|
| DCM | Ca Mau Fertilizer | HOSE | 7,914.53 | 11.92 | 1.26 | 1.05 | 4.35 |
| DPM | Phu My Fertilizer | HOSE | 7,161.42 | 10.33 | 0.89 | 0.92 | 5.13 |
| DHB | Ha Bac Fertilizer | UPCOM | 1,959.84 | -1.34 | | 0.70 | 40.04 |
| DDV | DAP - Vinachem | UPCOM | 1,784.00 | 109.72 | 1.40 | 0.95 | 9.39 |
| BFC | Binh Dien fertilizer | HOSE | 1,137.64 | 8.52 | 1.17 | 0.21 | 6.27 |
| LAS | Lam Thao Chemicals | HNX | 1,015.71 | 133.78 | 0.82 | 0.44 | 9.66 |
| SFG | Southern Fertilizer | HOSE | 440.18 | 156.11 | 0.79 | 0.32 | 28.67 |
| VAF | Phosphate Van Dien | HOSE | 376.65 | 17.43 | 0.82 | 0.51 | 10.79 |
| QBS | Quang Binh Import and Export | HOSE | 185.80 | -3.23 | 0.29 | 0.15 | -25.93 |
| PSW | South-West PetroVietnam Fertilizer and Chemicals | HNX | 151.30 | 18.08 | 0.77 | 0.09 | 23.63 |
| NFC | Phosphate Ninh Binh | HNX | 124.28 | 13.56 | 0.68 | 0.29 | 5.87 |
| PCE | Central PetroVietnam Fertilizer and Chemicals | HNX | 103.00 | 8.03 | 0.64 | 0.06 | 13.57 |
| PSE | Southeastern Petroleum Chemicals | HNX | 97.50 | 11.55 | 0.63 | 0.05 | 10.95 |
| HPH | Hung Phat Ha Bac Chemicals | UPCOM | 40.32 | 13.50 | 0.40 | 0.53 | 3.84 |
| HSI | General Materials Biochemistry Fertilizer | UPCOM | 19.53 | -30.11 | 43.15 | 0.11 | 18.31 |
| DCI | Da Nang Chemical Industries | UPCOM | 2.84 | 0.39 | 0.09 | 0.01 | 0.29 |
| Median | | | 281.23 | 11.73 | 0.79 | 0.30 | 9.52 |

Source: Fiin Pro

***** Tracking factors that have not been included in the valuation need attention**

Expected to be refunded input VAT when the revised VAT law is passed at the 11th National Assembly session in March 2021 (not recorded in the general valuation result)

The Ministry of Finance's proposal to the Government on its opinion on amending Tax Law 71/2014/QH13 dated November 26, 2014, in the direction of making fertilizers a VAT-taxable product at 5%, to submit to the National Assembly, which is expected to be approved at the meeting in March 2021. According to BSC, this event may impact COGS in the period 2021-2024, so we have developed two scenarios to assess this impact.

Case 1: VAT law is not passed (base scenario)

| Unit: Billion VND | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------------------|-------|---------------|-------|-------|--------|
| Revenue | 7,561 | 9,335 | 9,651 | 9,996 | 10,299 |
| Gross profit | 1,317 | 1,742 | 1,683 | 1,600 | 2,607 |
| GPM | 17.4% | 18.7% | 17.4% | 16.0% | 25.3% |
| EBIT | 643 | 847 | 759 | 642 | 1,620 |
| EPS | 1,017 | 1,366 | 1,246 | 1,084 | 2,450 |
| P/E method valuation (VND) | | 18,440 | | | |

Source: BSC Research forecast

Case 2: The VAT Law is passed

Based on the assumption, BSC expects this event will help DPM receive input VAT refund, equivalent to ~VND 236 billion/year in the forecast period, positively impacting the company's gross profit margin from 2021.

2.1 Conservative forecast scenario:

The selling price is adjusted down by 5%: According to the draft proposed by the Ministry of Finance ([link](#))

| Unit: Billion VND | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------------------|-------|---------------|-------|-------|-------|
| Revenue | 7,561 | 8,980 | 9,312 | 9,656 | 9,960 |
| Gross profit | 1,317 | 1,695 | 1,655 | 1,587 | 2,625 |
| GPM | 17.4% | 18.9% | 17.8% | 16.4% | 26.4% |
| EBIT | 643 | 834 | 763 | 661 | 1,671 |
| EPS | 1,017 | 1,645 | 1,524 | 1,349 | 3,049 |
| P/E method valuation (VND) | | 22,210 | | | |

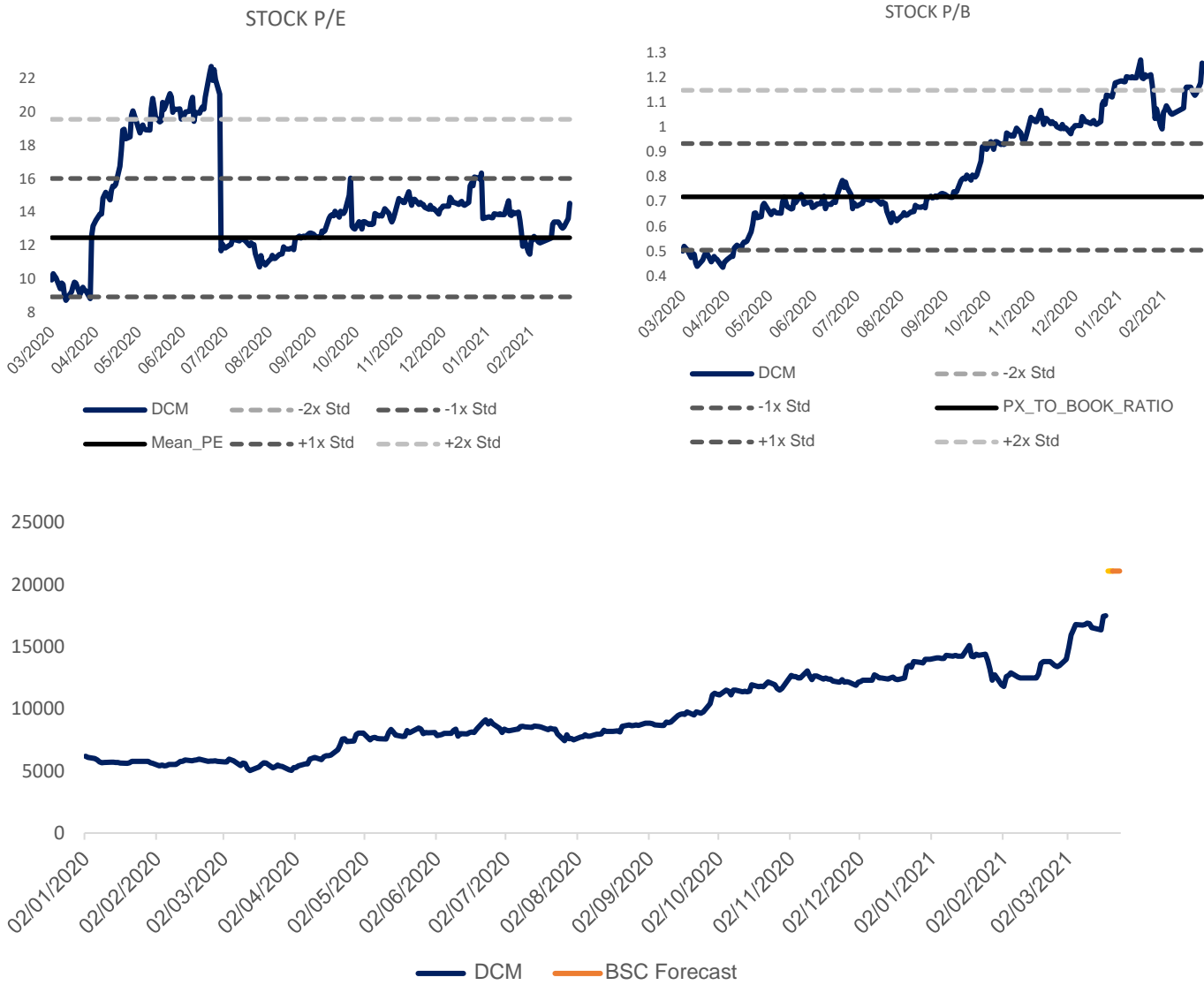
Source: BSC Research forecast

2.2 Most ideal forecast scenario:

***** Selling price unchanged**

| Unit: Billion VND | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------------------|-------|---------------|-------|-------|--------|
| Revenue | 7,561 | 9,335 | 9,651 | 9,996 | 10,299 |
| Gross profit | 1,317 | 1,978 | 1,915 | 1,841 | 2,873 |
| GPM | 17.4% | 21.2% | 19.8% | 18.4% | 27.9% |
| EBIT | 643 | 1,084 | 990 | 883 | 1,886 |
| EPS | 1,017 | 2,079 | 1,906 | 1,728 | 3,417 |
| P/E method valuation (VND) | | 28,070 | | | |

Source: BSC Research forecast



Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84439352722
Fax: +84422200669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84838218885
Fax: +84838218510

<https://www.bsc.com.vn>
<https://www.facebook.com/BIDVSecurities>

Bloomberg: RESP BSCV <GO>

