

PETROVIETNAM CAMAU FERTILIZER JSC (Ticket: DCM)

Industry
Fertilizer
GROSS PROFIT SURGES OVER 2 TIMES YEAR-ON-YEAR
Recommendation
BUY

12-Month Share Price 41,150

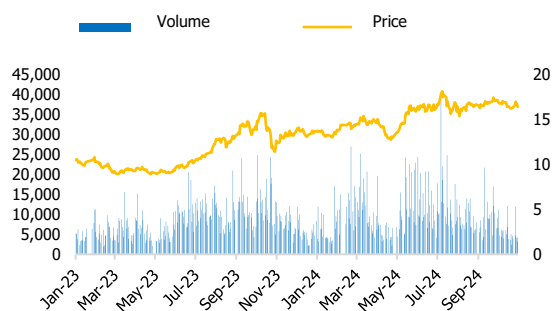
Current Share Price 36,850

Upside Potential +11.67%

Date NOV. 04, 2024

Key Metrics VND in billions

	2023	2024F
Net Revenue	12,571	12,883
Gross Profit	2,032	2,651
EBIT	1,265	1,766
Net Income	1,110	1,606
NI growth (%)	-74%	45%
EPS	2,097	3,034
EPS growth (%)	-74%	45%
BVPS	18,820	20,847
ROE (%)	10.8%	15.3%
ROA (%)	7.6%	10.8%

Price Performance

Shareholders

Vietnam Oil and Gas Group - PVN	75.56%
Others	24.44%

SENIOR ANALYST
Nguyen Thi Thu Trang

trangntt@psi.vn

Cost of goods sold reduction supports profit growth. In Q3.2024, gross profit increased over 2 times YoY as COGS fell 20%, supported by: (1) a 79% YoY drop in depreciation expenses after the urea plant completed its depreciation cycle; and (2) a 33% reduction in raw material costs, driven by lower gas prices (accounting for 60% of COGS) linked to declining oil prices. This improved the gross profit margin to 14%, up from 6% in the same period last year. Cumulatively for 9M.2024, net revenue reached VND 9,242 billion (+2% YoY), and net profit after tax hit VND 1,056 billion (+71% YoY), achieving 78% of DCM's revenue target and exceeding the profit target by 33%.

The NPK segment continues to expand with contributions from the new plant. Leveraging the advantages of KVF, in Q3.2024, sales volume reached 41,000 tons (+42% YoY), driving NPK segment revenue to grow impressively by 86% YoY. Cumulatively for 9M.2024, NPK segment revenue totaled VND 1,832 billion (+74% YoY), with KVF contributing approximately 27%. The NPK segment's share of DCM's total net revenue expanded rapidly from 12% (9M.2023) to 20% (9M.2024). We expect the NPK segment to provide long-term revenue growth prospects for the company.

The domestic urea market is forecasted to become more active by late 2024 due to: (1) The domestic market entering the peak Winter-Spring season; (2) Favorable weather conditions for agricultural production as El Nino ends.

Benefiting from the amended VAT Law: The expected approval of a 5% VAT policy for fertilizers during the 8th Session of the 15th National Assembly, effective from 2025, will enhance the competitiveness of domestic fertilizer manufacturers. This will allow room for reducing domestic fertilizer prices, while imported fertilizer prices may rise by an additional 5%.

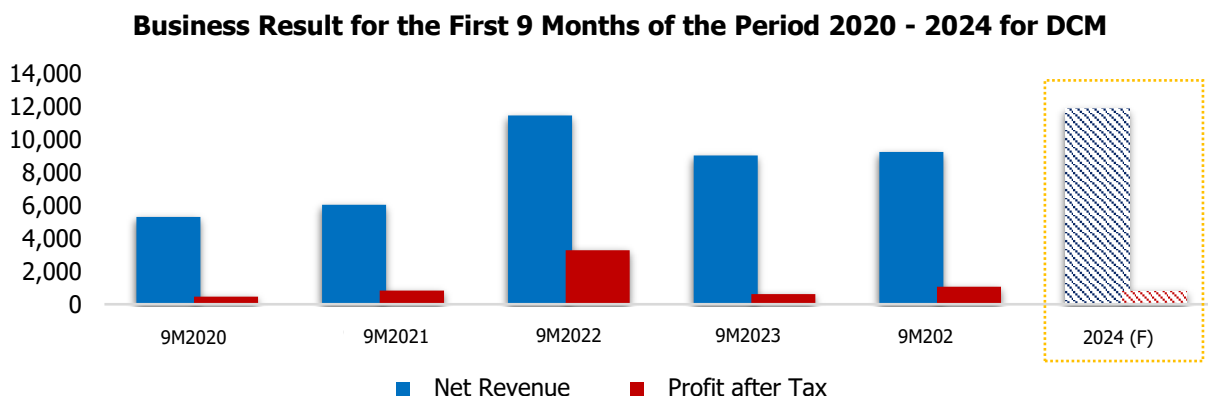
We revise DCM's projected revenue and net profit after tax for 2024 to VND 12,883 billion (+2.5% YoY) and VND 1,606 billion (+44.7% YoY), respectively.

The 12-month target price for DCM shares is VND 41,150 per share (+11.67% compared to the closing price on November 1, 2024).

BUY recommendation based on valuation and growth drivers: (1) Reduced production costs driven by the expiration of urea plant depreciation and declining input gas prices aligned with lower oil prices; (2) Long-term revenue growth prospects from the NPK segment; (3) Approval of the 5% VAT policy for fertilizers, enhancing the competitiveness of domestic fertilizer producers; (4) Consistent annual cash dividend payments with an attractive dividend yield of 6%-10% per year.

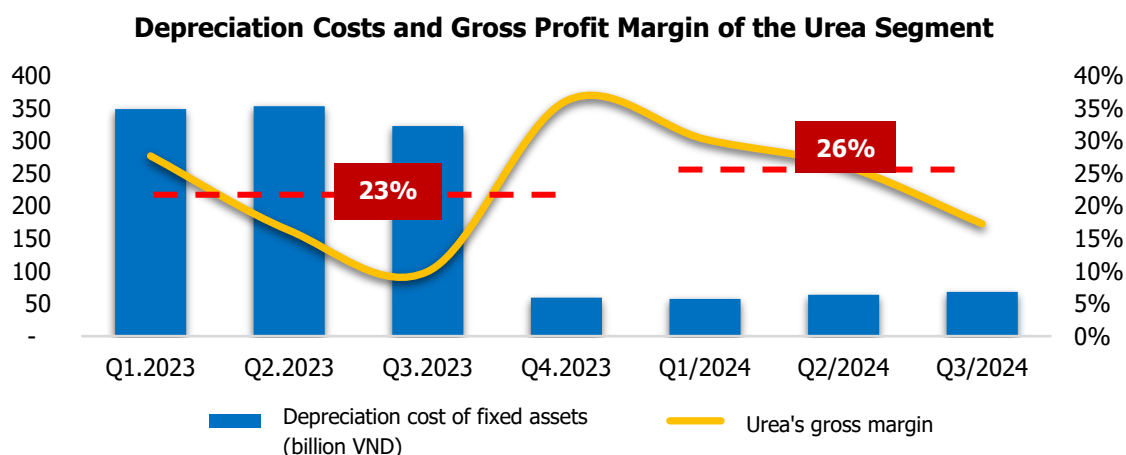
❖ Cost of Goods Sold Reduction Supports Profit Growth

In Q3.2024, gross profit more than doubled YoY to VND 375 billion, driven by a 20% YoY reduction in cost of goods sold (COGS) due to: (1) the urea plant's depreciation coming to an end, reducing depreciation costs by 79% YoY; (2) a 30% reduction in raw material costs, driven by lower gas prices (which account for about 60% of COGS) linked to falling oil prices. As a result, the gross profit margin improved to 14%, compared to 6% in the same period last year. Cumulatively for 9M.2024, net revenue reached VND 9,242 billion (+2% YoY), and net profit after tax reached VND 1,056 billion (+71% YoY). DCM has completed 78% of its revenue target and exceeded its profit target by 33% for 2024.



Source: DCM, PSI outlook

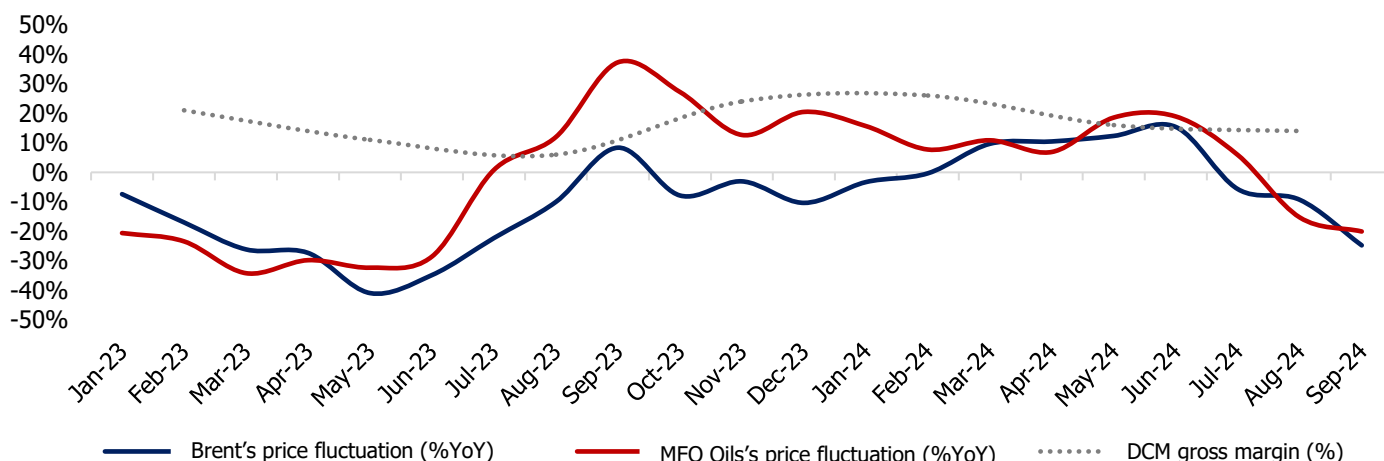
The urea plant's depreciation ended in Q4.2023, leading to a significant 79% YoY reduction in depreciation expenses to VND 68 billion in Q3.2024. Cumulatively for 9M.2024, depreciation expenses fell by 82% YoY, improving the gross profit margin for the urea segment to 26%, up from 23% in 2023.



Source: DCM, PSI Outlook

Gas prices (which account for approximately 60% of COGS) are aligned with falling oil prices. In Q3.2024, the average prices for Brent crude and MFO oil were USD 77/ton (-14% YoY) and USD 457/ton (-10% YoY), respectively. According to Commerzbank AG, Brent crude prices are expected to be around USD 75/barrel (-8.5% YoY) in Q4.2024, which will help maintain low gas input costs compared to the same period last year. For further details on oil price forecasts, investors can refer to our "2024-2025 Oil Price and Oil & Gas Stock Outlook Report" [here](#).

DCM's Gross Profit Margin and Oil Price Trends

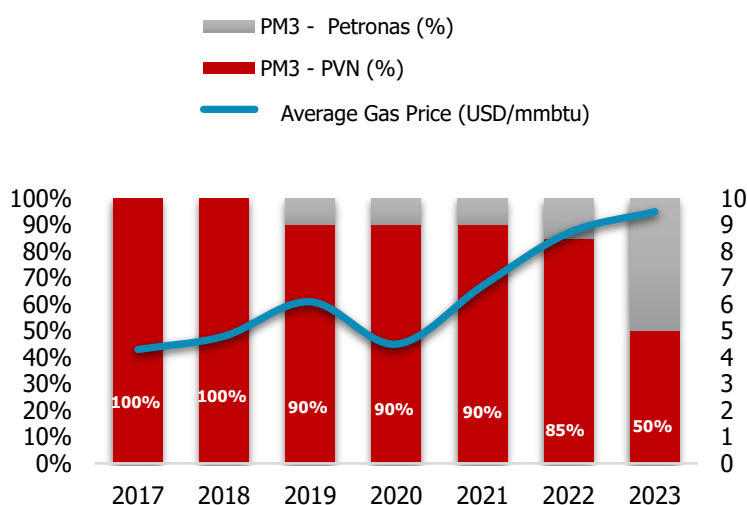


Source: Bloomberg, PSI outlook

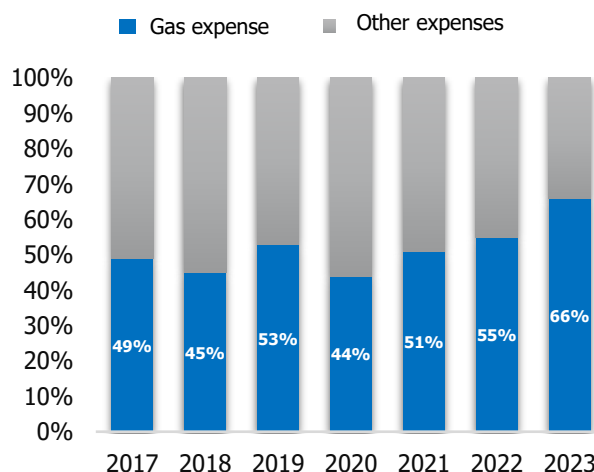
From January 1, 2022, PVN issued a new decree, amending the gas allocation principles for the 2022-2026 period. Accordingly, the gas output from PM3-PVN will be distributed evenly based on the actual demand of the Ca Mau urea plant and the Ca Mau power plants.

Gas sources	2019 - 2021		1/1/2022 - 31/12/2026		1/1/2027 - 31/12/2031	
	Portion	Price	Portion	Price	Portion	Price
PVN – Viet Nam	90%	46% × HSFO	Actual monthly allocation	46% × HSFO	Actual monthly allocation	46% × HSFO
Petronas - Malaysia	10%	12.7% × Brent		12.7% × Brent		12.7% × Brent

DCM's input gas source structure



Proportion of gas costs in DCM's COGS structure (%)

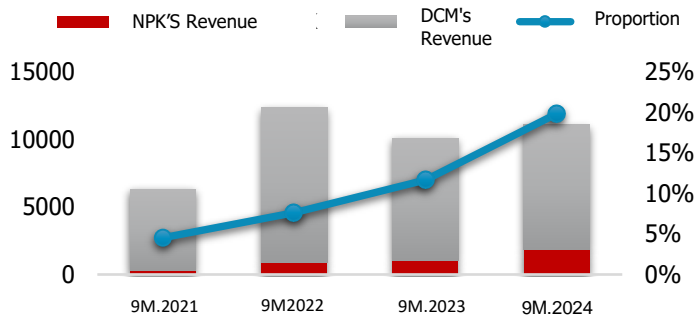


Source: DCM, PSI Outlook

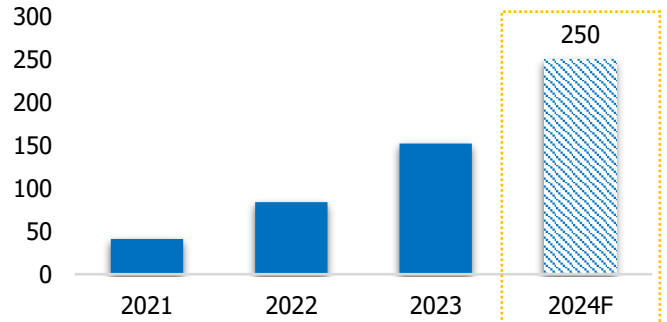
❖ NPK Segment Continues to Expand Thanks to the Contribution of the New Plant

➤ **Revenue continued its impressive growth in Q3.2024.** By leveraging the advantages of KVF, in Q3.2024, consumption reached 41,000 tons (+42% YoY), supporting the NPK segment's remarkable growth of 86% YoY. Cumulatively for 9M.2024, NPK revenue reached VND 1,832 billion (+74% YoY), with KVF contributing around 27%, or VND 487 billion. For 2024, we expect NPK fertilizer consumption to reach approximately 250,000 tons. With the share of NPK in DCM's total net revenue increasing rapidly from 4% in 2021 to 20% in 2024, the NPK segment will bring long-term growth prospects for the company.

DCM'S NPK segment revenue (billion VND)

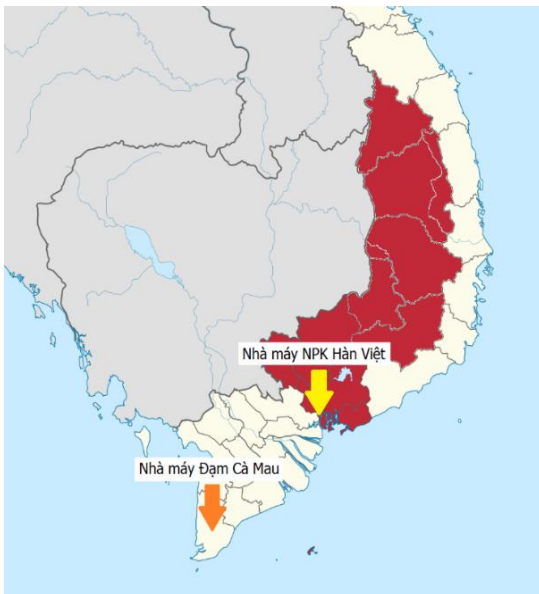


DCM'S NPK consumption volume (thousand tons)



Source: DCM, PSI Outlook

➤ KVF's Strategic Role Brings Significant Advantages to DCM



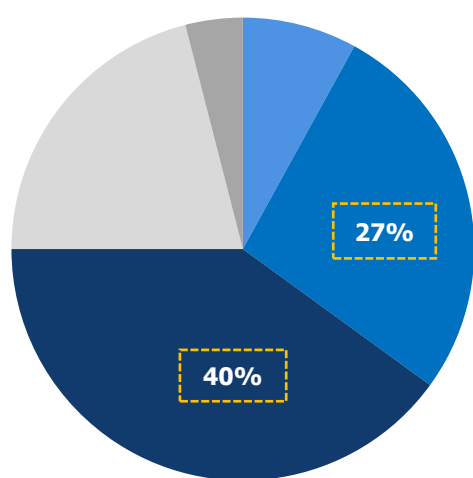
- After the merger, DCM's NPK fertilizer production capacity increased by 120%, from 300,000 tons/year to 660,000 tons/year.
- KVF has a strategic location right at the Hiep Phuoc port, making it convenient for goods transshipment and contributing to the improvement of the logistics platform, supporting the company in accessing potential markets in the Southeast, Central, and Central Highlands regions.
- The company also plans to invest in building a 2-hectare warehouse (20,000m²) here to increase the storage capacity for raw materials and products. The total planned storage capacity at the Han-Viet NPK plant is 45,000m², providing a leverage point for the company to enhance its export/import activities and trade other fertilizer products. Additionally, utilizing KVF's large storage area helps DCM reduce warehousing costs and increase flexibility in storing raw materials for producing NPK and other self-owned products of DCM.

❖ Domestic Urea Market Expected to Become More Active by the End of 2024

➤ **Entering the peak season of the Winter-Spring crop.** According to agricultural experts, the end of the year is considered a critical time for the Winter-Spring rice crop and the farming results of the past year. Given this situation, total fertilizer consumption demand in the Mekong Delta during this Winter-Spring season is expected to increase compared to the previous season, reaching nearly 900,000 tons across all types. Of this, urea accounts for about 350,000 tons (39%). Agromonitor forecasts domestic urea demand in 2023-2024 to range between 2.05-2.11 million tons (+13% YoY).

➤ **Favorable weather for agriculture.** According to the International Research Institute for Climate and Society (IRI), the El Nino phenomenon will transition to a neutral phase from April to June 2024 and gradually shift into a La Nina phase from July to August 2024. This change creates favorable conditions for agricultural production, thus boosting the demand for crop fertilization.

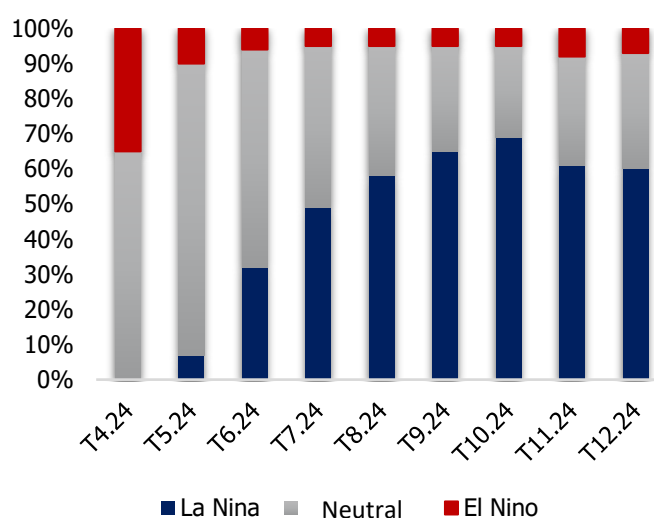
Estimated % of urea application for Winter-Spring wheat 2024-2025 in the Mekong Delta



■ 9-10/2024 ■ 11/2024 ■ 12/2024 ■ 1/2025 ■ 2-3/2025

Source: Agromonitor

Forecasting the probability of ENSO phases



Source: IRI

❖ Expected Benefits from the Revised VAT Law

The revised VAT Law proposes to include fertilizers in the VAT taxable category at a rate of 5%, instead of the current exemption. We expect the amended law to be passed during the 8th session of the 15th National Assembly and to take effect in 2025, benefiting fertilizer manufacturing companies:

- Cost savings through VAT refunds: The VAT that fertilizer companies must pay will be calculated as follows:

$$\text{VAT payable} = \text{Output VAT} - \text{Input VAT creditable}$$

The output VAT is calculated at a rate of 5%, while the input VAT on machinery, equipment, raw materials, electricity, etc., incurred by fertilizer companies is at a rate of about 10%. Therefore, fertilizer manufacturers will generally be eligible for VAT refunds. According to many experts, Vietnam's fertilizer manufacturers are expected to receive VAT refunds totaling an estimated 1,500 billion VND per year.

- Increased competitiveness with imported fertilizers. Companies will have room to reduce the selling price of domestic fertilizers due to lower production costs, as they will be able to separate the input VAT from the cost of goods sold due to changes in accounting practices. According to the Ministry of Finance, the input VAT that could not be credited as production costs from 2015 to 2022 amounted to nearly 10,000 billion VND. At the same time, the price of imported fertilizers may increase by an additional 5%.

We maintain a positive business outlook for DCM's revenue and NPAT for the year 2024 of 12.883 billion VND (+2.5% YoY) and 1,606 billion VND (+44.7% YoY), respectively, based on the following key assumptions:

- (1) Adjusted urea fertilizer consumption for the company in 2024 to 780,000 tons, lower than expected due to plant maintenance from August 16 to September 1, along with the impact of floods during July-August 2024.
- (2) NPK fertilizer consumption is assumed to increase to 250,000 tons in 2024, thanks to the M&A of the Han-Viet NPK fertilizer plant.
- (3) Cost of goods sold decreased due to the depreciation of the urea fertilizer plant ending and input gas prices being linked to the decreasing oil.

Valuation

We utilize a combination of two valuation methods: Free Cash Flow to Equity (FCFE) and Price-to-Earnings (P/E) ratio comparison. The valuation results are presented in the table below:

Valuation method	Weighting	Valuation result (VND/share)
Free Cash Flow to Equity (FCFE)	50%	42,137
P/E	50%	40,181
Share Price		41,158

Recommendation

We recommend **BUY** for DCM shares based on the following assumptions: (1) Business production costs are reduced due to the depreciation of the urea plant ending and input gas prices linked to decreasing oil prices; (2) Long-term revenue prospects from the NPK segment; (3) The approval of a 5% VAT policy on fertilizers will enhance the competitiveness of domestic fertilizer producers; (4) Regular cash dividend payments with an attractive dividend yield of 6% - 10% per year. The 12-month target price for DCM shares is **41,150 VND per share** (+11.67% from the closing price on November 1, 2024).

Financial Statement Forecast

Business Outcome (billion VND)	2022	2023	2024F	Key metrics	2022	2023	2024F
Net Revenue	15,925	12,571	12,883	Valuation			
COGS	(10,221)	(10,539)	(10,232)	EPS	8,162	2,097	3,034
Gross Profit	5,703	2,032	2,651	BVPS	20,033	18,820	20,847
Finance income	4,353	683	1,268	Dividend	0%	30%	10%
Finance expense	(60)	(27)	(65)	SG&A			
SG&A	(1,351)	(1,349)	(1,383)	Profit Margin	36%	16%	21%
EBIT	8,645	1,338	2,471	EBITDA %	38%	19%	16%
Others income	22	-	-	EBIT %	29%	10%	14%
EBT	4,596	1,255	1,744	ROE	48%	11%	15%
NI	4,321	1,110	1,606	ROA	34%	8%	11%
NPAT of the parents	4,321	1,110	1,606	Growth			
Equity holders of NCI	-	-	-	Revenue	61%	-21%	2%
Balance Sheet (billion)	2022	2023	2024F	Gross Profit	105%	-64%	30%
Current Assets	11,624	13,504	12,366	NPAT	135%	-74%	45%
I. Cash & cash equivalents	2,126	2,284	2,980	EPS	135%	-74%	45%
II. Investment	6,812	8,242	6,472	Total Asset	28%	8%	-5%
III. Trade and other receivables	188	366	299	Equity	42%	-6%	11%
IV. Inventories	2,283	2,161	2,361	Financial Health			
V. Others	216	452	254	Current Ratio	4.04	2.99	3.93
Non-current Assets	2,543	1,733	2,121	Quick Ratio	3.25	2.51	3.18
I. Long term receivables	-	-	0	D/A	0.25	0.35	0.24
II. Fixed Asset	2,240	1,688	2,069	D/E	0.34	0.53	0.31
III. Others	303	45	52	Interest coverage	448.33	124.56	80.53
Total Assets	14,167	15,238	14,487				
Total liabilities	3,561	5,275	3,450				
I. Current liabilities	2,874	4,517	3,143				
1. Trade and other payables	1,028	1,989	1,397				
2. Lease liabilities	3	846	2				
II. Non-current liabilities	687	757	307				
1. Trade and other payables	686	754	305				
2. Lease liabilities	1	3	2				
Owner's equity	10,605	9,963	11,037				
1. Authorized capital	5,294	5,294	5,294				
2. Share capital	-	-	-				
3. Retained earnings	5,279	4,638	5,715				
4. Non-controlling interests	29	28	28				
5. Other equity	4	4	4				
Total Equity	14,167	15,238	14,487				



CONTACT

PETROVIETNAM SECURITIES

Hanoitourist Building, No. 18 Ly Thuong Kiet, Hoan Kiem, Ha Noi

Phone Number: + 84 4 3934 3888 - Fax: +84 3934 3999

Website: www.psi.vn

Ho Chi Minh City Branch

1st floor, PVFCCo Building, No. 43
Mac Dinh Chi St., Da Kao, Dist. 1,
Ho Chi Minh City
Phone No.: (84-8) 3914 6789
Fax: (84-8) 3914 6969

Vung Tau Branch

5th floor, Silver Sea Building, No. 47
Ba Cu, Vung Tau
Phone No.: (84-511) 389 9338
Fax: (84-511) 389 9339

Da Nang Branch

3th floor, Building 53 Le Hong
Phong St., Hai Chau Dist, Da Nang
Phone No.: (84-511) 389 9338
Fax: (84-511) 389 9339

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