



Company Report: PetroVietnam Fertilizer and Chemical Corporation (HOSE:DPM)

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DPM initiating report: For bountiful harvests



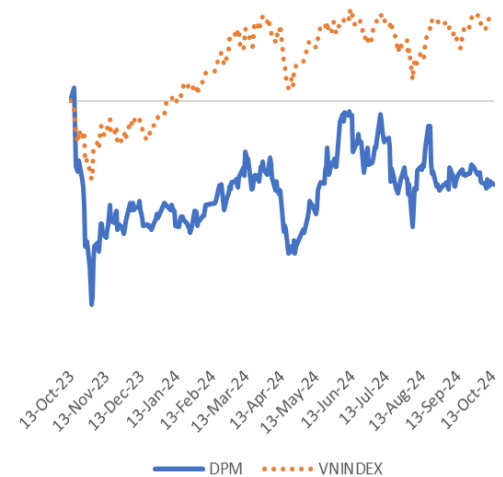
We assess that DPM stock has potential for price appreciation due to an expected slight increase in global natural gas prices in the near to medium term. Another catalyst for DPM stock is that the National Assembly is considering the inclusion of fertilizers in the VAT taxable category. If fertilizers are subjected to VAT, it will allow domestic fertilizer companies to deduct taxes, helping to reduce production costs and increase competitiveness against imported fertilizers. DPM is a company with a strong financial position and a significant presence in the industry. We value **DPM** stock at VND 40,500 per share (also the target price for 6-18 months), representing a **+15.71%** increase compared to the current price, and we recommend a **BUY** for DPM stock.

Recommendation: **BUY**

6-18m TP: **VND 40,500**

Current price: VND 35,000

Price performance (12M)



Price change	1M	3M	12M
%	-1.41	-6.54	-11.62
% VNIndex change	+2.77	+0.44	+11.40
Avg price (VND)	35,462	35,454	34,747

Sources: Guotai Junan (VN), investing.com

Year	Net Sales (VND b)	PATMI (VND b)	Assets (VND b)	Equity net MI (VND b)	EPS (VND)	DPS (VND)	ROAA (%)	ROAE (%)
2021A	12,786	7,749	13,917	10,515	7,415	5,000	24.72	33.52
2022A	18,627	13,581	17,699	13,831	14,218	7,000	35.20	45.71
2023A	13,569	1,030	13,309	11,370	1,028	2,000	3.35	4.12

Outstanding shares (in millions)	319.3	Major shareholders (%)	PVN 59.59%
Market cap (VND b)	13,775	Free float (%)	45
10-day average volume (shares)	2,574,700		
52w high/low (VND)	38,190/26,910		

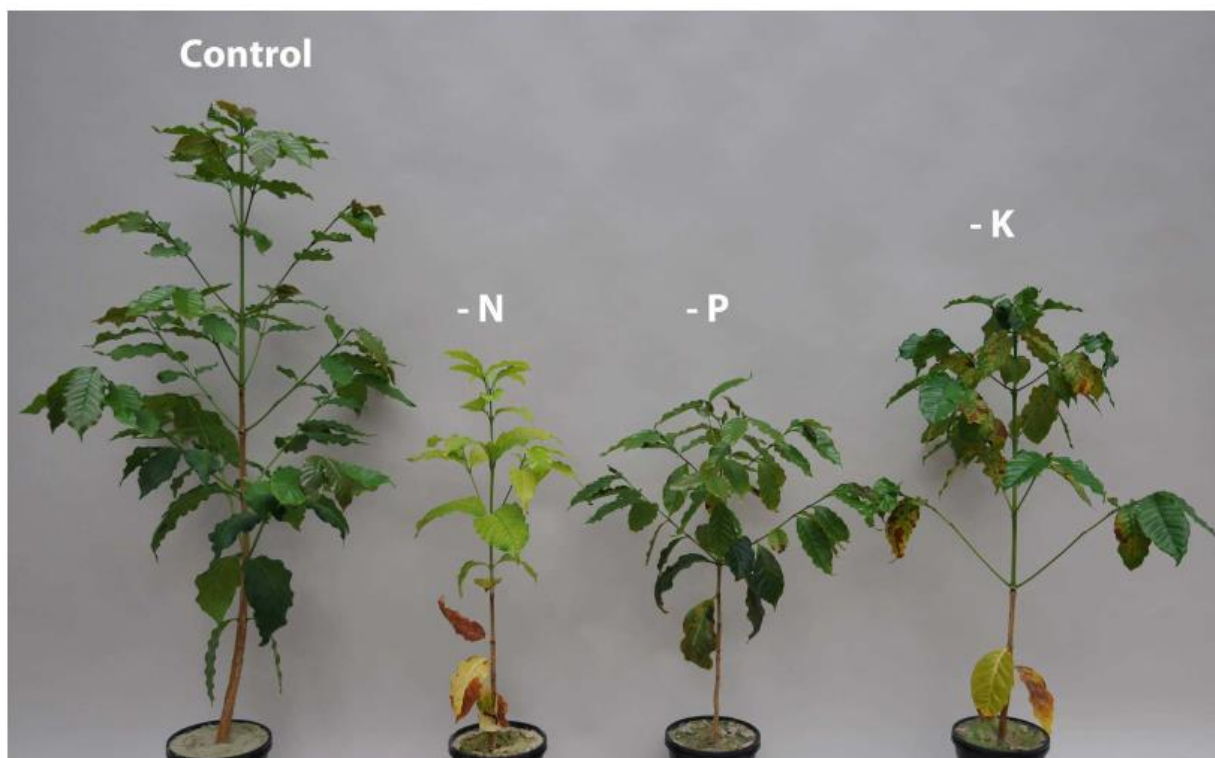
Sources: the Company, FiiPro X, Guotai Junan (VN)

GENERAL INTRODUCTION TO CHEMICAL FERTILIZERS

The fertilizer industry is fundamental to global agriculture, providing essential nutrients for crops and significantly contributing to food security worldwide. Fertilizers can be classified into two categories: organic fertilizers and chemical fertilizers. According to a 2019 report by the FAO, both chemical and organic fertilizers are estimated to directly and indirectly contribute to the production of 95% of the world’s food supply.

For instance, the indirect contribution of fertilizers to food production can be seen in the production of beef and pork: while cattle and pigs do not directly use fertilizers, the feed for these animals (such as corn, soybeans, and bran) is produced with the aid of fertilizers. This implies that only 5% of global food is produced without the use of fertilizers.

Further data from The Economist shows that in 1960, food harvested without chemical fertilizers sustained approximately 87% of the global population. By 2015, this figure had dropped to just 52%. Thus, by 2015, chemical fertilizers contributed to feeding 48% of the world’s population—a proportion that has likely increased since then. This highlights the critical importance of chemical fertilizers. This analysis focuses on chemical fertilizers, which are products of DPM (hereafter can be referred to simply as fertilizers).



*Illustration of the consequences of nitrogen (N), phosphorus (P), or potassium (K) deficiency in plants
(Source: Yara International)*

Chemical fertilizers can be divided into three main types: nitrogen fertilizers (where the most expensive raw material for production is natural gas), potassium fertilizers (which provide potassium in the form of K₂O), and phosphate fertilizers (which supply phosphorus in the form of P₂O₅). Additionally, there is another type known as NPK, which provides all three essential nutrients, N, P, and K, for plants. Nitrogen (N), phosphorus (P), and potassium (K) are three crucial, non-substitutable nutrients for crops. A deficiency in any of these three nutrients will hinder normal plant growth. Besides N, P, and K, plants also require some secondary nutrients such as sulfur, magnesium, and calcium. Typically, chemical fertilizers for crops will contain a mixture of

these secondary nutrients.

Fertilizer groups	Commercial names	%N	%P2O5	%K2O
Nitrogen Fertilizers	AN - Ammonium nitrate	33.5	0	0
	CAN - Calcium Ammonium Nitrate	26	0	0
	UAN - Urea Ammonium Nitrate	32	0	0
	Urea	46	0	0
Phosphate Fertilizers	DAP - Diammonium Phosphate	18	46	0
	MAP - Monoammonium Phosphate	11	52	0
Potassium Fertilizers	MOP - Muriate of Potash	0	0	60
NPK Fertilizers	NPK 15-15-15	15	15	15

Table of main types of chemical fertilizers and their nutrient content (Source: Agricultural Market Information System).

One notable piece of information is that soil can retain phosphorus and potassium for longer periods than nitrogen. Farmers must regularly apply nitrogen fertilizers, while they may choose to skip applying phosphorus and potassium fertilizers depending on market conditions. As a result, global use of phosphate and potassium fertilizers can fluctuate from year to year, unlike the more stable usage of nitrogen fertilizers. Therefore, the demand for nitrogen-based fertilizers is more consistent compared to potassium and phosphorus fertilizers.

PRODUCTION OF CHEMICAL FERTILIZERS

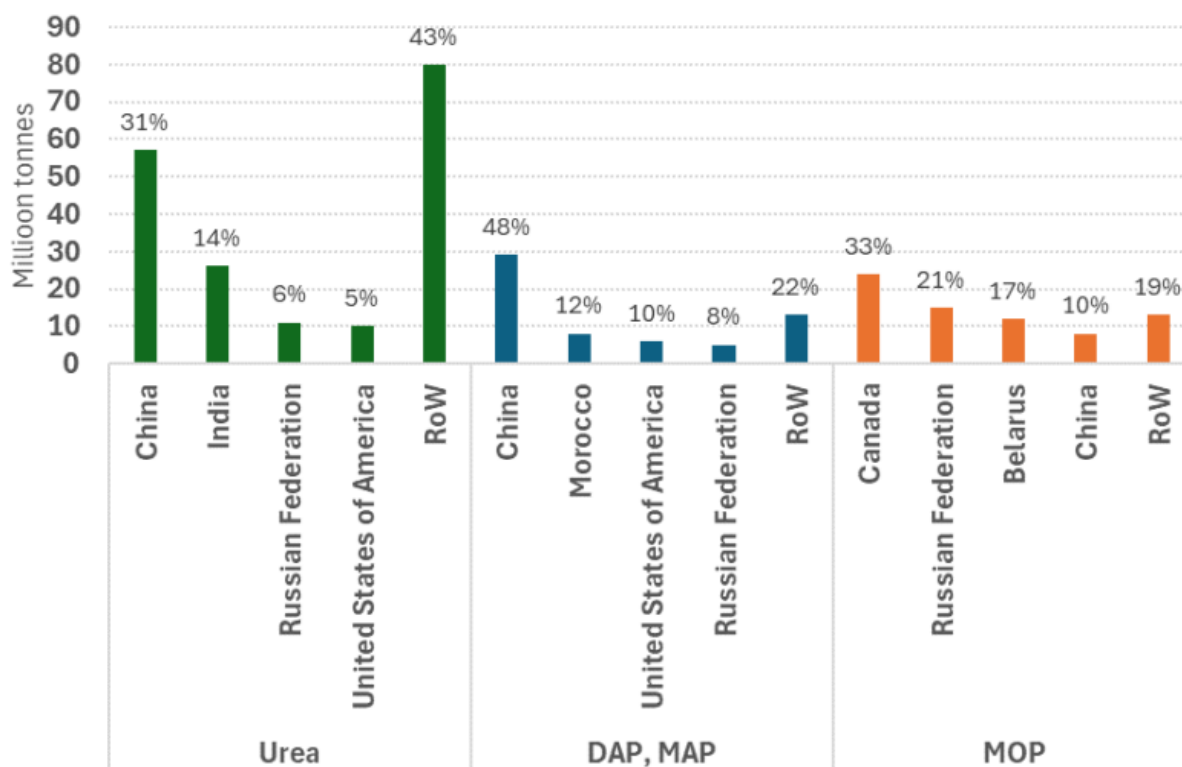
Nitrogen (N) is abundant in the atmosphere. Ammonia is produced by mixing nitrogen from the air with hydrogen from natural gas or coal under high temperature and pressure. Ammonia can be used directly as a fertilizer but is mainly used as a precursor for producing other types of fertilizers. It is mixed with carbon dioxide to produce urea, which is the most widely used nitrogen-based fertilizer. Ammonia can also be used to create nitric acid, which is then combined with this acid to produce nitrates. Finally, Urea Ammonium Nitrate (UAN) is obtained by mixing a heated solution of dissolved urea with a heated solution of dissolved ammonium nitrate.

Phosphorus is abundant in and extracted from phosphate rock. Phosphate rock can be treated

with sulfuric acid to produce phosphoric acid. This phosphoric acid is then mixed with ammonia. This process produces the most widely used phosphate fertilizers: diammonium phosphate (DAP) and monoammonium phosphate (MAP).

Potassium is extracted from potash ore. Potash ore is refined to obtain potassium muriate (MOP). MOP can be used as fertilizer. MOP can also be further processed with acid to produce potassium nitrate and potassium sulfate.

These chemical fertilizers can then be mixed with other nutrients for crops and used, or combined with each other to create NPK fertilizers.



Production volume (million tons) of fertilizer types by country in 2021 (Source: Agricultural Market Information System).

The production of chemical fertilizers requires abundant resources. The production of phosphorus (P) and potassium (K) fertilizers is concentrated in only a few countries around the world. According to data from 2018-2022, China, Morocco, the United States, and Russia produced about 80% of the world's phosphorus fertilizer output. During the same period, Canada, Russia, Belarus, and China produced around 80% of the global potassium fertilizer output. These countries have significant P or K resources.

Nitrogen, on the other hand, can be extracted from the air, so it can be produced anywhere in the world. However, the production process for nitrogen-based fertilizers requires a large energy input. Therefore, the production of nitrogen fertilizers is strong in countries with abundant natural gas or coal resources. China, India, Russia, and the United States are the largest producers of urea in the world. These four countries account for over 50% of global urea production based on data from 2018-2022.

PRICE TRENDS OF CHEMICAL FERTILIZERS WORLDWIDE

The prices of chemical fertilizers surged significantly in 2021 due to several factors, primarily

driven by rising energy and transportation costs as economies reopened after pandemic-related restrictions. Russia's invasion of Ukraine and subsequent sanctions imposed on Russia by the U.S. and its allies further escalated prices. Russia is a crucial producer of chemical fertilizers. In 2021, 25 countries imported over 30% of their fertilizer needs from Russia. The sanctions applied in December 2021 against Belarus, which produces 17% of the world's potassium fertilizers, worsened the situation.

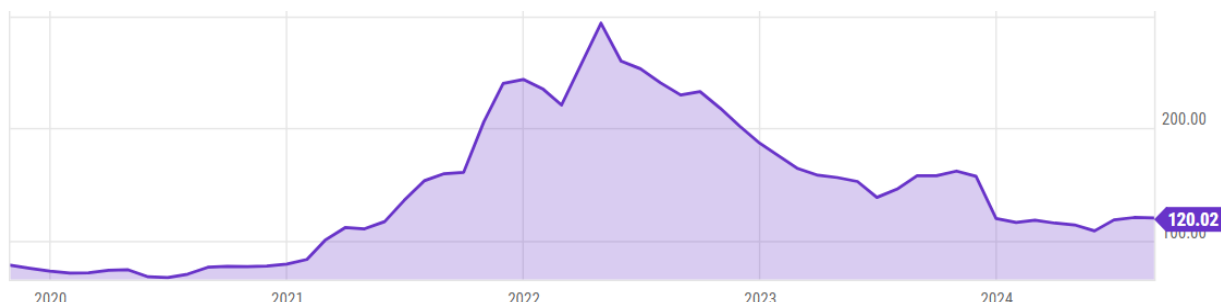


Image: World Bank's chemical fertilizer price index as of August 2024 (calculated from the prices of fertilizer raw materials such as natural phosphate rock, potassium and nitrogen chemicals, and phosphate and urea fertilizers; 2010 price = 100; source: YCharts).

From mid-2022 to August 2024, the decline in energy prices boosted production and improved supply, leading to a reduction in chemical fertilizer prices. Additionally, European countries resumed importing fertilizers from Russia at lower prices after a brief import ban, alleviating some pressure on global chemical fertilizer prices.

Overall, the prices of chemical fertilizers worldwide are typically influenced by economic, environmental, and geopolitical factors. Among these, energy factors appear to have the strongest impact on fertilizer prices. Natural gas or coal (primarily natural gas) is the main input contributing to the cost of nitrogen-based fertilizers. According to estimates from the Financial Times in 2024, about 70%-80% of a nitrogen fertilizer producer's costs are attributed to natural gas. Therefore, shocks to the energy market continue to pose risks for global chemical fertilizer prices.

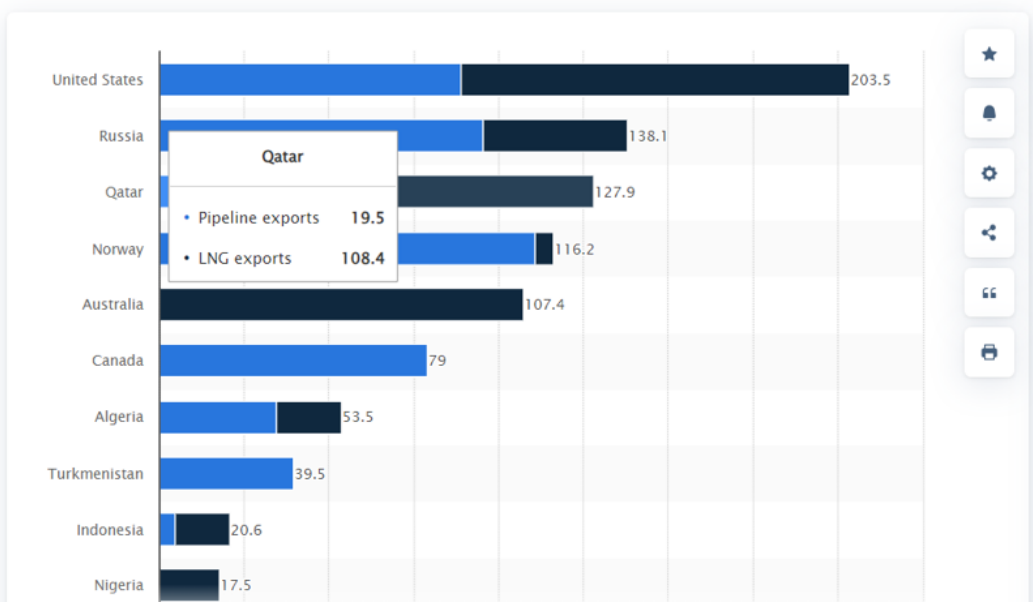
Regarding recent developments:

- The ongoing tensions in the Middle East are raising concerns about global energy security. Israel's vow to retaliate against Iran after a significant missile attack on October 2, 2024, is drawing attention from global financial markets. Natural gas reserves in Gulf countries are estimated to account for about one-third of global reserves, with Iran holding the second-largest reserves in the world, representing approximately 14-17% of total global reserves, following Russia. However, Iran is not a major natural gas exporter. Qatar, another country in the Persian Gulf, ranks as the third-largest holder of natural gas reserves and the third-largest exporter (2023 data, according to Statista). Natural gas exported from the Persian Gulf passes through the Strait of Hormuz on liquefied natural gas (LNG) carriers. Armed conflict in the Middle East and Iran poses risks of disruptions to global natural gas supplies at the Strait of Hormuz, putting upward pressure on energy prices. In 2024, particularly around the October 2 event, both oil and natural gas prices are trending upwards due to concerns over escalating tensions in the region. In the UK and Europe, which are natural gas importing markets, there has been a significant rise in natural gas

future contracts price at the end of September and early October 2024. The increase in natural gas prices will lead to upward pressure on nitrogen-based fertilizer prices.

- In addition to affecting natural gas prices, which directly impacts chemical fertilizer prices, tensions in the Middle East and Iran also negatively influence global supply chains. The Red Sea and the Suez Canal play a crucial role in global supply chains and trade. Since 2023, geopolitical tensions in the Red Sea have led to rerouted shipping, causing global transportation costs to rise, further pressuring global fertilizer prices.
- According to Reuters at the end of September 2024, China's stimulus package announced in September, which included interest rate cuts, was stronger than expected and marked the latest effort by China's policymakers to restore confidence in the world's second-largest economy. With a stimulated Chinese economy, experts believe this will help increase prices for oil and various commodities, including chemical fertilizers.
- Also reported by Reuters on October 9, 2024, the demand for natural gas from the U.S. is expected to rise significantly due to the economy's electricity needs. The U.S. is gradually replacing coal power plants with natural gas plants to achieve the goal of Net Zero. While the U.S. is a natural gas exporting country, high domestic demand could lead to reduced exports, affecting global supply.
- Another report from Bloomberg on October 9, 2024, indicates that natural gas supply will increase slowly in the near future due to many LNG projects worldwide being implemented slowly or even delayed. This will put pressure on natural gas prices, which in turn will impact fertilizer prices.

Leading natural gas exporting countries in 2023, by export type (in billion cubic meters)



Qatar is an important natural gas exporter, ranking third in the world for natural gas export volume in 2023 (Source: Statista).



Natural gas futures prices in the UK market have shown an upward trend throughout 2024, especially in late September and early October, due to concerns about geopolitical tensions in the Gulf region (Source: Trading Economics, data extracted on October 10, 2024).



The price trend of urea futures over the past year (Source: Trading Economics) has shown an increase in the second half of 2024, following the price movements of natural gas. Notably, after the conflict between Israel and Iran in early October 2024, as of October 12, 2024, urea futures prices reached \$332.25 per ton, representing an 8.91% increase compared to the end of September.

Thus, we forecast that global chemical fertilizer prices will rise in the near future. The price increase is driven by higher natural gas prices, stemming from concerns about potential disruptions in supply due to tensions in the Middle East and the Persian Gulf, reduced natural gas exports globally due to demand from the U.S. economy, and slow progress on LNG projects worldwide. Additionally, China's economic stimulus is leading to increased global fertilizer demand, while global shipping costs remain high. A key factor to monitor is the ongoing conflict in the Middle East; if tensions escalate further, natural gas prices may rise even more, pushing global chemical fertilizer prices higher.

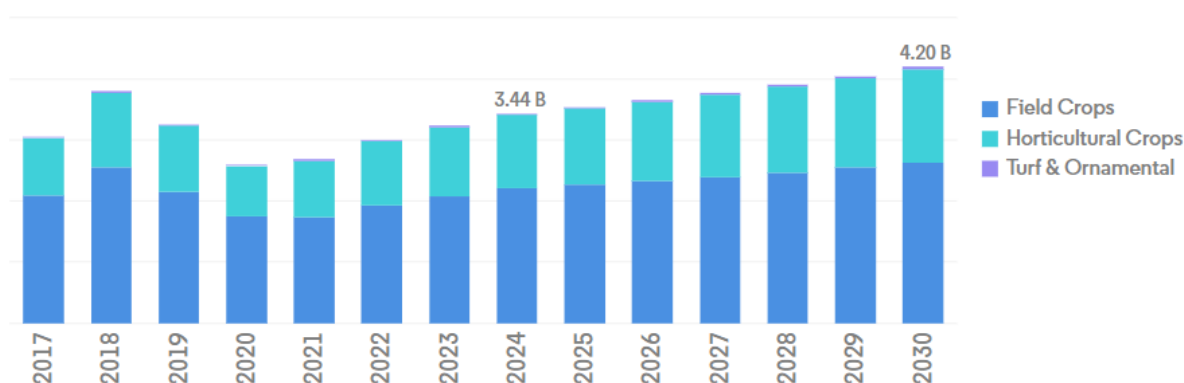
OVERVIEW OF THE CHEMICAL FERTILIZER INDUSTRY IN VIETNAM

Vietnam has a well-developed agricultural sector and is a significant exporter of various agricultural products globally. Key export commodities include walnuts, coffee, and rice, with a combined export value nearing 8 billion USD in 2021, according to FAO data. The large agricultural base creates substantial demand for fertilizers to support crop production, particularly for rice and other staple crops. Rice is the primary crop in Vietnam, as it serves as the main staple food for the country.

Rice dominates the agricultural landscape across Vietnam, accounting for the largest cultivation area at 81.8% of total agricultural land, followed by corn at 10.2%. In 2022, Vietnam's rice production reached approximately 43.9 million tons, making it one of the top rice producers and exporters worldwide. Major rice-growing regions include the Red River Delta and the Mekong Delta, with half of Vietnam's rice exports originating from the Mekong Delta. This region typically has three main rice harvests annually: the winter-spring crop, the summer-autumn crop, and the autumn-winter crop. In the Red River Delta, there are two main rice harvests: the spring crop (from November to May) and the summer crop (from May to November).

In Vietnam, among the three main nutrients, nitrogen is applied in the highest quantities, averaging 221.43 kg/ha/year for field crops. Nitrogen supports tillering, leaf area development, seed formation, grain filling, protein synthesis, and enhances both yield and quality of field crops. Rice, in particular, receives high nitrogen application, averaging 328.04 kg/ha/year. Due to the agricultural characteristics in Vietnam, nitrogen-based fertilizers are widely used and in high demand. The most commonly used fertilizer in the country is urea, which constitutes about one-third of the total value of chemical fertilizers utilized.

Fertilizer Consumption by crop type in USD, Vietnam, 2017 - 2030



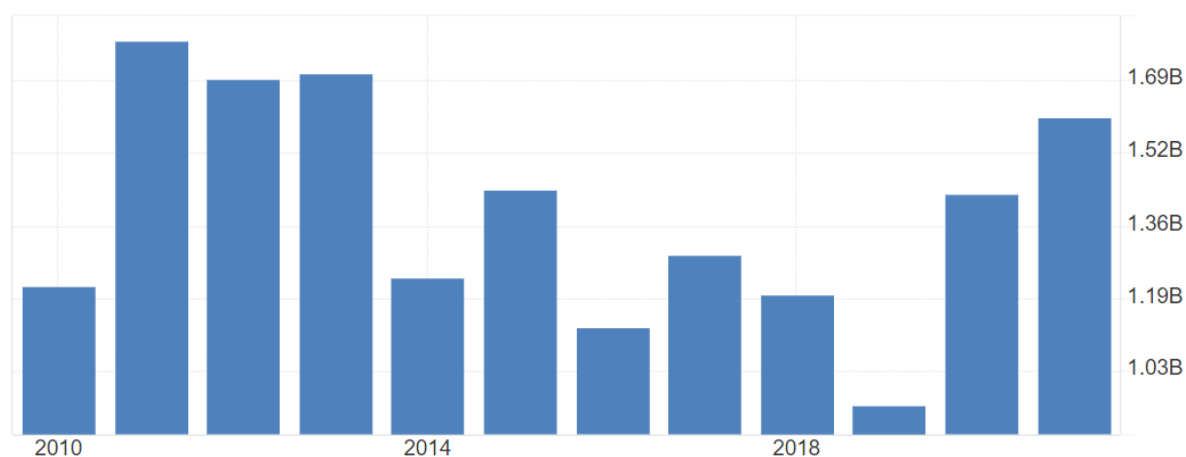
Source: Mordor Intelligence

The value of chemical fertilizers used in Vietnam (classified by crop type) and forecasted until 2030 (Source: Mordor Intelligence).

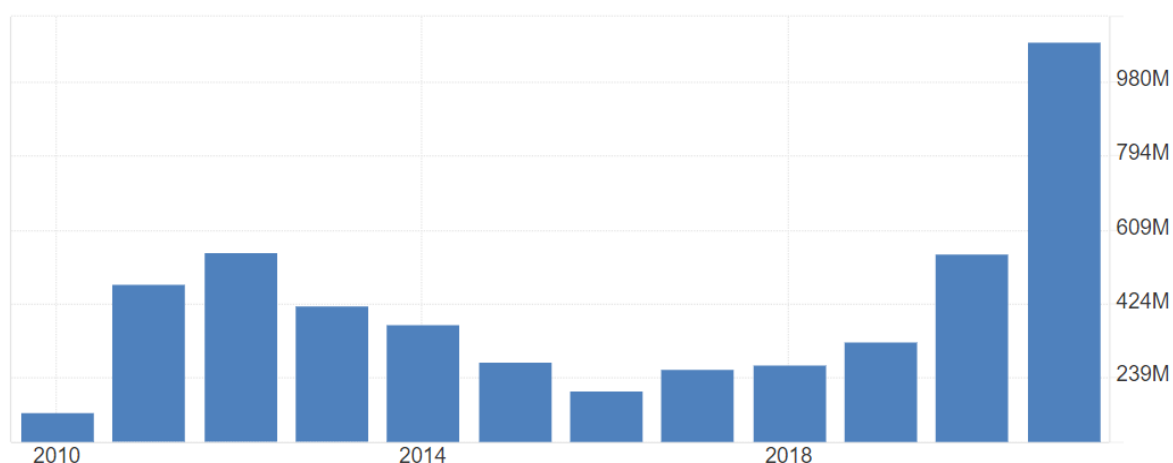
The total value of chemical fertilizers used in Vietnam is estimated by Mordor Intelligence to be \$3.44 billion for the year 2024. The estimated consumption for 2024 is about 4.33 million tons. Currently, the domestic fertilizer industry does not meet local demand, and Vietnam remains a net importer of fertilizers. Notably, potassium-based fertilizers are not produced domestically

and must be imported. According to data from Research and Markets in 2024, Vietnam imports over 4 million tons of fertilizers annually, with ammonium sulfate, a nitrogen-based fertilizer, being the most imported. China is currently the largest supplier of fertilizers to Vietnam, accounting for nearly 45% of the country's total fertilizer imports. Additionally, Russia, Israel, Laos, Canada, and other countries are also significant sources of fertilizers for Vietnam. According to data from Trading Economics, Vietnam imported fertilizers worth \$1.61 billion in 2022.

Vietnamese chemical fertilizer companies also export fertilizers, primarily to the Cambodian market (accounting for over 30% of export volume and value). This is followed by exports to South Korea and several ASEAN countries such as Malaysia, Myanmar, and the Philippines. The estimated export volume of chemical fertilizers for 2024 is over 3 million tons. The main exported fertilizers include ammonium sulfate and diammonium phosphate. According to data from Trading Economics, Vietnam exported fertilizers worth \$1.08 billion in 2022, marking a record high for the Vietnamese fertilizer industry. However, overall, Vietnam has remained a net importer of fertilizers for many years. Data from 2010 to 2022 shows that Vietnam has consistently imported more chemical fertilizers than it has exported each year.



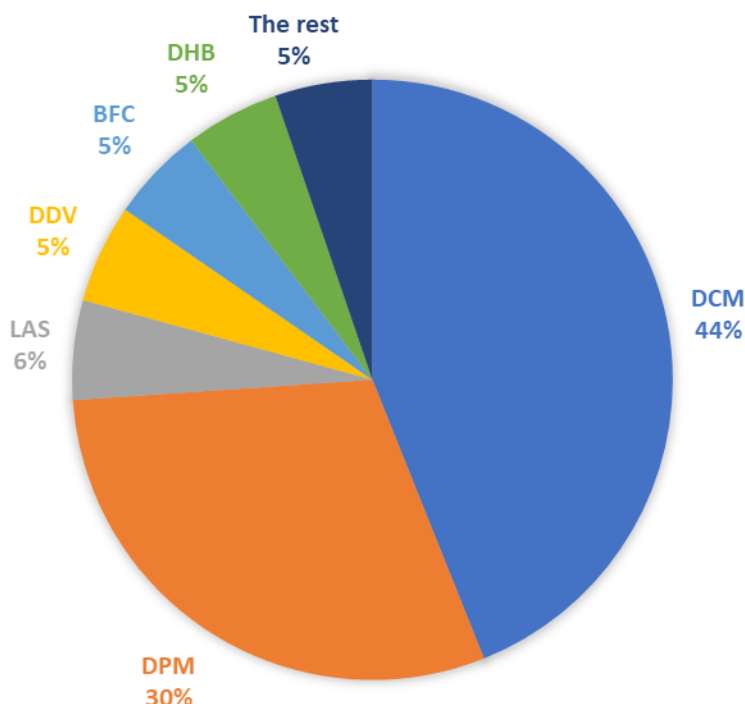
The value of Vietnam's chemical fertilizer imports from 2010 to 2022 (Source: Trading Economics).



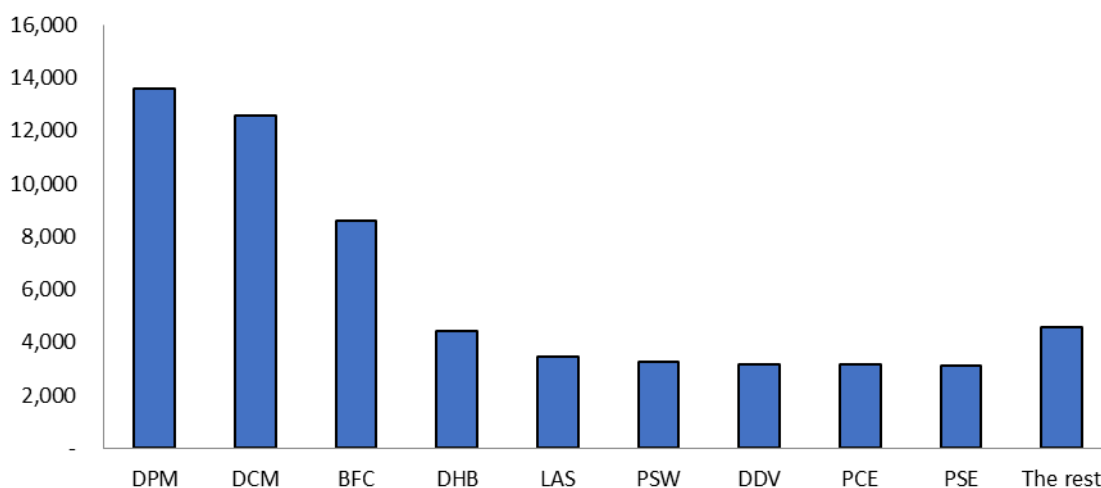
The export value of Vietnam's chemical fertilizers from 2010 to 2022 (Source: Trading Economics)

According to the 2024 report by Research and Markets, Vietnamese fertilizer companies hold

70% of the domestic market share, while 30% comes from imports. Among these, the five largest chemical fertilizer companies account for 30% of the total revenue of domestic chemical fertilizer companies.



Market capitalization proportion of 17 fertilizer companies on the HOSE, HNX, and UPCOM exchanges. The total market capitalization as of October 10, 2024, is 46 trillion VND. Data source: FiinPro X.



Ranking of fertilizer companies on the HOSE, HNX, and UPCOM exchanges by revenue in 2023. Unit: billion VND. Data source: FiinPro X.

Currently, there are about 17 Vietnamese companies listed on the HOSE/HNX exchanges or trading shares on UPCOM that are classified in the fertilizer sector, according to data from Fiin Group. As of October 10, 2024, the total market capitalization of these 17 companies is 46 trillion VND. Their total revenue in 2023 was approximately 60 trillion VND. Some companies are classified under other industries but also participate in the fertilizer sector, such as DGC in the

chemicals sector, and APROMACO – Agricultural Products and Materials JSC (not yet listed). These companies primarily engage in the phosphate and NPK fertilizer markets.

Fertilizer companies in Vietnam can be divided into two groups:

- One group specializes in the production of urea and nitrogen-based fertilizers, such as DCM, DPM, DHB, and Ninh Binh Urea (not yet listed). These companies also participate in the NPK fertilizer market. The market share is concentrated in DCM and DPM, with their urea market share often accounting for more than 70% (about 60% when including imports). The remaining urea market share is divided among DHB, Ninh Binh Urea, and imported urea. Currently, there are only four main urea producers in Vietnam, and the market share of other companies is insignificant. Urea production requires large energy inputs, creating a high entry barrier for new companies. DCM and DPM are subsidiaries of PetroVietnam, benefiting from energy inputs supported by their parent company and using natural gas as the energy source. DHB and Ninh Binh Urea are subsidiaries of Vietnam Chemicals Group which also provides support, and they use coal as the energy source.
- The other group specializes in phosphate-based fertilizers and NPK fertilizers, including companies like BFC, LAS, DDV, and many others. Some unlisted companies with significant market shares include Vinacam and Viet Nhat Fertilizer. Overall, the NPK and phosphate markets appear to be more competitive than the nitrogen fertilizer market. For example, in the NPK market, the top four companies—BFC, LAS, Vinacam, and Viet Nhat—together hold about 51% market share, while the remaining 49% is divided among numerous other companies (according to Công Thương (Industries and Trade) Magazine in 2024). The phosphate and NPK fertilizer markets also see participation from companies from other industries such as DGC and APROMACO, further intensifying competition in this sector.

OUTLOOK FOR VIETNAM'S FERTILIZER INDUSTRY

In September 2024, a major storm, Typhoon Yagi, caused severe damage in the northern provinces and the Red River Delta. It is estimated that over 307.4 thousand hectares of rice, crops, and fruit trees were submerged and damaged. To address the aftermath of Typhoon Yagi, many local Crop Production and Plant Protection Departments advised farmers to quickly drain water and apply supplemental phosphate or NPK fertilizers to crops to help them recover their roots. Therefore, while Typhoon Yagi negatively impacted the economy, Vietnamese fertilizer companies may benefit from increased demand for fertilizer to restore damaged crops. Additionally, farmers in the northern region might increase fertilizer application in subsequent seasons to restart agricultural production after the storm-affected season. According to FiinGroup's report on the impact of Typhoon Yagi at the end of September 2024, the northern agricultural sector will need about 6 months to 2 years to recover, which could drive short-to-medium term fertilizer demand in the North.

In the long term, the agricultural land area in Vietnam is declining, requiring higher crop yields per unit area, which leads to increased demand for fertilizers. The reduction in agricultural land is due to the conversion of land from agriculture to urban and commercial use. The Vietnamese government plans to reduce rice land by 348.77 thousand hectares by 2030 compared to 2021, with reductions focused in the Red River Delta (101.8 thousand hectares) and the Mekong Delta (88.56 thousand hectares), aiming to increase the urbanization rate to 50% by 2030.

One factor to monitor in the near future is the ongoing discussion in the National Assembly regarding the draft amendment to the VAT Law, which includes a provision to reintroduce VAT at 5% on fertilizers (currently exempt from VAT). According to Saigon Economic Times on September 10, 2024, many experts commented that under the current law, fertilizer companies cannot deduct input VAT, which increases production costs. If fertilizers are subject to VAT, companies will be able to deduct input VAT, reducing production costs. Should this amendment pass, imported fertilizer prices would increase by 5% due to VAT, while domestic fertilizer prices may not rise as Vietnamese companies can deduct VAT. This would enhance the competitiveness of domestic fertilizer producers. The National Assembly will vote on the draft VAT Law amendment in its 8th session (held in October), and if approved, the amended law will take effect from January 1, 2025 (or later). Many Vietnamese media outlets believe that lawmakers generally agree with the proposal to include fertilizers in the VAT category.

According to a report by Mordor Intelligence, fertilizer demand in Vietnam is further driven by the increasing global popularity of Vietnamese and Asian cuisine, which heavily uses agricultural products grown in Vietnam. This trend is expected to boost Vietnam's agricultural exports and increase fertilizer demand. The organization predicts that the value of fertilizers used in Vietnam could grow at a CAGR of 4.6% from 2024 to 2030.

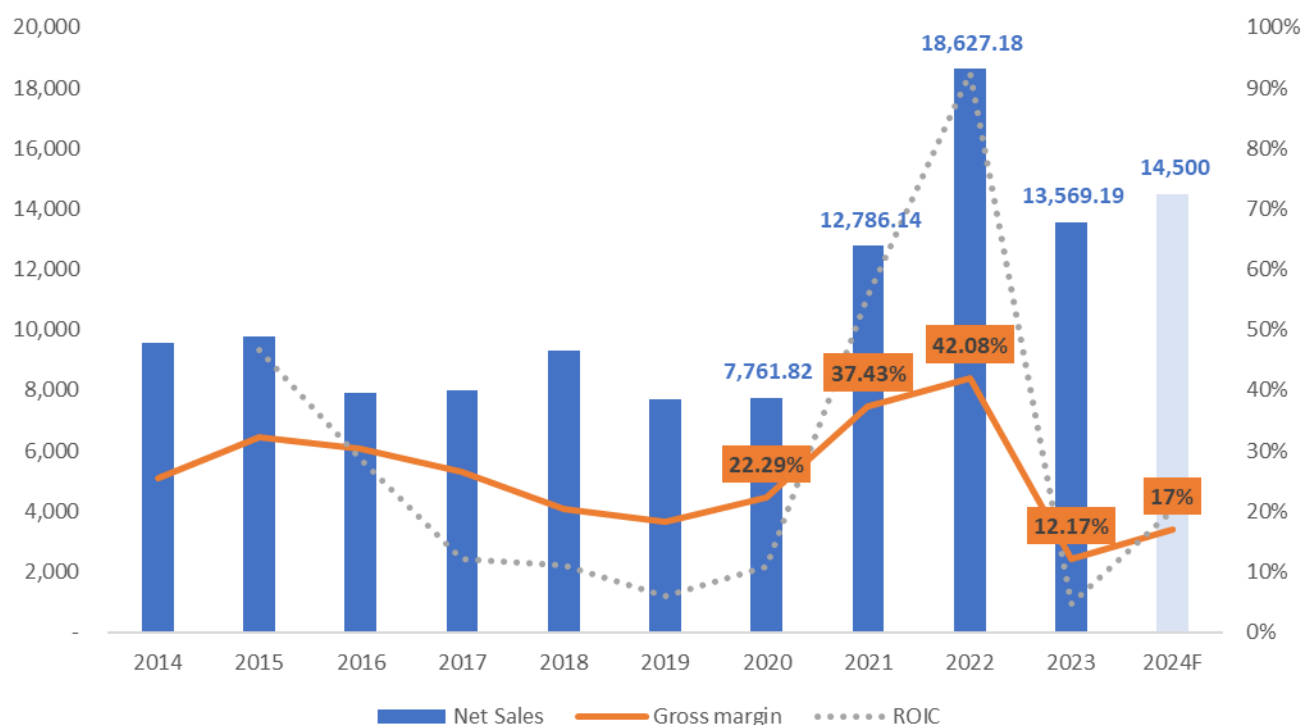
There are two risks to chemical fertilizer consumption in Vietnam. The first risk is that some analysts suggest export rice prices are trending down due to favorable weather, which could lead to reduced rice planting in future seasons and thus lower fertilizer demand. We assess this risk as minor. Farmers typically rotate crops between rice and other agricultural plants every season. While switching from rice to other crops may reduce fertilizer use (especially urea, as rice uses more urea fertilizer), the difference is unlikely to be too significant. Additionally, data shows that Vietnam has been a net importer of chemical fertilizers in recent years, indicating that domestic demand for chemical fertilizers remains high, with local production still having room to meet this demand.

The second risk is the potential replacement of chemical fertilizers with organic fertilizers. According to data from a news report by *theinvestor.vn*, currently, 65% of fertilizer used in Vietnam is chemical, while 35% is organic. We also assess this risk as minor. While organic fertilizers are more environmentally friendly, current production cannot meet the demands of Vietnam's agricultural sector. The Ministry of Agriculture and Rural Development aims to encourage organic fertilizer use, with a plan to achieve a 50-50 ratio between chemical and organic fertilizers by 2050. This plan indicates that the replacement of chemical fertilizers with organic ones will be gradual, with no sudden changes in the short term. Moreover, as mentioned earlier, Vietnam remains a significant net importer of chemical fertilizers, showing that domestic demand for chemical fertilizers is still very strong.

OUR STOCK PICK IN THE FERTILIZER INDUSTRY: DPM

PetroVietnam Fertilizer and Chemicals Corporation (HOSE: DPM) is one of the two largest companies by market capitalization and revenue in Vietnam's fertilizer industry (alongside DCM). As of October 10, 2024, DPM's market capitalization was 13.814 trillion VND, ranking second in the fertilizer sector after DCM (20.250 trillion VND). However, in terms of 2023 net revenue, DPM

is the largest company in the industry, with a net revenue of 13.569 trillion VND in 2023. Both DPM and DCM are subsidiaries of PetroVietnam. PetroVietnam owns 75.56% of DCM and 59.59% of DPM. Both companies primarily produce urea but also manufacture and trade NPK fertilizers and other products. In 2023, DPM produced 816 thousand tons of urea, 120 thousand tons of NPK, and 55 thousand tons of NH3.



Revenue (left column, unit: billion VND), gross margin, and ROIC of DPM over the years. It can be observed that DPM significantly benefited from the global increase in fertilizer prices (specifically urea) during the 2021-2022 period. Conversely, 2023 was a year of poor business performance as global fertilizer prices declined. We expect DPM's business operations to enter a recovery phase starting in 2024. (Sources: FiinPro X, GTJASVN RS)

DPM reports that the company holds the largest market share for urea consumption in the country, reaching 38% in 2023. DCM reports that its market share for urea remains stable at 30-35%. Thus, DPM is currently the largest company in the urea fertilizer market based on market share.

Regarding the business results for the first half of 2024, DPM reports that it has completed its production and sales targets: achieving 53% of the urea production plan and 58% of the urea fertilizer consumption plan for 2024 after the first half of the year. For NPK products, DPM only completed 47% of the production plan but achieved 61% of the consumption plan. Net revenue and after-tax profit for the first half of the year grew by 2% and 37%, respectively, compared to the same period in 2023, reaching 7.255 trillion VND and 495 billion VND. In 2024, DPM has set a revenue target of 12.755 trillion VND, a decrease of 6% year-on-year. However, given the business situation in the first half of the year and our assessment of fertilizer price prospects, we project that DPM's revenue for 2024 could reach 14.5 trillion VND, equivalent to +6.86% year-on-year. DPM's gross margin is also expected to recover, reaching about 17% (in the first half of 2024, DPM's gross margin recovered to approximately 16%).

Investment theses for DPM:

1. **Natural Gas Price Trends:** Natural gas prices are likely to enter a short-term upward trend due to various factors, including tensions between Israel and Iran, increased demand for natural gas for electricity production in the U.S., and delays in global LNG projects, which restrict natural gas supply in the short term. Rising natural gas prices will boost global fertilizer prices, allowing DPM to increase product selling prices. Additionally, high global shipping costs will enable DPM to raise prices for both domestic and export products. Global fertilizer demand is expected to rise due to China's strong economic stimulus package in September, further enhancing fertilizer prices worldwide. This information will significantly impact urea, DPM's core product.
2. **Northern Vietnam Fertilizer Demand:** Fertilizer demand in Northern Vietnam is stimulated by recovery efforts following Typhoon Yagi and farmers' increased cultivation activities in the short to medium term to restore agricultural production. However, DPM may not immediately benefit from the recovery due to farmers' current high demand for phosphate/NPK fertilizers, with DPM's NPK products facing substantial competition. Notably, DPM's NPK products may not have penetrated the Northern market as deeply as its urea. In subsequent planting seasons, as cultivation activities in Northern Vietnam rises, the demand for DPM's urea products may increase.
3. **VAT Deduction for Fertilizer Companies:** Fertilizer products returning to the VAT taxable category is expected to be approved by the National Assembly in October and take effect from early 2025. This change will allow Vietnamese fertilizer companies to deduct taxes, reducing production costs. Simultaneously, it will increase the prices of imported fertilizers, enhancing the competitiveness of domestic fertilizer products. This is positive news for DPM, and the upcoming approval of the VAT Law amendments could act as a catalyst for DPM's stock price.
4. **Long-term Fertilizer Demand in Vietnam:** The demand for fertilizers, especially nitrogen fertilizers, remains substantial in the long term, as domestic production cannot meet the demand, leading Vietnam to be a net importer of fertilizers with significant value. Additionally, factors such as decreasing agricultural land and the growing global popularity of Vietnamese food will drive the demand for fertilizers in Vietnam.
5. **Stable Demand for Urea:** DPM's primary product, urea, has more stable demand compared to potassium (K) and phosphate (P) fertilizers. Urea can be viewed as an essential commodity, enabling DPM to continue increasing its consumption volume as it raises urea product prices.
6. **Strong Market Position:** DPM is one of only two major players in the nitrogen fertilizer sector (alongside DCM), with a large market capitalization, high revenue, and the highest market share in the nitrogen fertilizer market. Supported by its parent company, Vietnam Oil and Gas Group, DPM operates in a less competitive industry. Currently, DCM and DPM hold the majority of the market share in urea fertilizers, with remaining shares held by DHB, Ninh Binh Fertilizer (also state-owned under Vietnam Chemical Group), and imported urea. DPM's largest domestic competitor is DCM, a company within the same group, indicating that the competitive pressure DPM faces is relatively low, with most competition arising from imported fertilizer products.

Additional Investment Thesis Points for DPM:

7. **Impact of Natural Gas Prices on Production Costs:** While DPM's production costs will be affected by rising natural gas prices, the company has long-term contracts for natural

gas purchases from member companies within the Vietnam Oil and Gas Group. Price adjustments for natural gas are likely to occur more slowly than market fluctuations. Input costs that may be adjusted more immediately include transportation, which is dependent on fuel oil prices and is expected to rise if tensions between Israel and Iran escalate. Overall, we believe that DPM's selling prices will increase more rapidly and significantly than input costs in the near future. As reported by Bà Rịa Vũng Tàu News in August 2024, "PV GAS and PVFCCo have collaborated for over 20 years. PV GAS has continuously supported PVFCCo in maintaining a stable gas supply (over 10.7 billion Sm³), ensuring optimal operation of the Phu My Fertilizer Plant... safeguarding national food security and agricultural security." DPM's important role in ensuring national food security may provide some support to alleviate input cost pressures.

8. **Utilization of Offgas:** DPM has projects aimed at utilizing Offgas as fuel, which can help reduce the proportion of natural gas costs relative to product costs. DPM has reported the completion of its Offgas recovery project, which will soon be operational. This will help stabilize and reduce input costs for the company.
9. **Expansion into NPK Market:** DPM plans to expand production and increase its presence in the NPK market, as its current NPK output is only about 50% of its factories' designed capacity. According to data from FiinGroup, high-quality NPK Phu My accounted for about 11% of the high-quality NPK market share in 2023. Although the NPK fertilizer market is highly competitive, greater involvement in this market could diversify and enhance the company's revenue streams.
10. **Strong Financial Position:** DPM has a healthy financial situation with low financial risk. As of the end of Q2 2024, DPM's Equity/Assets ratio was 76%, with liabilities accounting for only 24% of total assets. The company has bank deposits and cash exceeding 9 trillion VND, equivalent to 61% of its assets. DPM's debt is minimal compared to its cash and bank deposits, resulting in a negative net debt position. In comparison, DCM has an Equity/Assets ratio of over 58% and while its leverage is not excessively high, DPM's leverage is significantly lower than DCM's.

Assuming that natural gas prices may rise slightly in the near future (but not as sharply as in the 2021-early 2022 period), and based on certain assumptions about DPM's operations, we set a target price for **DPM** shares at **VND 40,500** per share for the next 6-18 months. This target price represents an increase of **+15.71%** compared to the closing price of the shares on October 14, 2024, which is 35,000 VND per share. We recommend a **BUY** for DPM shares.

INVESTMENT RISKS

Natural gas prices may not rise as we forecast. Additionally, export rice prices could decrease, potentially having a more negative impact on fertilizer demand in Vietnam than we anticipate. In the long term, competition from organic fertilizers is a factor to monitor.

The National Assembly may not reach consensus on passing the amended VAT Law in October, which includes bringing fertilizers under the VAT taxable category. Although we assess the likelihood of this risk occurring as low, if it does happen, DPM's business results may not be as favorable as we project, and DPM shares would lose a catalyst and upward momentum in the near term, possibly preventing the stock from reaching the set target price.



Other risks include operational risks (accidents, fires, etc.), geopolitical risks that could affect DPM's product export capabilities, and competitive risks from imported fertilizers.

Valuation-related risk: Our valuation of the stock is based on certain assumptions regarding the company's business operations. These assumptions may not be entirely accurate. Furthermore, the ever-changing internal and external environment of the company could render the information and assumptions used in our valuation process, as well as the results of our valuation in this report, no longer relevant after the report is published.

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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Company Report