

9 May 2022

# Fertilizer

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**Non-rated**

## The scent of spring blossom

### The flower blooms across the sector

Based on our estimate, 1Q22 aggregated revenue of 24 listed fertilizer producers jumped 71.2% yoy (VND30.9tn), while aggregated NPATMI climbed 7.9x yoy (VND6.8tn). Compared with an 8.5x yoy NPATMI growth in 4Q21, the growth pace in 1Q22 decelerated due to higher base in 1Q21. Top contributors were “Golden couple” DPM and DCM with revenues of VND5.8tn (3x yoy)/VND4tn (2.2x yoy) and net profit of VND2.1tn (11.9x yoy)/VND1.5tn (10x yoy). In 1Q22, total consumption volume sustained but export skyrocketed with 510,000 tonnes, +47% yoy/+31% qoq, equivalent to 44%/40% of the total export in 2020-21.

### Gross margin peaked; no room to expand

Sector gross margin hit a new record in 1Q22 to 31.7%, + 3.5%p qoq and 15.7%p yoy. In 1Q22, the average urea selling price in 1Q22 soared 99% yoy but down 2% qoq while the gas input price grew lower at 20% yoy and 20% qoq. As of Apr, gas price upped by 9% while urea price stayed flattish vs Mar. If room for the fertilizer price hike is held back, the input rise is unstoppable in the context of global political tension. We think the gross margin in 1Q22 peaked, and commence to contract in 2Q22F but at a higher level than seen in 2Q21.

### Net profit growth momentum could fade in 2Q22F

We view the proposal to impose an export tax of 5% from the Ministry of Finance could weigh down some exporters. However, 5% is an insignificant threshold to loom the export where exporters could gain a lucrative gap between the export and domestic prices (*Jan-22: USD808/tonne vs USD717/tonne*). Furthermore, when the Summer-Autumn crop comes (*beginning in Apr-Sep in Southern Vietnam*), the domestic demand could bounce to offset the loss from export constrain if any. We think DPM and DCM could prioritize the local market in the crop and would not offer any export volume in 2Q22F. Without export gains amid the risk of gross margin contraction, net profit growth momentum could fade in 2Q22F despite still being stellar compared to yoy.

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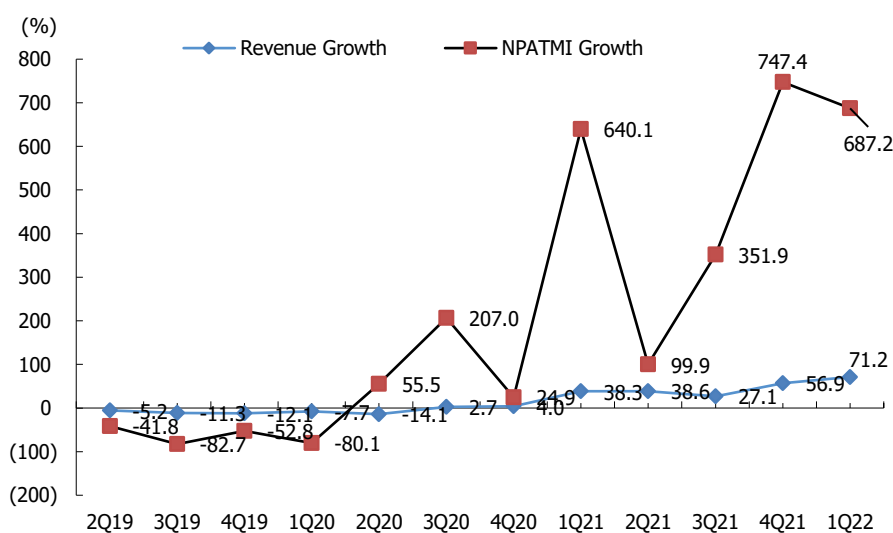
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**Table 1. 24 aggregated fertilizer producers' earnings**

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue (VND bn)	18,062	29,481	30,925	71%	4.9%
OP (VND bn)	1,336	5,853	7,630	471%	30.4%
NP (VND bn)	869	5,196	6,811	684%	31.1%
Volume (mn tonnes)	1.73	1.68	1.68	-3%	0.0%

Source: Company data, KIS

Based on our data collected from 24 listed fertilizer companies (aggregated revenue makes up around 100% of total), fertilizer sector achieved impressive business results in 1Q22. Despite the up momentum of revenue, net profit tended to level off. The revenue growth was 71.2%, up 14.3%p qoq and 32.9% yoy. NPATMI growth reached 687.2%, up 47.1%p yoy but down 60.2%p qoq. This trend could be partly explained by the higher base in 1Q21.

**Figure 1. Listed fertilizer producers showed a slowdown net profit growth in 1Q22**

Source: Company data, KIS

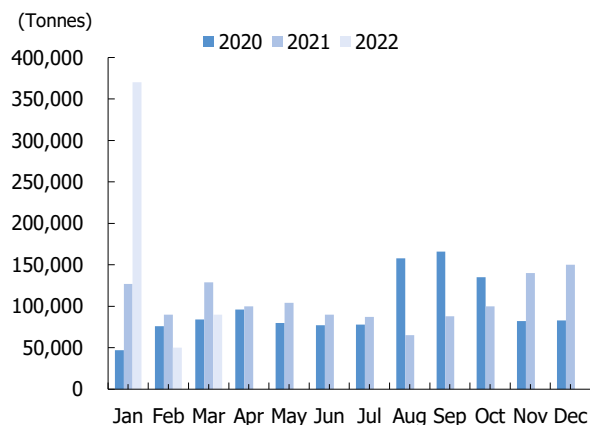
### Export was the main growth driver in 1Q22

Taking the chance of domestic demand was in the off-peak period and the prices stayed at high a level, domestic producers pushed up the export volume. In Jan-22, fertilizer exports reach the all-time high level with 370,000 tonnes, resulting in exports volume just in 1Q22 achieved 510,000 tonnes, equivalent to 44%/40% of the total export volume in 2020 and 2021. However, in 2Q22F, Viet Nam will start the Summer-Autumn crop, and domestic demand could go up, so fertilizer producers may find it hard to boost the export volume. However, we believe the export output could recuperate in 4Q22F as the Summer-Autumn crop has entered the harvest period.

In addition, domestic selling prices still remained at a high level. At Mar-22, urea/Kali/DAP/NPK was trading at VND17,500/16,500/26,000/16,000/kg on average, increasing 5%/10%/16%/5% mom and 84%/90%/132%/62% yoy. At Apr, domestic urea was trading at the same level as Mar while Kali/DAP/NPK upped by 3%/4%/6% mom, respectively. Global fertilizer prices in Apr was somewhat "cooling down" as urea/DAP in the US market downed 23%/2% vs Mar. Potash in Israel market had the same price as Mar. Especially, NPK Black

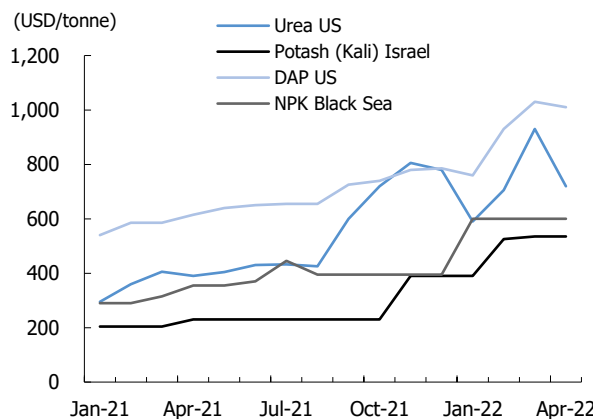
Sea stayed the same level since Jan-22.

**Figure 2. Export volume in 2020-2022F**



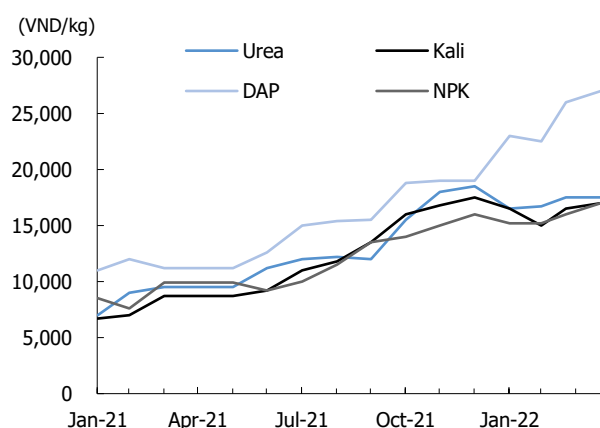
Source: MoIT, KIS

**Figure 3. Global fertilizer prices**



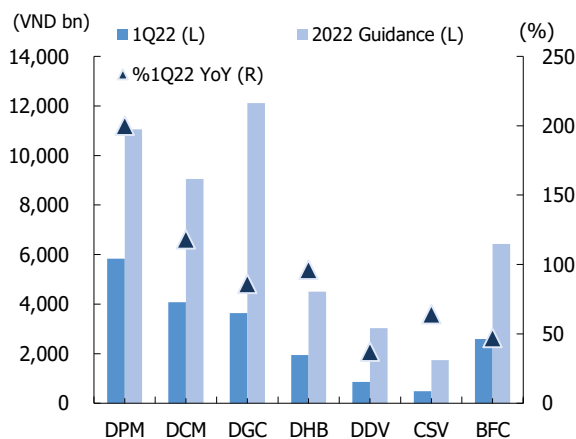
Source: Bloomberg, KIS

**Figure 4. Domestic selling prices**



Source: Data collected from the competitive market

**Figure 5. DPM remained their top position in 1Q22**



Source: Company data, KIS

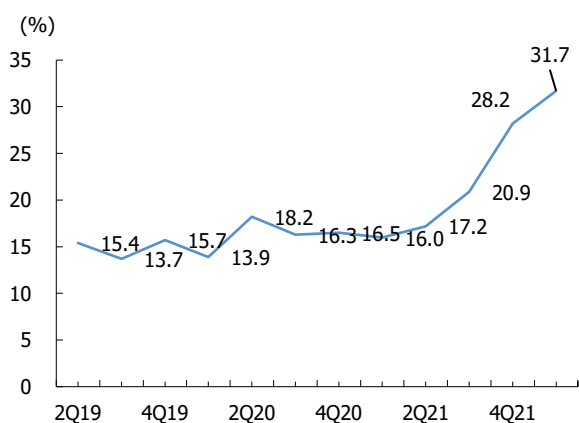
Breaking down aggregate revenue growth by a specific company, DPM maintained its top position as 1Q22 revenue grew by 200% yoy, and 15% qoq to reach VND5,829bn. The second and the third position named DCM and DGC with impressive revenue growth rates of 118%/86% yoy. Among the top ten fertilizer producers, DHB emerged like a “bright star” when revenue in 1Q22 hit the highest level in their operation, helping the company to be in the top 4 companies with the largest gross profit in the industry. DHB’s revenue growth rate was estimated at 96% yoy and 37% qoq. After years of continuous loss, DHB started to recognize NPAT from 3Q21. DHB’s net profit in 1Q22 was VND869bn (+193% qoq and 249% yoy).

The better-than-expected revenue growth in 1Q22 ramped up the company’s completion of AGM guidance. It should be noticed that just 1Q22’s revenue fulfilled around 28-53% of their 2022F revenue guidance. It could be said that 2022 would be a year to look forward to for fertilizer industry.

## Net margin expanded briskly in 1Q22

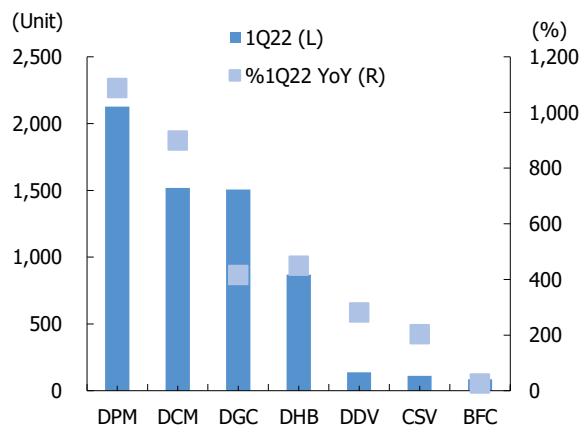
1Q22 was another exciting period since most of the leading players saw their net profit grow by multiples. “Golden couple” DPM and DCM dominating the market posted an absolute 1Q22 net profit of VND3,644bn, accounting for 54% of total market net profit. DPM reaped a remarkable net profit growth of 11.0x yoy and 27% qoq in 1Q22. DCM was not inferior when recorded a net profit growth by 9.0x yoy and 38% qoq. Breaking down to details, industry net margin growth was contributed by a combination of a 15.7%p yoy gross margin increase and a 1.6%p yoy SG&A/sales decrease. Specific, DPM’s SG&A to sales felt by 6%p yoy in 1Q22.

**Figure 6. Sector gross margin**



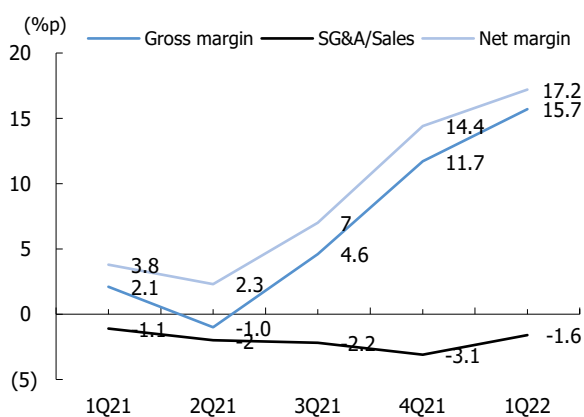
Source: Company data, KIS

**Figure 7. DPM net profit growth exceeded industry**



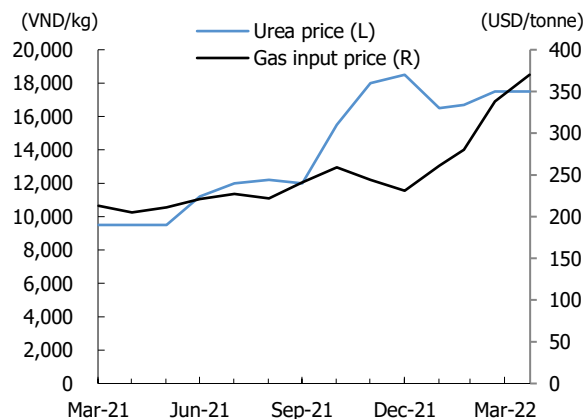
Source: Company data, Fiiipro

**Figure 8. %p yoy increase in the net margin by quarter**



Source: Company data, KIS

**Figure 9. Urea selling price and gas input price**



Source: PetroVietnam, KIS

Note: Urea prices are offered competitively in the market while the gas price is correlated with Singapore FO price.

Sector gross margin continuously hit a new peak in 1Q22 to reach 31.7%, up 3.5%p qoq and 15.7%p yoy. Average urea selling price in 1Q22 rose up by 99% yoy and down by 2% qoq. However, gas input price increased by 20% qoq and 20% yoy, and it intended to go up continuously. This factor should be considered carefully in next quarters as it could damage company’s gross margin.

### Other factors should be noted

Recently, the Ministry of Finance proposed to impose a 5% tax on exported fertilizer in order to lower domestic fertilizer prices and stabilize supply. In 1Q22, the export volume of DPM and DCM – two market leaders was about 200,000 tonnes. However, these two companies insist that when it comes to Summer-Autumn crops, they will supply in domestic market priority. If there is excess capacity, they will try to boost the export output. Cambodia, Malaysia, and the Philippines are the three main fertilizer import markets for Viet Nam. Some goods exported through ASIAN will have tariff barriers removed. Therefore, we are considering carefully the impact of the imposing 5% export tax. In addition, in 2Q22, the country will start the Summer-Autumn crop, and domestic demand is expected to increase. We believe this will make up for lost revenue due to export restrictions (if any).

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