

16 Jun 2022

## Vietnam Apatite Phosphorus

### Pre-listing brief

Indirectly owned by Duc Giang Chemicals JSC (DGC VN, Non-rated) with a 51% stake, Vietnam Apatite Phosphorus Company (PAT) is going to list on the UPCoM bourse on Jun 17th with its 25mn shares. Riding on the commodity upswing, PAT stands out and gains the spotlight.

- **Among the top yellow phosphorus producers:** PAT runs a capacity of 20,000 tonnes of yellow phosphorus (P<sub>4</sub>)/year, accounting for 14% of total P<sub>4</sub> produced in Viet Nam. The company lags behind the largest rival who is also its parent company, Duc Giang Lao Cai Chemical One Member Co., Ltd with 48,000 tonnes/year). Their client base is solid with long-lasting partners in Korea, Japan, and Australia.
- **The booming selling price bolsters earnings growth:** P<sub>4</sub> average price leaped 42% yoy in 2021 to VND79.9mn/tonne and 88% yoy in 1Q22 to VND144.5mn/tonne. Consequently, NPAT rose 203% yoy to VND256bn in 2021. 1Q22 NPAT swelled to VND349bn, beating by 36% of 2021 earnings. Despite 1Q22's NPAT being fulfilled by 58% of 2022F guidance and the continued rally of the selling price, the management stays prudent with targets of a VND2,317bn revenue (+45% yoy) and a VND600bn (134% yoy).
- **Undemanding valuation given its firm footprint and buoyed earnings growth:** PAT offers the listing price of VND120,000/share, translating into a TTM PE of 5.4x and a forward 2022F PE of 5.0x. This seems cheap in comparison with global peer which is trading at a forward PE of 8.0x. In light of a rosy P<sub>4</sub> market, healthy balance sheet, and a promising ROE of 97%, we believe that PAT's valuation could surge, post listing.
- **Related party transactions should be concerned:** Mr Dao Huu Huyen is the chairman of both DGC and PAT. In 2021, PAT paid DGC a VND432bn (34% of total PAT's assets as of end-21) to buy materials. DGC guarantees up to VND489.6bn loan obligation of PAT.

	2018A	2019A	2020A	2021A	2022F
Sales (VND bn)	240	763	1,256	1,595	2,317
chg. (% YoY)	n.a	218%	65%	27%	45%
Operating profit (VND bn)	7	32	107	257	n.a
Net profit (VND bn)	2	10	85	256	600
EPS (VND)	88	398	3,197	9,702	24,000
chg. (% YoY)	n.a	352%	703%	203%	147%
EBITDA (VND bn)	15	71	140	306	n.a
PE (x)	n.a	n.a	n.a	n.a	n.a
EV/EBITDA (x)	16.8	3.7	2.3	1.7	n.a
PB (x)	n.a	n.a	n.a	n.a	n.a
ROE (%)	0.6	3.8	26.5	49.2	96.6
Dividend yield (%)	n.a	n.a	n.a	n.a	n.a

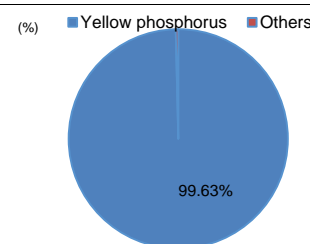
Note: Net profit, EPS and ROE are based on figures attributed to controlling interest, \*trailing 12M  
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### Stock Data

	Vietnam Phosphorus Apatite
Company name	Vietnam Phosphorus Apatite
Ticker	PAT
Scheduled listing day	06/17/2022
Reference price (VND)	120,000
Sector	Materials
Sub-sector	Chemicals
Paid-in capital (VND bn)	250
Listed shares	25,000,000
Outstanding shares	25,000,000
Major shareholders (%)	
DGC VN EQUITY	51.0
Chairman and related	19.55

Source: Fiiipro

### Revenue structure 1Q22



Source: Company data

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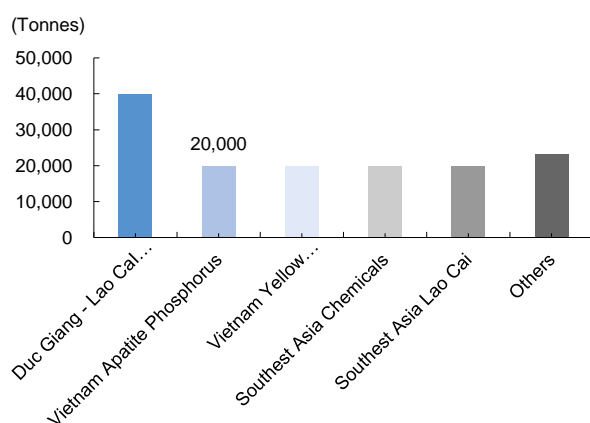
## Business overview and market prospect

- Vietnam Phosphorus Apatite (PAT), established in 2014, mainly operates in the field of mining, producing yellow phosphorus and phosphorus-based products. PAT has a production capacity of yellow phosphorus up to 20,000 tonnes/year. Yellow phosphorus is the main source of revenue for PAT, accounting for more than 98% of total revenue.
- Some of the loyal customers of the company are KS International (Japan) and UPL Ltd (India). PAT has a plan to build a red phosphorus manufacturing factory with a capacity of 5,000 tonnes/year. However, because the current demand for red phosphorus is not high, the company has just stopped at the survey step and has no intention of continuing
- Due to the long investment period from 2015 to 2017, PAT had not yet recorded any revenue in this time. By the end of 3Q18, the production lines came into commercial production and begin to generate income. In 2021, P4 sales volume was 21,782 tonnes (+10.1% yoy).
- The global P4 market size was estimated at 435,000 tonnes in 2020, and was forecasted to have a CAGR of 4.84% during the period of 2021-30 (source: Chemanalyst). In which, Viet Nam's capacity is about 140,000 tonnes/year, meeting around 32% of global demand. With the development of the electronics industry, the domestic P4 producing industry promises long-term growth prospect

## Financial results in 1Q22

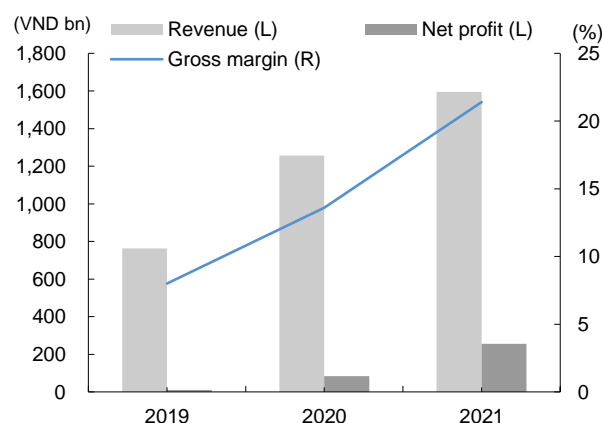
- Thanks to rising yellow phosphorus price and the increasing selling volume, PAT achieved excellent business results in 1Q22 with a revenue of VND997bn (+160% yoy) and an NPAT of VND349bn (+19.5x yoy), completing 43%/58% 2022's guidance. In 1Q22, P4 sale volume reached 5,748 tonnes.
- Gross margin of P4 in 1Q22 was 41%, much higher than the 2021's average of 20%.
- The company sets a target for 2Q22 with a VND804bn (-19% qoq) revenue and a VND250bn (-28% qoq) NPAT.
- As of end-1Q22, net cash and cash equivalent made up 41.1% of total assets.
- In 2022, the company sets a high growth target with revenue of VND2,317bn (+45% yoy) and NPAT of VND600bn (+134% yoy). They also have a plan to pay a 200% cash dividend at par.

**Figure 1. PAT is among the largest yellow phosphorus producers**



Source: Company data, KIS

**Figure 2. PAT's earnings growth by years**



Source: Company data, KIS

**Balance sheet**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021A
Current assets	119	217	393	582
Cash & cash equivalents	1	0	2	289
Accounts & other receivables	39	84	322	157
Inventory	75	132	66	133
Non-current assets	498	496	463	424
Fixed assets	466	470	439	397
Investment assets	24	0	0	0
Others	12	27	27	27
Total assets	618	713	855	1,006
Advances from customers	0	30	11	97
Unearned revenue	0	0	0	0
Trade payables	75	43	127	76
Others	9	18	42	73
ST debt & due bonds	283	362	356	239
LT debt & bonds	0	0	0	0
Total liabilities	367	453	536	485
Controlling interest	250	260	319	521
Capital stock	250	250	250	250
Capital surplus	0	0	0	0
Other reserves	0	0	2	18
Retained earnings	0	10	67	253
Minority interest	0	0	0	0
Shareholders' equity	250	260	319	521

**Cash flow**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021A
C/F from operations	(153)	(39)	35	433
Net profit	2	10	85	256
Dep'n & Amort'n	10	42	43	45
Net incr. in W/C	(165)	(91)	(93)	132
C/F from investing	(170)	(39)	(14)	(243)
Capex	(182)	(39)	(14)	(3)
Incr. in investment	12	0	0	(240)
C/F from financing	301	77	(20)	(143)
Incr. in equity	0	0	0	0
Incr. in debt	201	77	(20)	(118)
Dividends	0	0	0	(24)
C/F from others	0	0	0	0
Increase in cash	(22)	(1)	2	48

**Income statement**

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021A
Sales	240	763	1,256	1,595
COGS	224	702	1,085	1,254
Gross profit	16	61	171	341
SG&A expenses	10	29	64	84
Operating profit	7	32	107	257
Financial income	1	2	10	20
Interest income	25	16	12	9
Financial expenses	6	24	27	17
Interest expenses	4	19	12	5
Other non-operating profit	0	0	(5)	(3)
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0
Earnings before tax	2	10	85	256
Income taxes	0	0	0	0
Net profit	2	10	85	256
Net profit of controlling interest	2	10	85	256
EBITDA	15	71	140	306

**Key financial data**

FY-ending Dec.	2018A	2019A	2020A	2021A
Per-share data (VND, adj.)				
EPS	64	400	3,380	10,256
BPS	10,016	10,412	12,772	20,844
DPS	0	0	0	976
Growth (%)				
Sales growth	N.A	217.3	64.7	26.9
OP growth	N.A	384.8	233.4	141.0
NP growth	N.A	525.0	745.0	203.4
EPS growth	N.A	525.0	745.0	203.4
EBITDA growth	N.A	384.8	233.4	183.0
Profitability (%)				
OP margin	2.7	4.2	8.5	16.1
NP margin	0.7	1.3	6.7	16.1
EBITDA margin	2.7	4.2	8.5	18.9
ROA	0.5	1.5	10.8	27.6
ROE	1.3	3.9	29.2	61.0
Dividend yield	N.A	N.A	N.A	46.9
Dividend payout ratio	N.A	0.0	0.0	28.9
Stability				
Net debt (VND bn)	282	362	354	(51)
Net debt/equity (%)	110.0	140.0	110.0	(10.0)
Valuation (x)				
PE	715.6	114.5	13.6	4.5
PB	4.6	4.4	3.6	2.2
EV/EBITDA	216.2	47.1	14.1	3.6

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