

3 Aug 2022

Fertilizer

Non-rated

Not as black as it is painted

A slight decrease in business results

Based on our estimate, 2Q22 aggregated revenue of 26 listed fertilizer producers rose 46.0% yoy (VND31.9tn), while aggregated NPAT climbed 211.0% yoy (VND5.5tn). However, compared to the first quarter, it could be said that the fertilizer sector had the lag business results with a 1.3%/20.4% qoq decrease in revenue and net profit. It would be difficult to achieve the same export turnover as 1Q22 when the export price is no longer more attractive and the stiff competition from China and Russia.

Gross margin declined

As we expect, the gross margin in 1Q22 peaked, then fell -5.1%p qoq in 2Q22 to hit 26.8%, +9.1%p yoy. As a result, net margin downed from 22.3% in 1Q21 to 17.3% in 2Q22. In 2Q22, SG&A to sales stayed the same level as 1Q22 but downed 1.6%p compared to 2021's average level of 8.4%. In 2Q22, the average urea selling price was VND16,800/kg, nearly the same as 1Q22, while the gas input price grew at 21% qoq. We expect gas input price could fall continuously in 2H22F and help urea producers expand their gross margin in the next quarters.

Potential growth momentum in 2H22F

We expect urea producers could enhance their export volume in 3Q22F when domestic demand is weak, especially in India when the Kharif season happens. Based on that, 3Q22F revenue could move to stay at the same level as 2Q22 but thanks to the decline in gas input price, urea producers such as DPM and DCM completely could expand their gross margin. And then, the fourth quarter will be the peak period of the fertilizer industry when the whole country enters the Winter-Spring crop. Both domestic demand and selling prices are expected to increase. Thus, although it is too difficult to beat 1Q22's results, we believe the fertilizer sector still achieves a satisfactory outcome in both 3Q22F and 4Q22F.

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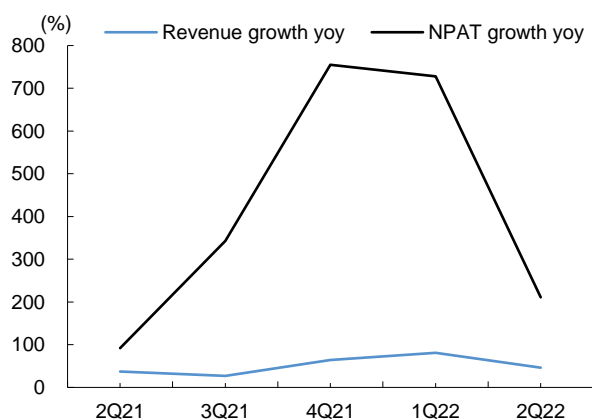
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Table 1. 26 aggregated fertilizer producers' earnings

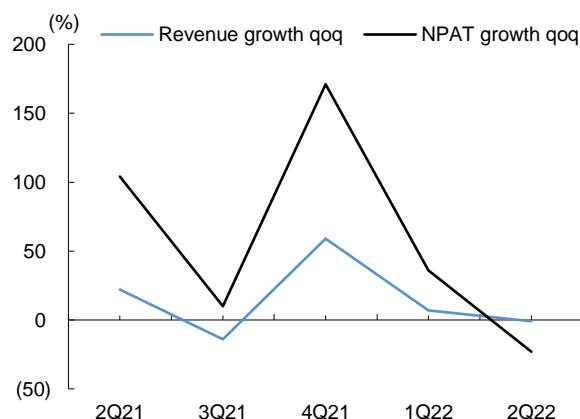
	4Q21	1Q22	2Q22	YoY	QoQ
Revenue (VND bn)	30,038	32,287	31,873	46.0%	(1.3%)
OP (VND bn)	6,052	8,017	6,381	208.3%	(20.4%)
NP (VND bn)	5,304	7,188	5,512	211.0%	(23.0%)

Source: Company data, KIS

Based on our data collected from 26 listed fertilizer companies (aggregated revenue makes up around 100% of the total), the fertilizer sector posted unimpressive business in 2Q22 with a revenue/NPAT decline of 1.3% qoq and 23% qoq. However, compared to the same period last year, it seems that the fertilizer sector still achieved excellent results with 46% yoy revenue growth and 211% yoy NPAT growth. Due to the high export turnover, 1Q22's business results in the fertilizer industry became a record that was hard to be broke. However, by observing the results above, it could be said that the results in 2Q22 were generally not as disappointing as the market expected.

Figure 1. Listed fertilizer producers showed a decline in revenue growth in 2Q22

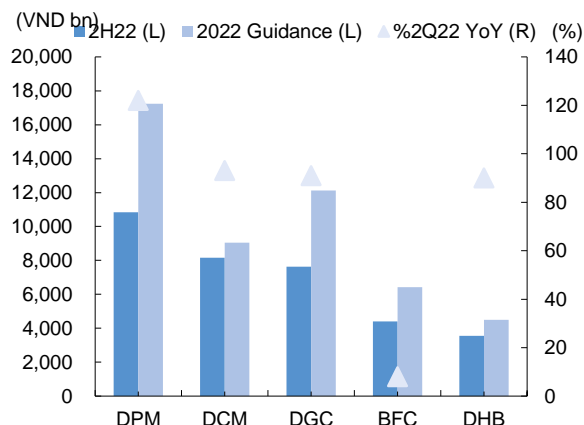
Source: Fiinpro, KIS

Figure 2. Fertilizer revenue growth by quarters

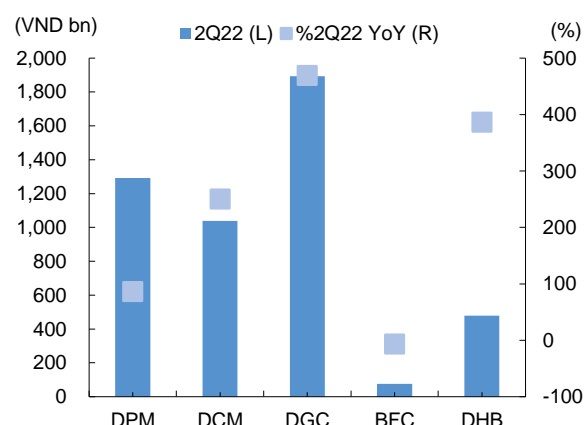
Source: Fiinpro, KIS

Breaking down aggregate revenue growth by a specific company, in 2Q22, DPM maintained its top position with a revenue of VND5,013bn (+122% yoy). The second and third positions are named DCM and DGC with impressive revenue growth rates of 93%/92% yoy. Among the top five fertilizer producers, BFC recorded the most disappointing business result with only 8% yoy revenue growth. In the contrast, DHB posted a brighter revenue growth rate of 90% yoy. Overall, these five companies accounted for around 52% of the whole sector turnovers.

However, in line with the general trend of the whole industry, the revenue of DPM/BFC/DHB downed 14%/30%/18% qoq in 2Q22. While DCM's revenue moved sideway vs 1Q22, DGC still recorded 10% revenue growth. In general, 2H22's revenue fulfilled around 63-90% of their 2022F revenue guidance. although giving prudent planning is a tradition of the fertilizer sector in Vietnam, thanks to the high selling price and positive contribution from export turnovers, completing the business plan well is possible.

Figure 3. Revenue of top fertilizer producers

Source: Company data, KIS

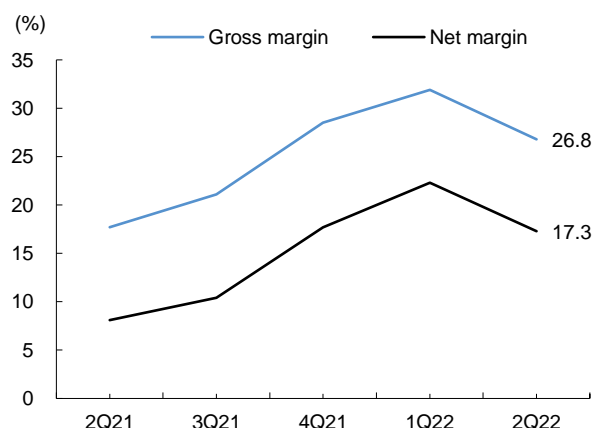
Figure 4. Net profit of top fertilizer producers

Source: Company data, KIS

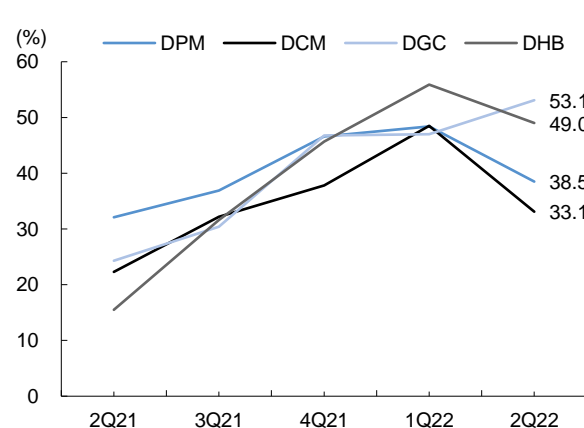
As predicted, the net profit of the majority of fertilizer producers fell in 2Q22. In detail, NPAT of DPM/DCM downed 39%/32% qoq, but upped 86%/250% yoy. However, DGC went against the trend with a 26% qoq and 469% yoy increase in NPAT. Unsurprisingly, DGC's net profit rose to the top in the total sector's NPAT with VND1,894bn.

Gross margin tightening in 2Q22

Sector gross margin dropped to 26.8% in 2Q22 after hitting a peak in 1Q22, resulting in, a net margin falling to 17.3% (-5.0%p qoq). In 2Q22, SG&A to sales stayed the same level as 1Q22 but downed 1.6%p compared to 2021's average level of 8.4%. In detail, except for DGC, the gross margin of top fertilizer producers fell around 6.9-15.4%p qoq in 2Q22. By taking advantage of the autonomy of input apatite ore from Field 25, DGC can expand their gross margin continuously since 4Q21. Surprisingly, DHB emerged as a bright star with the highest gross margin of 49.0% among other "big bosses" such as DPM and DCM.

Figure 5. Sector gross margin

Source: Fiinpro, KIS

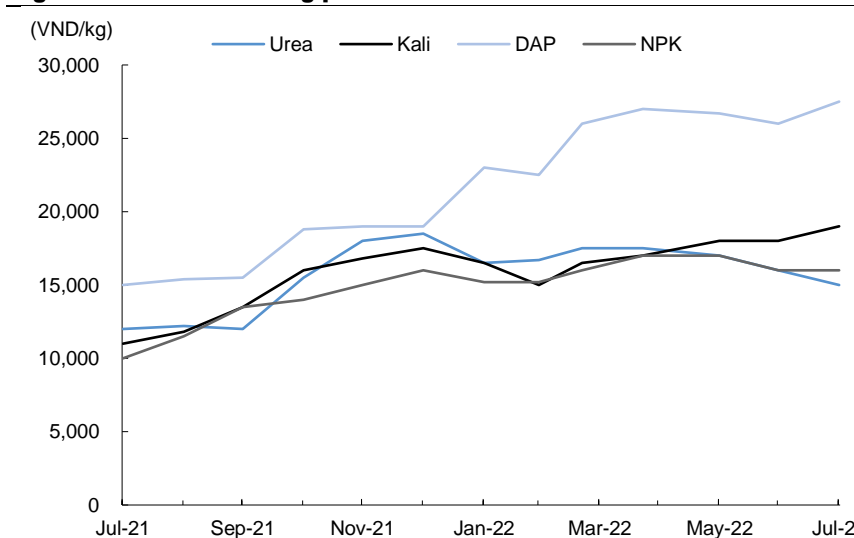
Figure 6. Gross margin of top 5 sector leaders

Source: Company data, KIS

Observing the global market, fertilizer prices tend to go sideways since Jun 2022. In which, urea/DAP in the US market were trading at USD515/850/tonne. Potash was sold at USD535/tonne in Israel and stayed at the same level since Mar 2022. Especially, from Jan 2022 to May 2022, NPK Black Sea remained at

USD600/tonne. But up to Jun, it inched up 3% mom to USD620/tonne and lasted until Jul. In the domestic market, after hiking in Apr 2022, urea/NPK price had fallen steadily and reach VND15,000/16,000/kg in Jul. Vietnam completely imports Kali and heavily depends on the source of high-quality DAP fertilizer from China.

Figure 7. Domestic selling prices



Source: Agromonitor, KIS

Unfortunately, we think the downtrend of domestic urea prices could continue until Oct, then rise again in Nov and Dec when it comes to the Winter-Spring crop. It could be said that the main driving force for the fertilizer sector in 2H22F is domestic demand because export momentum is no longer as strong as in 1Q22 as it is stiff competition from China and Russia. However, export turnover will still make a positive contribution to the revenue structure if urea producers could boost their export volume during an idle period (Sep-Oct).

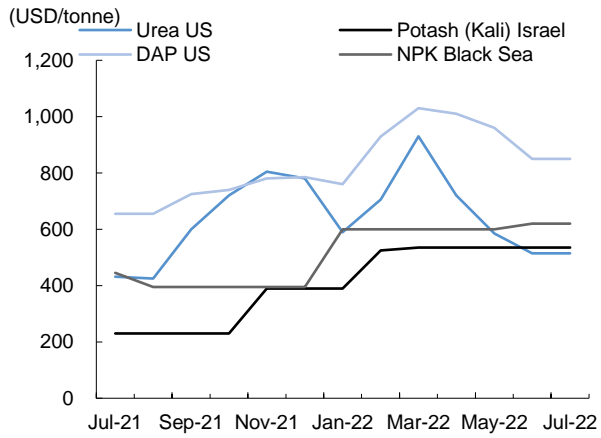
Good news is coming

The global urea export price in Jul 2022 was around USD485-650/tonne, equivalent to VND11.2mn-15mn/tonne, still lower than the domestic selling price. We expect domestic urea prices could bounce back again in Nov 2022 at VND16,500/kg, +7% vs Jul level. However, in Jul, the gas input price decreased by 17% mom to reach USD276/tonne and downed 25% since the peak of USD370/tonne in Apr 2022. Based on that, we expect the gas input price could fall 24%/7% qoq in 3Q22F and 4Q22F.

We expect the revenue in 3Q22F could move sideways as 2Q22 but due to the decrease in gas input price, urea producers could expand their gross margin by 1.2%p-5%p. Normally, the fourth quarter will be the peak period of the fertilizer industry when the whole country enters the Winter-Spring crop. Therefore, although the business results may not be as excellent as in 1Q22, we believe the fertilizer sector still achieves a satisfactory outcome in both 3Q22F and 4Q22F.

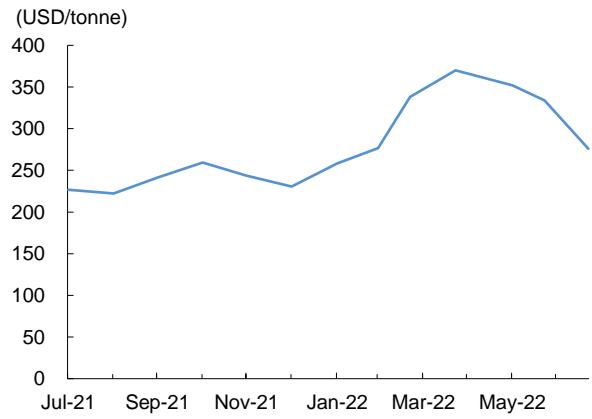
Kharif season is coming in India (Jun-Oct). They plant most of the rice crop in Kharif, so this is the most important season in India. We expect domestic urea producers could enhance their export volume in 2H22F to India. Since the beginning of the year, DPM is very active in bidding for export to India. Although the export price in the next quarter may not be attractive in 1Q22, this could be a good chance for DPM to build a strategic relationship with the buyers and promote the brand image when entering this potential market.

Figure 8. Global fertilizer selling prices



Source: Bloomberg, KIS

Figure 9. Gas input price



Source: PetroVietnam, KIS

Note: The gas price is correlated with Singapore FO price.

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