

Fertilizer

Optimism remains in 1Q22F

Non-rated

A sharp earnings growth in 4Q21

Based on our estimate, 4Q21 aggregated revenue of 17 listed fertilizer producers jumped 86.9% yoy, while 4Q21 aggregated NPATMI soared 1,410.8% yoy. The NPATMI grew sharply and reached an all-time high in 4Q21 after hitting the bottom in 2Q21 due to weak domestic demand caused by lockdown policy. The stronger net profit growth was attributed to gross profit margin expansion.

Gross margin gained on the rise of the selling price

The global fertilizer price has risen from the beginning of 2021, mainly because (1) supply shortage due to COVID-19 pandemic and (2) rising demand for agricultural products for food security. In addition, currently top domestic fertilizer firms use gas as input material in urea production. The growth of gas price has not kept in pace with selling price is one of the reasons for the significant growth in gross margin. Sector gross margin has gone up from the beginning of the year and hit a peak in 4Q21 to reach 30.2%.

Opportunity continues in 1Q22F

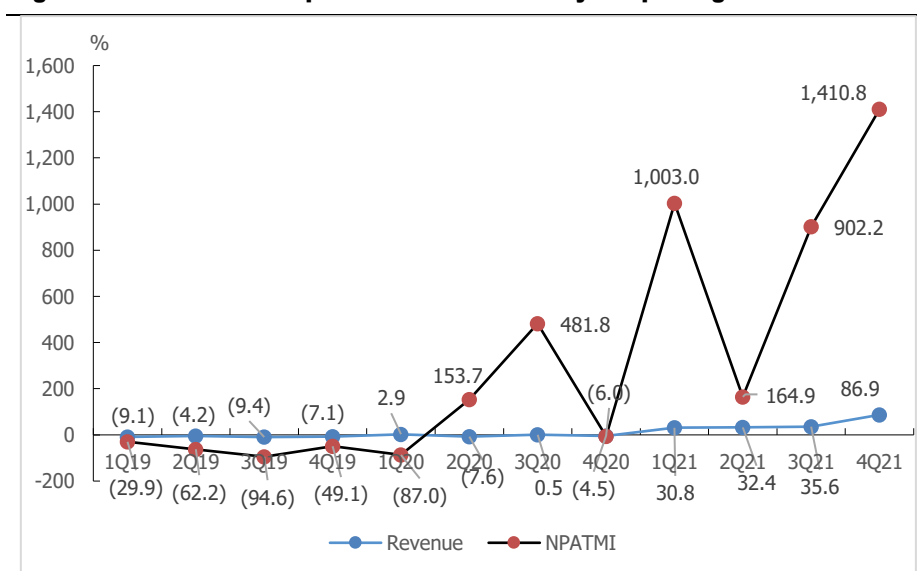
Hit by the deference in fertilizer export from China and Russia which could worsen the global shortage, fertilizer prices reach a new high since 2008. World Bank forecasts that this trend could stay until 1H22F. According to GSO, Viet Nam export volume in 11M21 was 1,195 thousand tonnes (+12% mom and +11% yoy), hinting that more opportunity for domestic firms. Demand for agricultural products remains abundant in 2022F backed by urges to ensure food security after COVID-19 pandemic and to compensate for the crop reduction due to climate changes. Based on that, we believe in the revival of domestic demand for the supportive sector such as fertilizer in 1Q22F. In addition, the fertilizer demand could be intensified in Jan, 2022 thanks to the winter-spring crop.

Table 1. 17 aggregated fertilizer producers' earnings

VND bn	4Q20	3Q21	4Q21	YoY	QoQ
Revenue	12,227	14,564	22,853	87%	57%
OP	495	2,134	5,501	1011%	158%
NP	318	1,809	5,765	1399%	163%
Volume (mn tonnes)	1.8	1.6	1.7	-3%	4%

Source: Company data, Fiiipro

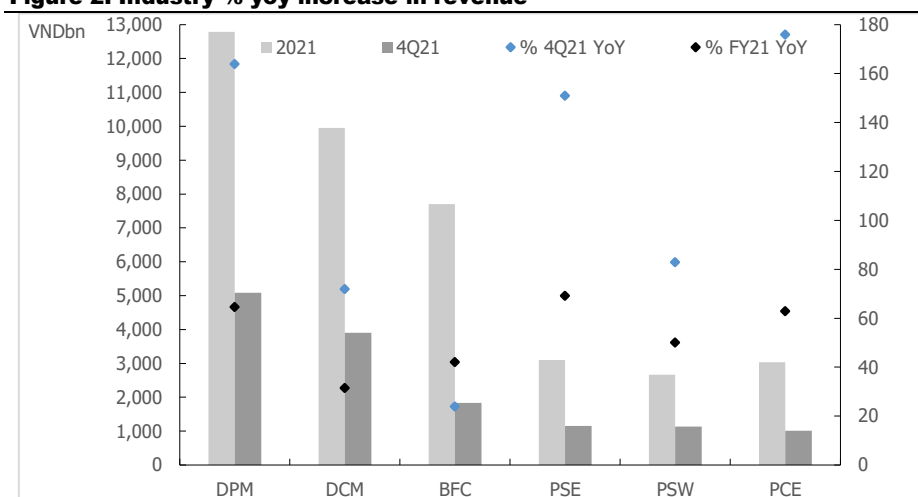
Based on our collection, 4Q21 aggregate earnings momentum of 17 listed fertilizer companies, (aggregated revenue makes up around 100% of total) accelerated. Net profit growth peaked at 1,410.8% yoy in 4Q21 after hitting a bottom in 2Q21. The revenue growth in 4Q21 was 2.3x, higher than 3Q21 of 86.9% yoy. We believe that revenue growth, starting from the beginning of the year was mainly driven by a combination of the selling price increase and export volume growth. The stronger net profit growth was attributed to gross profit margin expansion.

Figure 1. Listed fertilizer producers earned a rosy net profit growth in 4Q21

Source: Company data, Fiiipro

Selling price led the topline industry growth in 4Q21

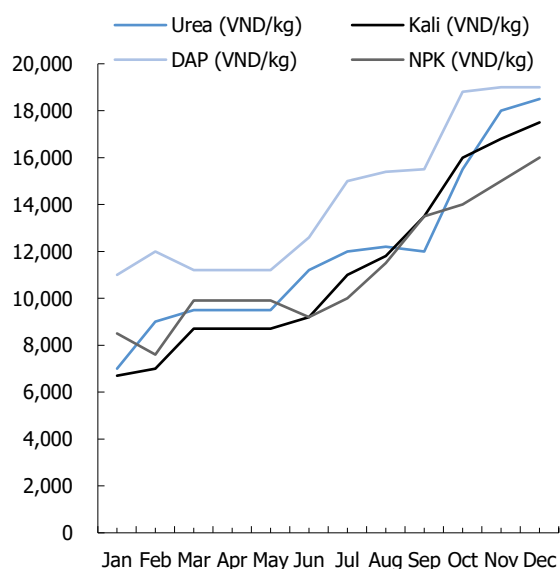
Breaking down aggregate revenue growth by a specific company, DPM maintains its top position with 4Q21 revenue grew by 164% yoy, and nearly 4x qoq. Among the top ten fertilizer producers, PCE had the all-time highest revenue growth with 176% yoy in 4Q21. Some companies with impressive growth include PSE, SFG, PMB with 151%/145%/116% yoy respectively in 4Q21.

Figure 2. Industry % yoy increase in revenue

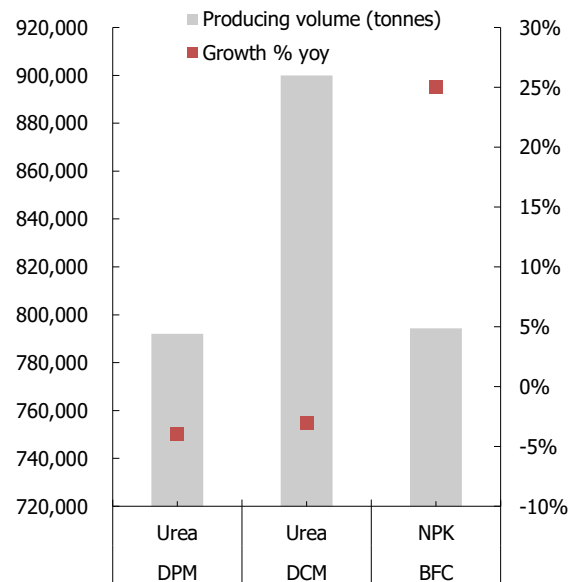
Source: Company data, Fiinpro

The better-than-expected revenue growth in 4Q21 ramped up the company's completion of AGM guidance. They fulfilled around 103-158% of their FY21 revenue targets, much larger than 83-105% witnessed in 2020.

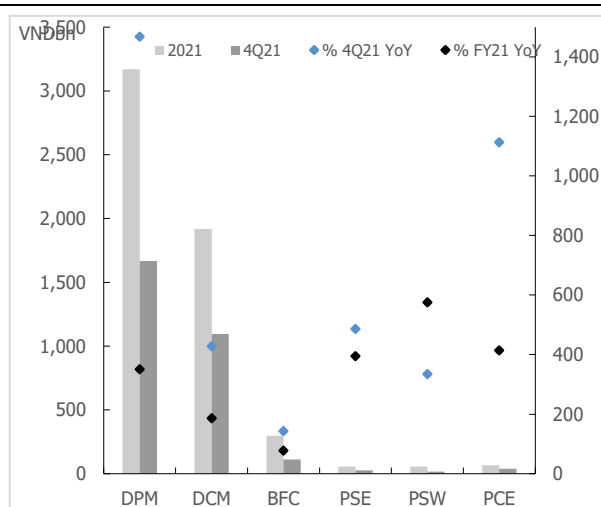
According to GSO, Viet Nam fertilizer production grew 6% yoy to 6.9mn tonnes in 2021. Urea and NPK production recorded 2.4mn and 3.1mn tonnes, rising 1%/7% yoy respectively in 2021. From Sep to Dec 2021, the prices of urea, Kali, DAP and NPK fertilizers rallied by 54%/30%/23%/19% respective. All of them earned the record in Dec and jumping to 164%/161%/73%/88% in 2021.

Figure 3. Industry selling price

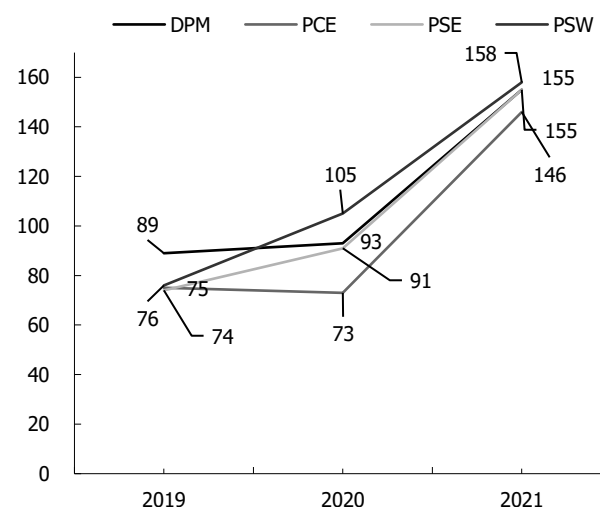
Source: Fertilizer prices are collected from the quoted retail markets, KIS

Figure 4. Production volume by leaders in 2021

Source: Company data, KIS

Figure 5. DPM net profit growth exceeded industry

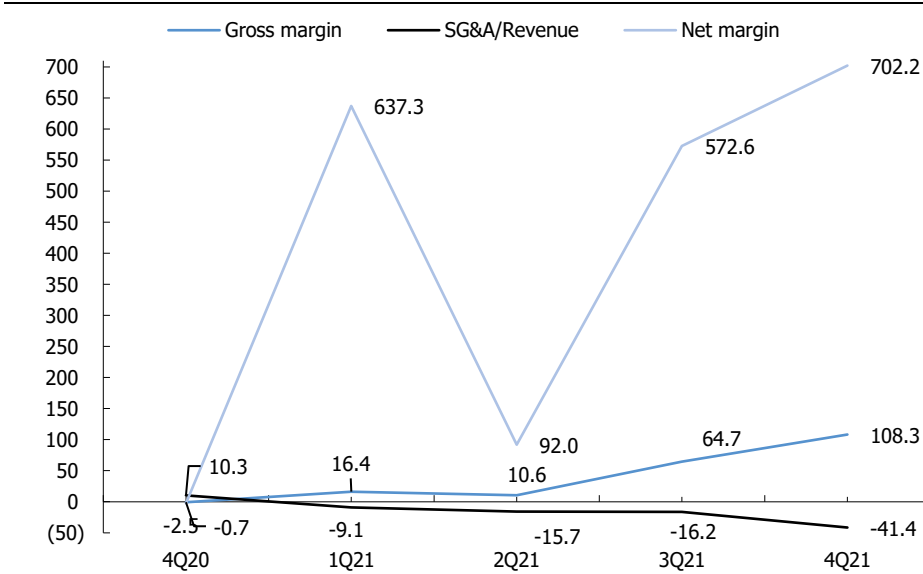
Source: Company data, Fiinpro

Figure 6. Leaders reaped higher % revenue completion

Source: Company data, Fiinpro

Net margin among fertilizer producers in 4Q21

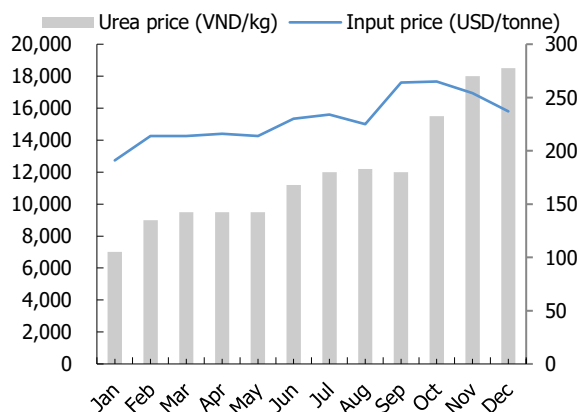
4Q21 was another exciting period since most of the leading players saw their net profit grow by multiples. Among the top ten biggest revenue-generating producers, PCE was the most outstanding player with 348% qoq and 11x yoy net profit growth in 4Q21 due to its immaterial net profit of VND8.6bn recorded in 3Q21. The top three DPM, DCM and BFC dominating the market absolute 4Q21 net profit of VND2,877bn, accounting for 60.4% of total market net profit. DPM reaped a remarkable net profit growth of 15x yoy and 165% qoq in 4Q21. The fast-growing net profit in 4Q21 ramped up the company's completion of AGM target. On average 4Q21 revenue fulfilled nearly 40% of their full year 2021 guidance. Breaking down to details, net margin growth was contributed by a combination of a 108%p yoy gross margin increase and a 41%p yoy SG&A/sales decrease.

Figure 7. %p yoy increase in the net margin by quarter

Source: Company data, Fiinpro

Leaders in the urea market are Viet Nam Chemicals Group (Vinachem) and Petro Viet Nam (PVN). Currently, PVN accounted for nearly 70% domestic urea market in 2021 (GSO). As we estimated, the gas input accounts for about 67% urea input cost. The gas price is adjusted based on Singapore mazut oil price. The growth of gas price has not kept in pace with selling price is one of the reasons for the significant growth in gross margin. Sector gross margin has gone up from the beginning of the year and hit a peak in 4Q21 to reach 30.2%.

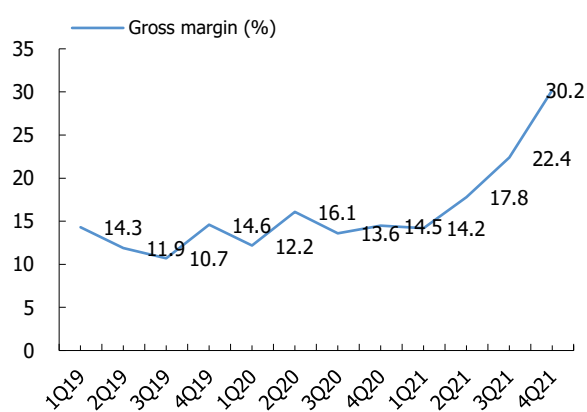
Figure 8. Urea selling price and gas input price



Source: PetroVietnam, KIS

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

Figure 9. Sector gross margin



Source: Company data, Fiinpro

The gain in gross margin mainly relied on (1) the rocket increases in selling price and (2) stable input material price. As we estimated, on average urea's selling price in 4Q21 rose up to 54% qoq and 164% yoy. In contrast, in 4Q21 the gas input price decreases 10% qoq and up to 24% yoy, after hitting the highest level in Sep.

Stay optimistic on 1Q22F

The market is expecting domestic selling price could sustain the current high level in 1Q22F due to the global temporarily shortage of supply. Moreover, in the context of China's sudden act to suspend their export, we expect Viet Nam could reap the benefit from boosting fertilizer export volume to Asia and Africa markets in 1Q22F. Demand for agricultural products remains abundant in 2022F to ensure food security after COVID-19 pandemic and to compensate for the crop reduction due to climate changes. Based on that, we believe in the revival of domestic demand for the supportive sector such as fertilizer in 1Q22F. In addition, the fertilizer demand could stay healthy in Jan, 2022 since the farmers are ready the winter-spring crop.

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