

9 Aug 2022

Ca Mau Fertilizer (DCM)

Non-rated

Every cloud has a silver lining

2Q22 business results: Not too bad

DCM posted 2Q22 business results with a VND4,084bn (+118% yoy and +0.2% qoq) revenue and a VND1,039bn (+250% yoy and -32% qoq) NPAT. In which, urea export revenue accounted for about 39% of total urea sales, lower than the rate of 58% in 1Q22. Especially, sales from trading products increased from VND134bn in 1Q22 to VND796bn in 2Q22 and so it contributed positively to 2Q22's results. As we estimated, urea sales volume in 2Q22 was about 175,000 tonnes, - 20% qoq.

Gross margin shied away

In 2Q22, gross margin upped 11%p yoy but downed 16%p qoq to 33%. As a result, the net margin fell dramatically from a peak of 37% in 1Q22 to 25% in 2Q22. On average, the gas price in 2Q22 was USD351/tonne, +45% qoq. However, there is good news that gas price in Jul is around USD277/tonne, falling 17% vs Jun level. Moreover, SG&A to sales decreased from 10% in 1Q22 to 7% in 2Q22, which was the lowest level since 2Q21. We believe this is the company's remarkable effort in controlling expenses and leveraging net profit.

Valuation

DCM is trading at 4.0x TTM PE, far below the 2-yrs average of 12.7x, and 1.6x PB, nearly the same as the 2-yrs average of 1.7x. We forecast that DCM's revenue in 3Q22F could decrease 3% - 9% qoq due to the fall in urea selling price, but bounce back in 4Q22F (with nearly the same results as 2Q22). Moreover, the downtrend in gas input price could help DCM loosen their gross margin in 2H22F. Based on that, we think this valuation is fair with the company's performance in 1H22 and what they can do in 2H22F.

Stock Data

VNIndex (Aug 08, pt)	1,257
Stock price (Aug 08, VND)	33,550
Market cap (USD mn)	751
Shares outstanding (mn)	529
52-Week high/low (VND)	45,725/20,763
6M avg. daily turnover (USD mn)	10.49
Free float / Foreign ownership (%)	24.4/8.9
Major shareholders (%)	
Petro Vietnam	75.56

Performance

	1M	6M	12M
Absolute (%)	17.1	23.0	55.9
Relative to VNIndex (%p)	9.7	38.6	61.8

Stock price trend



Source: Bloomberg

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	5,748	710	641	1,075	(19.6)	2,019	8.9	3.9	0.8	9.5	10.4
2018A	6,689	781	659	1,113	3.5	2,084	7.5	2.6	0.7	9.5	10.7
2019A	7,043	394	428	578	(48.1)	1,713	10.2	1.6	0.5	5.1	15.2
2020A	7,561	644	662	1,018	76.1	1,962	13.2	2.8	1.1	8.7	4.5
2021A	9,870	1,920	1,921	2,334	129.2	3,306	12.4	4.7	2.2	19.8	6.9

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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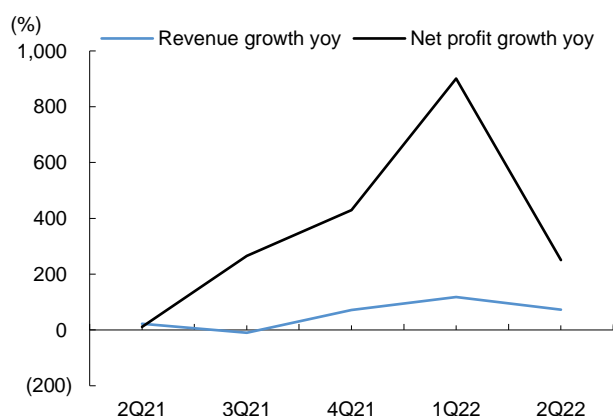
Put in a lot of effort to get good results

In 2Q22, DCM recorded a VND4,084bn (+118% yoy and +0.2% qoq) revenue and a VND1,039bn (+250% yoy and -32% qoq) NPAT. In which, urea export revenue accounted for about 39% of total urea sales, lower than the rate of 58% in 1Q22. It was a very surprising result when the market expected lower sales along with the downtrend of the fertilizer sector. As we estimated, urea sales volume in 2Q22 was about 175,000 tonnes, - 20% qoq. Due to the high export turnover, 1Q22's business results for the fertilizer industry became a record hard to break. However, DCM's revenue in 2Q22 went sideways compared to the previous quarter thanks to a significant contribution from trading revenue. Sales from trading products increased from VND134bn in 1Q22 to VND796bn in 2Q22.

Gross margin shied away

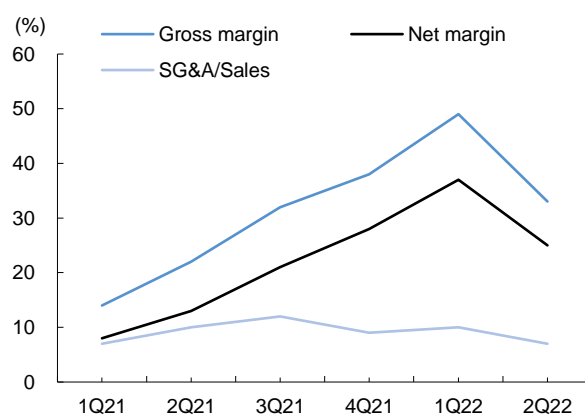
In 2Q22, DCM's gross margin upped 11%p yoy but downed 16%p qoq to 33%. As a result, the net margin fell dramatically from a peak of 37% in 1Q22 to 25% in 2Q22. This was a predictable result given the sharp increase in gas input price in the second quarter. On average, gas price in 2Q22 was USD351/tonne, +45% qoq. SG&A to sales decreased from 10% in 1Q22 to 7% in 2Q22, which was the lowest level since 2Q21. The good news is that gas price in Jul was around USD277/tonne, falling 17% vs the Jun level. We forecast that DCM could expand their gross margin by 2%p – 5%p in 2H22F if the downtrend of gas prices could continue.

Figure 1. Revenue and Net profit growth rate yoy



Source: Company data, KIS

Figure 2. Gross margin and Net margin qoq



Source: Company data, KIS

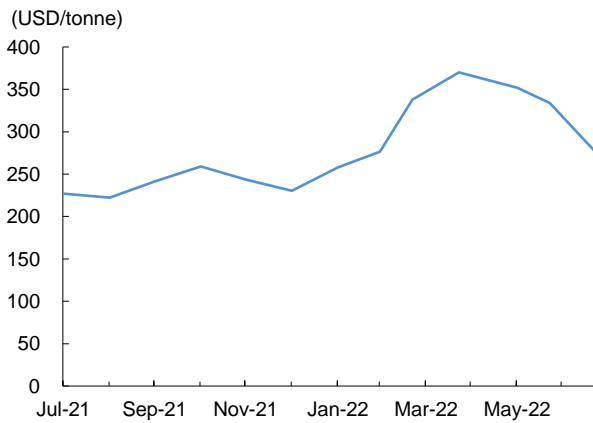
Wise sales strategy

As we estimated, in 2Q22 revenue from in-house products (urea and NPK fertilizers) downed 19% compared to 1Q22. However, at the same time, sales from trading products increased 474% qoq. This showed that the company tends to increase the proportion of trading goods in the revenue structure regardless of gross margin was not so attractive compared to in-house products (17% vs 39%), especially when the global fertilizer prices were lower than domestic prices (USD547/tonne vs USD600/tonne).

At the last AGM, the company showed interest in cooperating with a large granular urea producer in Brunei, in which DCM will become a strategic

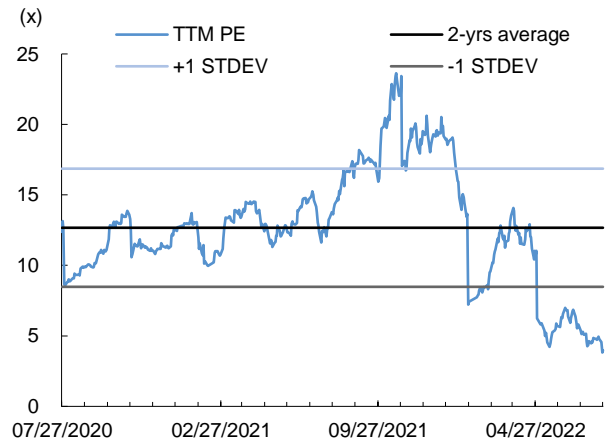
distributor of this company. Although the quality of products is the same, exported urea used to have lower prices due to the low production costs. Therefore, instead of going head-to-head with these large suppliers, becoming a strategic partner seems like a very wise move.

Figure 3. Gas input price



Source: MolT, KIS

Figure 4. DCM PE



Source: Fiinpro, KIS

■ Company overview

PetroVietnam Ca Mau Fertilizer (DCM: HXS) was established in 2011. The company's products include cloudy urea, mainly distributed in the Southwest, the South, and the Mekong Delta. The company's products are also exported to Asian markets, especially Cambodia. The company directly owns a urea factory with a design capacity of 800,000 tonnes/year. DCM has been listed and traded on the Ho Chi Minh City Stock Exchange (HOSE) since Mar 2015.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Current assets	4,839	4,318	4,250	3,978	7,276
Cash & cash equivalents	3,996	2,788	2,473	2,812	4,790
Accounts & other receivables	401	453	402	217	188
Inventory	371	983	1,301	834	2,204
Non-current assets	7,618	6,712	5,923	4,739	3,796
Fixed assets	7,502	6,336	5,188	3,955	3,406
Investment assets	104	346	699	761	66
Others	83	124	110	138	419
Total assets	12,456	11,031	10,173	8,718	11,072
Advances from customers	84	139	45	118	286
Unearned revenue	0	0	0	0	0
Trade payables	438	760	879	709	795
Others	1,045	1,159	1,357	742	1,821
ST debt & due bonds	1,062	1,196	1,156	685	689
LT debt & bonds	3,674	1,508	629	137	3
Total liabilities	6,303	4,762	4,066	2,391	3,594
Controlling interest	6,128	6,240	6,079	6,300	7,451
Capital stock	5,294	5,294	5,294	5,294	5,294
Capital surplus	0	0	0	0	0
Other reserves	239	320	356	423	970
Retained earnings	594	626	429	584	1,188
Minority interest	26	29	27	26	27
Shareholders' equity	6,154	6,269	6,106	6,326	7,478

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
C/F from operations	2,266	1,529	1,371	1,781	2,569
Net profit	641	659	428	662	1,921
Dep'n & Amort'n	1,309	1,303	1,319	1,318	1,386
Net incr. in W/C	316	(433)	(376)	(199)	(738)
C/F from investing	234	(581)	210	(462)	(2,102)
Capex	(120)	(342)	(415)	(273)	(157)
Incr. in investment	354	(239)	625	(189)	(1,945)
C/F from financing	(1,418)	(2,558)	(1,395)	(1,280)	(549)
Incr. in equity	0	0	0	0	0
Incr. in debt	(1,150)	(2,082)	(917)	(961)	(124)
Dividends	(268)	(477)	(478)	(320)	(425)
C/F from others	0	0	0	0	0
Increase in cash	1,083	(1,610)	186	39	(82)

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Sales	5,748	6,689	7,043	7,561	9,870
COGS	4,366	5,252	6,084	6,244	7,016
Gross profit	1,381	1,437	959	1,317	2,854
SG&A expenses	671	656	565	673	934
Operating profit	710	781	394	644	1,920
Financial income	169	176	127	128	168
Interest income	157	159	118	112	131
Financial expenses	203	260	103	63	34
Interest expenses	183	142	87	43	8
Other non-operating profit	3	9	45	8	2
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	679	706	463	717	2,056
Income taxes	38	47	35	55	135
Net profit	641	659	428	662	1,921
Net profit of controlling interest	638	656	426	661	1,918
EBITDA	2,019	2,084	1,713	1,962	3,306

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020A	2021F
Per-share data (VND, adj.)					
EPS	1,075	1,113	578	1,018	2,334
BPS	11,624	11,842	11,534	11,950	14,126
DPS	506	900	903	604	803
Growth (%)					
Sales growth	17.1	16.4	5.3	7.4	30.5
OP growth	(9.4)	10.0	(49.6)	63.5	198.2
NP growth	2.9	2.8	(35.1)	55.2	190.1
EPS growth	(19.6)	3.5	(48.1)	76.1	129.1
EBITDA growth	(9.4)	3.2	(17.8)	14.5	51.8
Profitability (%)					
OP margin	12.4	11.7	5.6	8.5	19.5
NP margin	11.2	9.9	6.1	8.8	19.5
EBITDA margin	12.4	11.7	5.6	8.5	33.5
ROA	5.0	5.6	4.0	7.0	19.4
ROE	9.5	9.5	5.1	8.7	19.8
Dividend yield	10.4	10.7	15.2	4.5	6.9
Dividend payout ratio	43.2	95.6	91.7	78.2	64.3
Stability					
Net debt (VND bn)	740	(84)	(688)	(1,990)	(4,098)
Net debt/equity (%)	10.0	0.0	(10.0)	(30.0)	(50.0)
Valuation (x)					
PE	8.9	7.5	10.2	13.2	12.4
PB	0.8	0.7	0.5	1.1	2.2
EV/EBITDA	3.9	2.6	1.6	2.8	4.7

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