

3 Nov 2022

Fertilizer

Non-rated

One last chance

Selling price boosted stellar revenue yoy growth in 3Q22

Based on our estimate, the fertilizer sector announced a VND28,491bn revenue (+47.1% yoy), and a VND4,188bn NPAT (+123.4% yoy) in 3Q22, mainly driven by the strong increase in selling prices. In detail, urea/NPK selling price upped by 47%/65% yoy. DPM and DCM topped the market in the light of their dominant position (about 65% urea market shares) with revenue growth of 37.6%/82.5% yoy, respectively. DGC was among the outstanding players with revenue growth of 75.5% yoy in 3Q22. Nonetheless, with the fall in domestic selling and petite contribution from the export turnover, 3Q22 revenue/NPAT of the whole sector still lagged behind vs 2Q22 by 11.2%/24.7% qoq in 3Q22.

Impressive blended gross margin but still fell behind vs 2Q22

3Q22 blended gross margin (GM) expanded to 24% (+3.2%p yoy) and net margin (NM) widened to 14.7% (+5.0%p yoy), while SG&A/sales shrank by 1.1%p yoy to 7.4%. However, DCM had a trend that went against the industry with a 1.7%p yoy fall in GM. On the other hand, the GM in 3Q22 dwindled by 2.7%p qoq regardless of the gas material downswing. We measured gas price in 3Q22 dropped by 26% qoq, but it could not comfort the GM. Currently, we are seeking more information to assess the correlation between gas input price and COGS. Consequentially, the net margin of the whole sector declined 2.6%p qoq in 3Q22.

Everything will be alright

Normally, the fourth quarter will be the peak period of the fertilizer industry. In Oct, urea's selling price was around VND15,000-15,800/kg. We think it could steadily increase until reaching a peak of VND16,500-17,000 in Nov-Dec 2022 during the Winter-Spring crop. This is a favorable factor for giant urea producers such as DPM and DCM. In Oct the gas input price was USD226/tonne, -4% mom. We expect the average gas input price in 4Q22F could be USD227/tonne, -13% vs the 3Q22 level. Even so, we do not have enough data to appraise whether it could ramp 4Q22F's GM up.

Moreover, the uptrend of yellow phosphorus would be pleasant for DGC. In Oct, the P₄ selling price was about VND137mn/tonne, +3% mom and far higher than the average price in 3Q22 (VND122mn/tonne). We think this price level could be maintained through 4Q22F mainly due to the demand for semiconductor and electronic batteries still existing. Based on that, we think 4Q22F would be the period to look forward to despite unremarkable business results in 3Q22.

Ngan Le

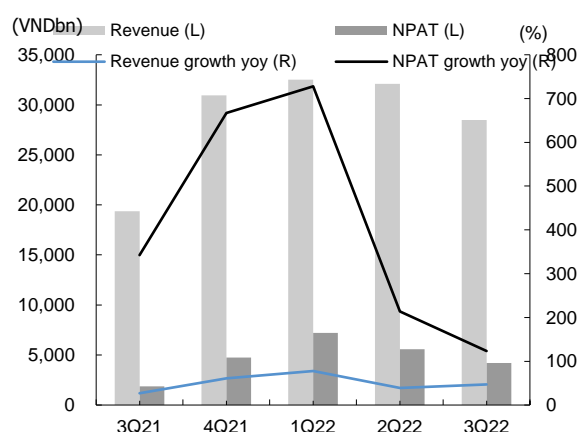
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Table 1. 30 aggregated fertilizer producers' earnings

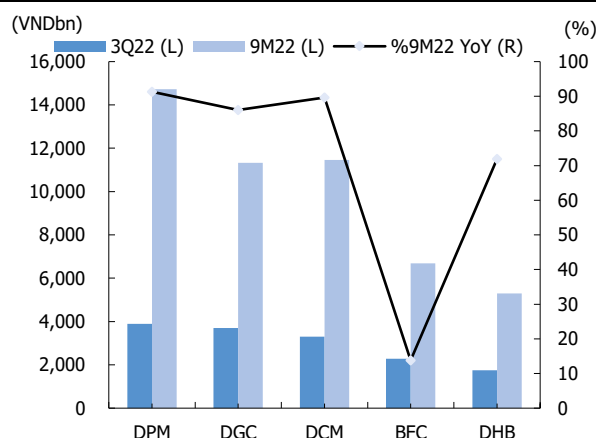
	3Q21	2Q22	3Q22	YoY	QoQ
Revenue (VND bn)	19,362	32,082	28,491	47.1	(11.2)
OP (VND bn)	2,365	6,377	4,715	99.4	(26.1)
NP (VND bn)	1,875	5,562	4,188	123.4	(24.7)

Source: Company data, KIS

In 3Q22, 30 listed fertilizer listed companies posted a VND28,491bn revenue (+47.1% yoy), and VND4,188bn NPAT (+123.4% yoy). 3Q22 blended gross margin (GM) expanded to 24% (+3.2%p yoy) and net margin (NM) widened to 14.7% (+5.0%p yoy), while SG&A/sales shrank by 1.1%p yoy to 7.4%. In contrast, with the fall in domestic selling and petite contribution from the export turnover, fertilizer producers' results in 3Q22 lagged against 2Q22. Revenue/NPAT of the whole sector sank by 11.2%/24.7% qoq in 3Q22.

Figure 1. Fertilizer sector showed a decline in net profit growth in 3Q22

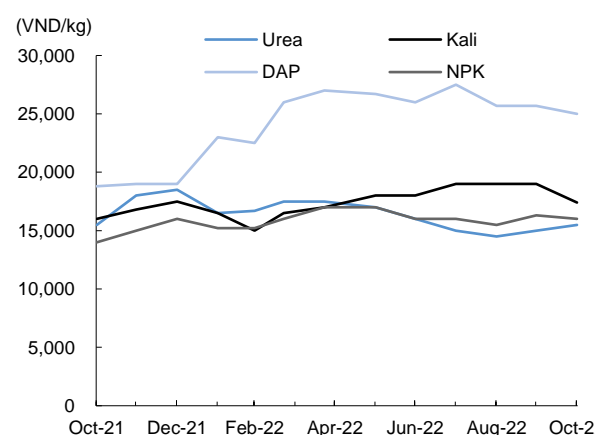
Source: Fiinpro, KIS

Figure 2. DPM, DCM and DGC revenue still led the industry

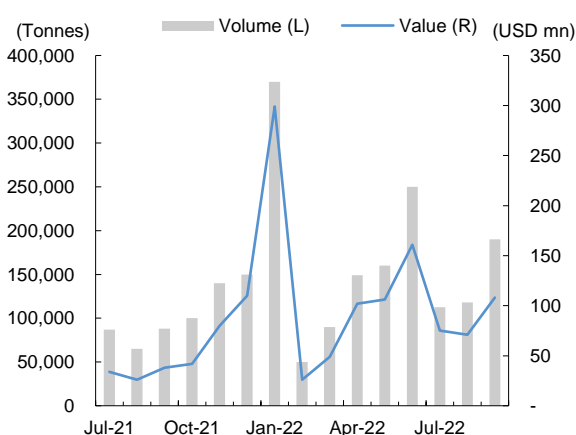
Source: Fiinpro, KIS

No change in the first three positions

In 3Q22, DPM and DCM topped the market in the light of their dominant position (about 65% urea market shares) with revenue growth of 37.6%/82.5% yoy, respectively. DGC was among the outstanding players with revenue growth of 75.5% yoy in 3Q22. In 9M22, the companies fulfilled around 85%-118% of their 2022F revenue targets. Overall, the top five companies (DPM, DCM, DGC, BFC, and DHB) accounted for around 52% of the whole sector turnovers.

Figure 3. Domestic selling prices

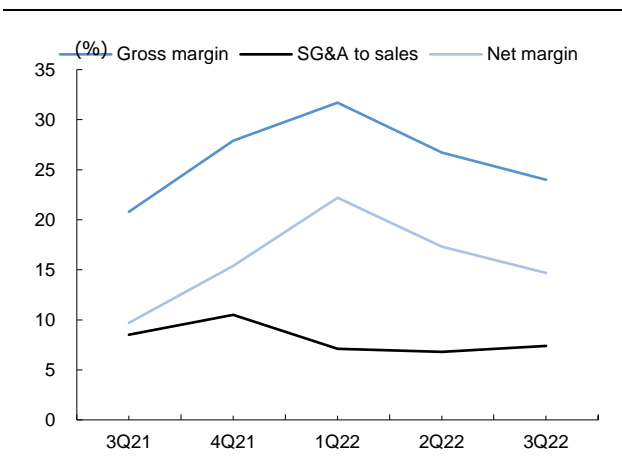
Source: Agromonitor, KIS

Figure 4. Vietnam fertilizer exports by months

Source: Company data, KIS

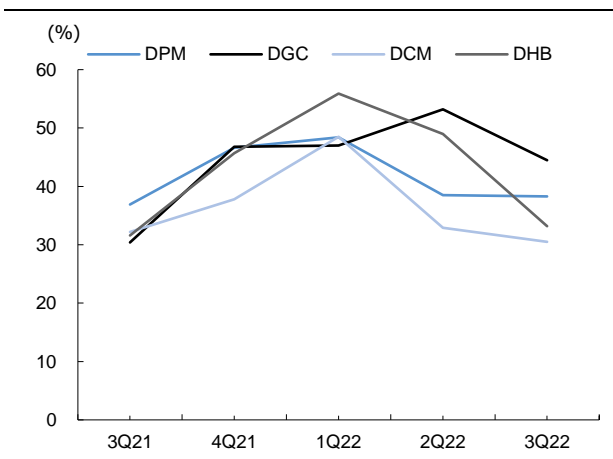
However, by observing the results above, it could be said that the results in 3Q22 were generally disappointing vs 2Q22 due to the lacking of export turnover and the dip in selling prices. As detailed in our monthly sector brief, Vietnam fertilizer export in 3Q22 soared 75% yoy but ebbed by 25% qoq to nearly 421,000 tonnes. At the same time, urea/NPK selling price upped 47%/65% yoy but downed 12%/4% qoq. For instance, as we estimated, in 3Q22 DPM's turnover from exports was only VND19bn, while those in 2Q22 were VND957bn. In the case of DGC, the cause of the drop-in revenue would be the fall in selling price. In 3Q22, we estimated yellow phosphorus (P4) selling price could be VND122mn/tonne (-13% qoq), while the output could stay at the same level (around 14,000 – 15,000 tonnes).

Figure 5. Sector gross margin



Source: Fiinpro, KIS

Figure 6. Gross margin of top 4 sector leaders

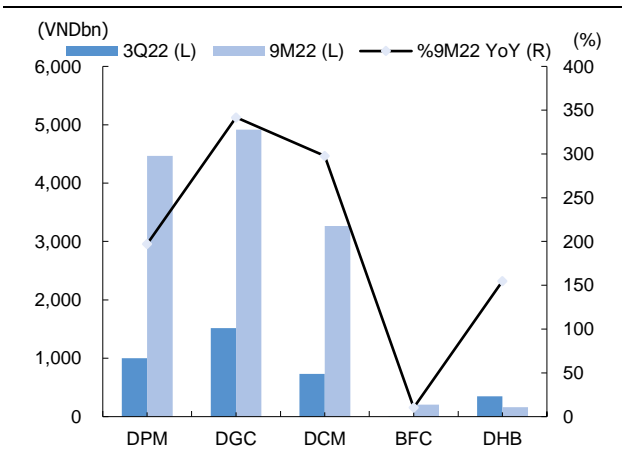


Source: Company data, KIS

Gross margin loosened in 3Q22

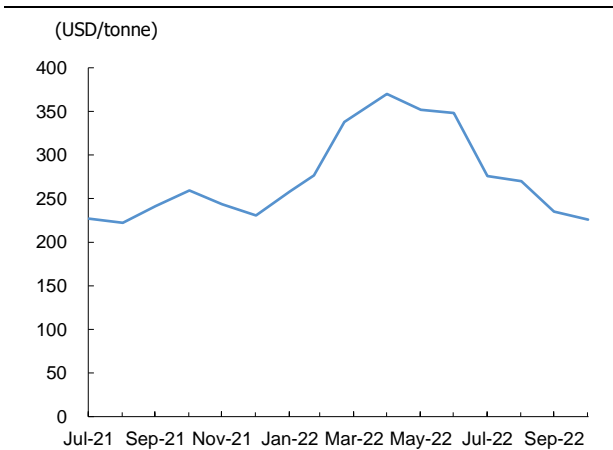
Sector GM broaden to 24.0% in 3Q22 (+3.2%p yoy), while the SG&A to sales dived to 7.4% (-1.1%p yoy), resulting in an NM climbed to 14.7% (+5.0%p yoy). In detail, DGC's blended GM expanded by 14.1%p yoy to 44.5%, while those of DPM and DHB inched up to 38.3%/33.2% (+1.4%p/+1.6%p yoy) in 3Q22. However, DCM had a trend that went against the industry with a 1.7%p yoy fall in GM. On the other hand, the GM in 3Q22 dwindled by 2.7%p qoq regardless of the gas material downswing. We measured gas price in 3Q22 dropped by 26% qoq, but it could not comfort the GM. Currently, we are seeking more information to assess the correlation between gas input price and COGS. Consequentially, the net margin of the whole sector declined 2.6%p qoq in 3Q22. Predictably, the blended GM of these leaders in 3Q22 plunged by 0.2%p – 15.8%p qoq.

Figure 8. Net profit of top fertilizer producers



Source: Fiinpro, KIS

Figure 9. Gas input price



Source: PetroVietnam, KIS

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

Despite the slower growth rate in 3Q22, the fertilizer sector still achieved a decent improvement with a 123.4% yoy increase in NPAT in 3Q22. In which, the top three (DPM, DGC, DCM) announced 58.9%/210%/95.5% yoy gain in NPAT. In contrast, the whole sector net profit in 3Q22 started to abate compared to 2Q22 with a slacken of 24.7% qoq. Unsurprisingly, the NM of the whole sector declined 2.6%p qoq in 3Q22.

Put all hope in 4Q22F

We expect the fertilizer sector could leverage its sales volume in 4Q22F thanks to the domestic demand increase for the Winter-Spring crop. In Oct, urea's selling price was around VND15,000-15,800/kg. We think it could steadily increase until reaching a peak of VND16,500-17,000 in Nov-Dec 2022. This is a favorable factor for giant urea producers such as DPM and DCM. We forecast both of them could expand their revenue to around 10%-20% qoq in 4Q22F. In Oct the gas input price was USD226/tonne, -4% mom. We expect the average gas input price in 4Q22F could be USD227/tonne, -13% vs the 3Q22 level. Even so, we do not have enough data to appraise whether it could ramp 4Q22F's GM up.

In Oct, the P₄ selling price was about VND137mn/tonne, +3% mom and far higher than the average price in 3Q22. We think this price level could be maintained through 4Q22F thanks to the demand for semiconductor and electronic batteries still existing. We expect DGC could widen its sales by 10%-18% qoq in 4Q22F. Based on that, we think 4Q22F would be the period to look forward to despite unimpressive business results in 3Q22.

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