

5 May 2023

# Fertilizer

## Hardship drags on

### 1Q23: Inferior business results

Listed fertilizer companies released the 1Q23 financial statements with “disappointed but not surprised” results. The fertilizer announced a VND21,375bn revenue (-17.9% qoq, -29.5% yoy) and VND1,375bn NPAT (-64.6% qoq, -80.8% yoy). In particular, the top five companies (DPM, DCM, DGC, BFC, and DHB) accounted for 52% of the industry’s revenue while DPM took the lead with VND3,264.7bn (-16% qoq, -44% yoy). Most of them witnessed negative revenue growth which mainly caused by 1) The fertilizer prices fell due to the weaker demand in the off – peak season and the revival in fertilizer supply from China and Russia. 2) 1Q23 fertilizer export volume was down by -21% yoy to 405,000 tons.

### Gross margin and net margin narrowed in 1Q23

With a difficult year, 1Q23 blended gross margin (GM) was significantly down by -17.8%p yoy to 15.4% (-10.3%p qoq). The net margin (NM) shrank to 6.4% (-8.5%p qoq, -17.2%p yoy) because 1) Gross margin was down as mentioned earlier 2) SG&A/sales was up 1.7%p to 8.7%. In line with the trend, the top five (DPM, DCM, DGC, BFC, and DHB) also recorded a strong decline in gross margin due to a high base in 1Q22 and many unfavorable factors in 2023 as mentioned previously.

### 2Q23F with full of challenges

1Q23 witnessed the decline in output prices and export volume of the industry. Even though the off – peak season underwent, we think the fertilizer prices will not recover in the short term but at least it will not a sharp drop like 1Q23. Furthermore, the decline in export volume also negatively affected revenue growth due to competitive pressure from the comeback of China and Russia in the global fertilizer battlefield. The competitive pressure in the domestic market could intensify.

### Neutral on 2Q23F outlook

We maintain our **Neutral** rating on Vietnam’s fertilizer industry due to a lack of remarkable growth in both selling prices and sales volume seen in 1H22. The 2Q23 prospects could be enlightened thanks the new drop season facilitating the selling price hike but not enough to come back to the 4Q22. Some leaders could make full use of these opportunities to maximize their profit power, in our view. Furthermore, their healthy balance sheet with abundant cash could produce some fruitful financial interest income and dividend yield.

## Neutral (Maintain)

Company	Rating	TP (VND)
DCM PetroViet Nam Ca Mau	HOLD	
DPM Petrovietnam Fertilizer	HOLD	

**Research Dept**

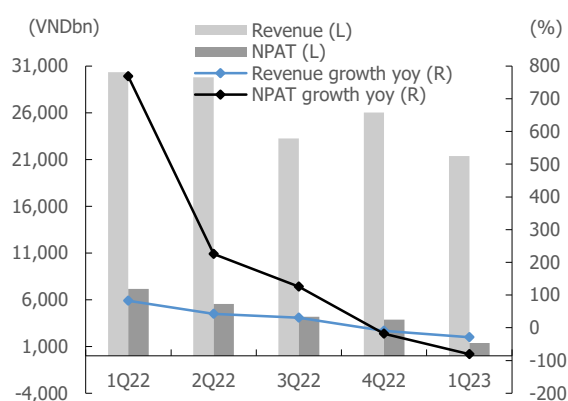
researchdept@kisvn.vn

**Table 1. 26 aggregated fertilizer producers' earnings**

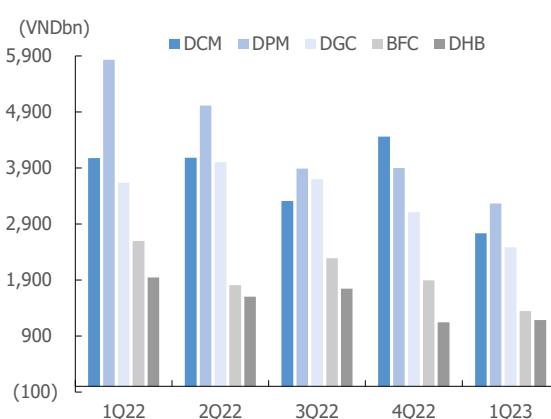
	1Q22	4Q22	1Q23	YoY (%)	QoQ (%)
Revenue (VND bn)	30,324	26,023	21,375	(29.5)	(17.9)
GP (VND bn)	10,069	6,691	3,290	(67.3)	(50.8)
NP (VND bn)	7,165	3,883	1,375	(80.8)	(64.6)

Source: Company data, KIS

In 1Q23, 26 listed fertilizer companies posted a VND21,375bn revenue (-17.9% qoq, -29.5% yoy) and VND3,290bn gross profit (-50.8% qoq, -67.3% yoy). NPAT also witnessed a decline with VND1,375bn (-64.6% qoq, -80.8% yoy) on the high base 1Q22. This decline was estimated by us in the previous [earnings sector note](#) due to the off-peak season and many unfavorable factors in 2023F that we mentioned above.

**Figure 1. Net profit of the fertilizer industry dropped significantly**

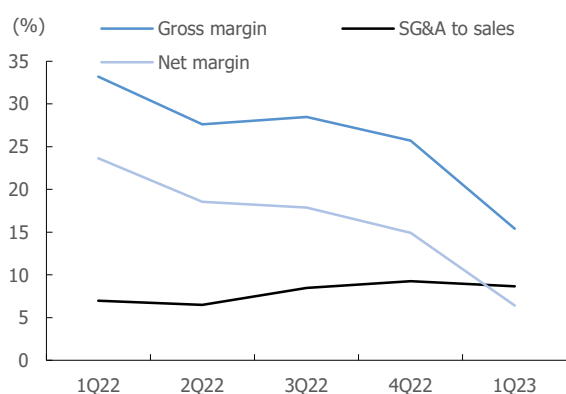
Source: Fiinpro, KIS

**Figure 2. DPM took the lead in revenue in the adverse period.**

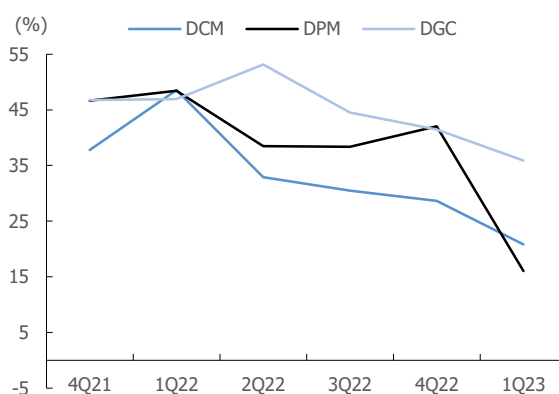
Source: Fiinpro, KIS

### DPM took the lead in revenue

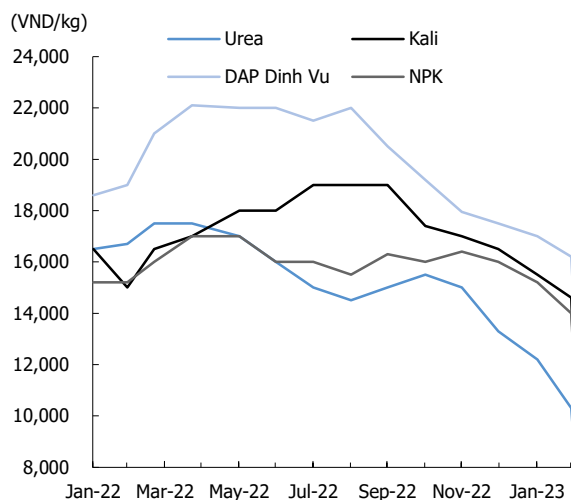
The top five companies (DPM, DCM, DGC, BFC, and DHB) accounted for 52% of the industry's revenue. In the hard time of the industry, most of them witnessed negative revenue growth and DPM took the lead with VND3,264.7bn (-16% qoq, -44% yoy). Following that, DCM and DGC also recorded diminished revenue with VND2,734.7bn (-39% qoq, -33% yoy), and VND2,483.1bn (-20% qoq, -32% yoy), respectively.

**Figure 5. Industry margins: GM shrank while SG&A to sales remained**

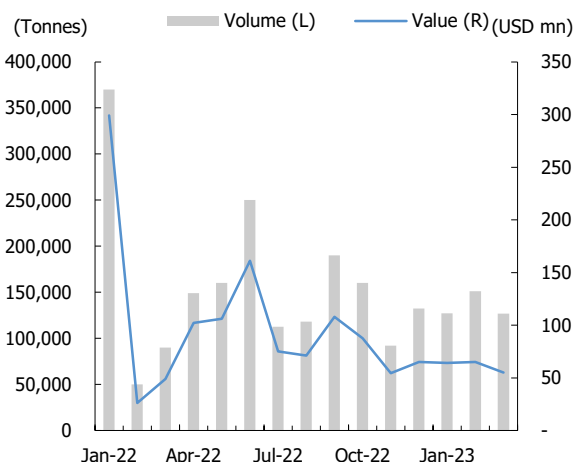
Source: Fiinpro, KIS

**Figure 6. Gross margin: DPM topped the drop**

Source: Company data, KIS

**Figure 3. Domestic selling prices**

Source: Agromonitor, KIS

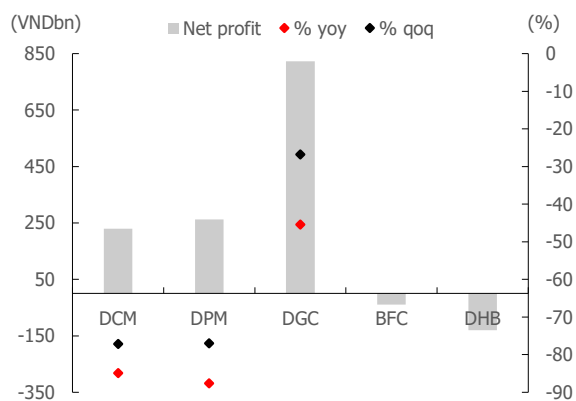
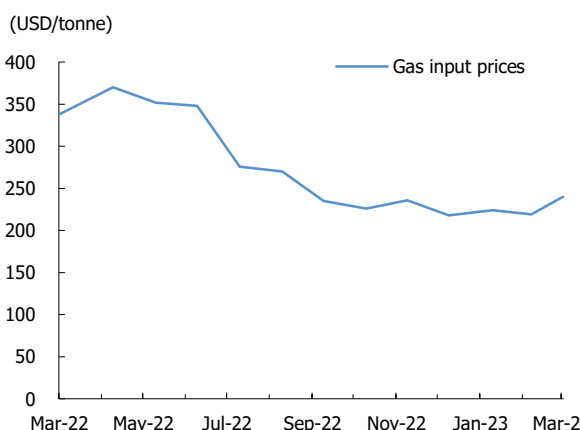
**Figure 4. Vietnam fertilizer exports by months**

Source: MoIT, KIS

### Gross margin and net margin narrowed in 1Q23

1Q23 industry gross margin (GM) was significantly down by -17.8%p yoy to 15.4% (-10.3%p qoq) which mainly caused by the falling of fertilizer prices due to 1) the weaker demand in the off – peak season. 2) The revival in fertilizer supply from China and Russia. In particular, the domestic urea selling price was trading around VND9,500-VND9,600/kg (-30% YTD) on 30<sup>th</sup> Mar. The net margin (NM) also shrank to 6.4% (-8.5%p qoq, -17.2%p yoy) because 1) Gross margin was down 2) SG&A/sales was up 1.7%p to 8.7%.

In line with the declining trend, GM of the top three companies (DPM, DCM, DGC) also saw a diminishment by -32.4%p/-27.7%p/-11.1%p to 16%/21%/36%, respectively.

**Figure 7. Net profit of top fertilizer producers mixed**Source: Company data, KIS  
Note: BFC and DHB recorded Loss.**Figure 8. Gas input price turn back up again**Source: PetroVietnam, KIS  
Note: The gas price is correlated with Singapore FO price.

1Q23 business results showed a negative net profit growth for the industry. In which the top three (DPM, DCM, DGC) announced the significantly decline in NPAT by -88%/-85%/-45% yoy to VND230bn/VND262bn/VND823bn, respectively which mainly caused by the urea prices and P<sub>4</sub> price fell. In reverse, BFC and DHB posted a loss with VND39.6bn and VND129.5bn. For DHB, this is the first loss after the last 6 quarters recorded profit.

## 2Q23F with full of challenges

1Q23 witnessed the decline in output prices of the industry. In detail, the domestic urea selling price was trading around VND9,500-VND9,600/kg (-30% YTD, +0% t/t) on 25<sup>th</sup> Apr. Besides that, P4 price currently fell RMB24,000/ton compared to RMB31,800/ton in 4<sup>th</sup> Feb. Even though the off – peak season underwent, we think the 2Q23F fertilizer prices will not recover in the short term but at least it was not a sharp drop like 1Q23.

Furthermore, the decline in export volume also negatively affected revenue growth due to competitive pressure from the comeback of China and Russia in the global fertilizer battlefield. Thus, the competitive pressure in the domestic market will be higher due to adverse exporting activities. We believe the advantages Vietnam enjoyed in 2022 that is hard to happen again in 2023F, and currently 2Q23F.

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